

CENTURYTEL INC
Form 10-K
February 29, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 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
(State or other jurisdiction of
incorporation or organization)

72-0651161
(IRS Employer
Identification No.)

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

71203
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--------------------------------|--------------------------------------------------|
| Common Stock, par value \$1.00 | New York Stock Exchange Berlin Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act:

Stock Options
(Title of class)

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Non-accelerated filer

Accelerated filer

Indicate by check mark if the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of voting stock held by non-affiliates (affiliates being for these purposes only directors, executive officers and holders of more than five percent of our outstanding voting securities) was \$3.9 billion as of June 30, 2007. As of February 15, 2008, there were 106,647,125 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2008 annual meeting of shareholders are incorporated by reference in Part III of this Report.

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PART I

Item 1. Business

General. CenturyTel, Inc., together with its subsidiaries, is an integrated communications company engaged primarily in providing an array of communications services, including local and long distance voice, Internet access and broadband services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide a complete offering of integrated communications services. We conduct all of our operations in 25 states located within the continental United States.

At December 31, 2007, our incumbent local exchange telephone subsidiaries operated approximately 2.1 million telephone access lines, primarily in rural areas and small to mid-size cities in 24 states, with over 68% of these lines located in Missouri, Wisconsin, Alabama, Arkansas and Washington. According to published sources, we are the seventh largest local exchange telephone company in the United States based on the number of access lines served.

We also provide fiber transport, competitive local exchange carrier, security monitoring, and other communications and business information services in certain local and regional markets.

Since 2005, we have expanded our product offerings to include satellite television services, wireless communications services under a reselling arrangement and wireless broadband services. For additional information, see "Operations - Recent Product Developments" below.

For information on the amount of revenue derived by our various lines of services, see "Operations - Services" below and Item 7 of this annual report.

Recent acquisitions. On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. ("Madison River") for approximately \$322 million cash (including the effect of post-closing adjustments). In connection with the acquisition, we also paid all of Madison River's existing indebtedness (including accrued interest), which approximated \$522 million. At the time of this acquisition, Madison River operated approximately 164,000 predominantly rural access lines in four states with more than 30% high-speed Internet penetration and its network included ownership in a 2,400 route mile fiber network.

In June 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. ("KMC") for approximately \$75.5 million cash, which has enabled us to offer broadband and competitive local exchange services to customers in these markets.

In June 2003, we purchased for \$39.4 million cash the assets of Digital Teleport, Inc., a regional communications company providing wholesale data transport services to other communications carriers over its fiber optic network located in Missouri, Arkansas, Oklahoma and Kansas. In addition, in December 2003, we acquired additional fiber transport assets in Arkansas, Missouri and Illinois from Level 3 Communications, Inc. for approximately \$15.8 million cash. For additional information, see "Operations - Services - Fiber Transport and CLEC."

We also acquired approximately 660,000, 490,000 and 650,000 telephone access lines in transactions completed in 1997, 2000 and 2002, respectively, each of which substantially expanded our operations. The 2002 acquisition of telephone access lines was funded primarily from proceeds received from the sale of substantially all of our wireless operations in August 2002.

We continually evaluate the possibility of acquiring additional communications assets in exchange for cash, securities or both, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement. Although our primary focus will continue to be on acquiring interests that are proximate to our properties or that serve a customer base large enough for us to operate efficiently, we may also acquire other communications interests and these acquisitions could have a material impact upon us.

Where to find additional information. We make available our filings with the Securities and Exchange Commission (“SEC”) on Forms 10-K, 10-Q and 8-K on our website (www.centurytel.com) as soon as reasonably practicable after we complete such filings with the SEC. These documents may also be obtained from the SEC’s website at www.sec.gov.

We also make available on our website our Corporate Governance Guidelines, our Corporate Compliance Program and the charters of our audit, compensation, risk evaluation, and nominating and corporate governance committees. We will furnish printed copies of these materials free of charge upon the request of any shareholder. If a provision of our Corporate Compliance Program is amended, other than by a technical, administrative or other non-substantive amendment, or a waiver under this program is granted to a director or executive officer, notice of such amendment or waiver will be posted on our website. Also, we may elect to disclose the amendment or waiver in a report on Form 8-K filed with the SEC. Only our board of directors may consider a waiver of our Corporate Compliance Program for a director or executive officer.

In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and the Act’s related regulations. In addition, during 2007 our chief executive officer certified to the New York Stock Exchange that he was unaware of any violation by us of the New York Stock Exchange’s corporate governance listing standards.

Industry information. Unless otherwise indicated, information contained in this annual report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management’s knowledge and experience in the markets in which we operate and the communications industry generally. We believe these estimates and assumptions are accurate as of the date made; however, this information may prove to be inaccurate because it cannot always be verified with certainty. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed in Item 1A of this annual report.

Other. As of December 31, 2007, we had approximately 6,600 employees, of which approximately 1,600 were members of 15 different bargaining units represented by the International Brotherhood of Electrical Workers and the Communications Workers of America. We believe that relations with our employees continue to be generally good. During 2006 and 2007, we announced reductions of our workforce which aggregated approximately 600 jobs, primarily due to (i) increased competitive pressures, (ii) the loss of access lines over the last several years and (iii) progress made on our Madison River integration plan.

We were incorporated under Louisiana law in 1968 to serve as a holding company for several telephone companies acquired over the previous 15 to 20 years. Our principal executive offices are located at 100 CenturyTel Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

OPERATIONS

According to published sources, we are the seventh largest local exchange telephone company in the United States, based on the approximately 2.1 million access lines we served at December 31, 2007. An “access line” is a telephone

line that connects a home or business to the public switched telephone network. All of our access lines are digitally switched. Through our operating telephone subsidiaries, we provide local exchange services to predominantly rural areas and small to mid-size cities in 24 states.

The following table lists additional information regarding our access lines as of December 31, 2007 and 2006.

| State | December 31, 2007 | | December 31, 2006 | |
|--------------------|---------------------------------|----------------------------------|---------------------------------|----------------------------------|
| | Number of access lines | Percent of access lines | Number of access lines | Percent of access lines |
| Missouri | 408,000 | 19% | 424,000 | 20% |
| Wisconsin (1) | 387,000 | 18 | 413,000 | 20 |
| Alabama (2) | 290,000 | 14 | 249,000 | 12 |
| Arkansas | 211,000 | 10 | 227,000 | 11 |
| Washington | 157,000 | 7 | 166,000 | 8 |
| Michigan | 91,000 | 4 | 96,000 | 5 |
| Colorado | 86,000 | 4 | 90,000 | 4 |
| Louisiana | 84,000 | 4 | 90,000 | 4 |
| Oregon | 66,000 | 3 | 70,000 | 3 |
| Ohio | 64,000 | 3 | 72,000 | 3 |
| Illinois (2) | 57,000 | 3 | - | - |
| Montana | 57,000 | 3 | 60,000 | 3 |
| Georgia (2) | 34,000 | 2 | - | - |
| Texas | 33,000 | 2 | 37,000 | 2 |
| Minnesota | 27,000 | 1 | 28,000 | 1 |
| Tennessee | 23,000 | 1 | 25,000 | 1 |
| Mississippi | 22,000 | 1 | 23,000 | 1 |
| North Carolina (2) | 14,000 | * | - | - |
| New Mexico | 6,000 | * | 6,000 | * |
| Wyoming | 6,000 | * | 6,000 | * |
| Idaho | 5,000 | * | 5,000 | * |
| Indiana | 5,000 | * | 5,000 | * |
| Iowa | 2,000 | * | 2,000 | * |
| Nevada | * | * | * | * |
| | 2,135,000 | 100% | 2,094,000 | 100% |

* Represents less than 1% or less than 1,000 access lines.

(1) As of December 31, 2007 and 2006, approximately 51,000 and 53,000, respectively, of these lines were owned and operated by our 89%-owned affiliate.

(2) In connection with our acquisition of Madison River in April 2007, we acquired an aggregate of approximately 164,000 access lines in Illinois, Alabama, Georgia and North Carolina.

The following table summarizes certain information related to our customer base, operating revenues and capital expenditures for the past five years. The 2007 information includes the Madison River properties we acquired on April 30, 2007.

| 2007 | Year ended or as of December 31, | | | | 2003 |
|------|----------------------------------|------|------|------|------|
| | 2006 | 2005 | 2004 | 2003 | |

(Dollars in thousands)

| | | | | | |
|-------------------------------|--------------|-----------|-----------|-----------|-----------|
| Access lines | 2,135,000 | 2,094,000 | 2,214,000 | 2,314,000 | 2,376,000 |
| % Residential | 73% | 74 | 75 | 75 | 76 |
| % Business | 27% | 26 | 25 | 25 | 24 |
| Internet customers | 623,000 | 459,000 | 357,000 | 271,000 | 223,000 |
| % High-speed Internet service | 89% | 80 | 70 | 53 | 37 |
| % Dial-up service | 11% | 20 | 30 | 47 | 63 |
| Operating revenues | \$ 2,656,241 | 2,447,730 | 2,479,252 | 2,407,372 | 2,367,610 |
| Capital expenditures | \$ 326,045 | 314,071 | 414,872 | 385,316 | 377,939 |

As discussed further below, our access lines (exclusive of acquisitions) have declined in recent years, and are expected to continue to decline. To mitigate these declines, we hope to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless, and other additional services that may become available in the future due to advances in technology, spectrum sales or improvements in our infrastructure, (iii) provide our premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks, (vi) provide greater penetration of broadband services and (vii) market our products to new customers. See “Services” and “Regulation and Competition.”

Services

We derive revenue from providing (i) local exchange and long distance voice telephone services, (ii) network access services, (iii) data services, which includes both high-speed 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. The following table reflects the percentage of operating revenues derived from these respective services:

| | 2007 | 2006 | 2005 |
|--------------------------|--------|-------|-------|
| Voice | 33.5% | 35.6 | 36.4 |
| Network access | 35.4 | 35.9 | 38.7 |
| Data | 17.4 | 14.4 | 12.9 |
| Fiber transport and CLEC | 6.0 | 6.1 | 4.7 |
| Other | 7.7 | 8.0 | 7.3 |
| | 100.0% | 100.0 | 100.0 |

Voice. We derive our local service revenues by providing local exchange telephone services in our franchised service areas, including basic dial-tone service through our regular switched network, generally for a fixed monthly charge. Normalized for acquisitions, dispositions and other adjustments, access lines declined 5.7% in 2007, 4.8% in 2006 and 4.3% in 2005. We believe these declines in the number of access lines were primarily due to the displacement of traditional wireline telephone services by other competitive services. Based on our planned results for recent sales and retention initiatives, we are targeting our access line loss to be between 4.5% and 6.0% in 2008.

We offer enhanced voice services (such as call forwarding, conference calling, caller identification, selective call ringing and call waiting) to our local exchange customers for additional charges. In 2007, we continued to expand the availability of enhanced voice services offered in certain service areas. At December 31, 2007, over 60% of both our business and residential customers subscribed to one or more enhanced voice services.

We derive our long distance revenues by providing retail long distance services based on either usage or pursuant to flat-rate calling plans. At December 31, 2007, we provided long distance services to nearly 1.3 million lines. Exclusive of the long distance lines associated with Madison River, our long distance lines declined slightly in 2007, principally due to competitive factors. We anticipate that most of our long distance service will be provided as part of an integrated bundle with our other service offerings, including our local exchange telephone service offering.

Network access. 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 transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms (see “Regulation and Competition Relating to Incumbent Local Exchange Operations” below). Our revenues for switched access services depend primarily on the level of call volume.

Certain of our interstate network access revenues are based on tariffed access charges prescribed by the Federal Communications Commission (“FCC”); the remainder of such revenues are derived under revenue sharing arrangements with other local exchange carriers (“LECs”) administered by the National Exchange Carrier Association (“NECA”), a quasi-governmental non-profit organization formed by the FCC in 1983 for such purposes.

Certain of our intrastate network access revenues are derived through access charges that we bill to intrastate long distance carriers and other LEC customers. Such intrastate network access charges are based on tariffed access charges, which are subject to state regulatory commission approval. Additionally, certain of our intrastate network access revenues, along with intrastate and intra-LATA (Local Access and Transport Areas) long distance revenues, are derived through revenue sharing arrangements with other LECs.

The Telecommunications Act of 1996 (the “1996 Act”) 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 revenue since we believe such tariffs are “deemed lawful”.

Data. We derive our data revenues primarily from monthly recurring charges for providing Internet access services (both high-speed and dial-up services) and data transmission services over special circuits and private lines. We began offering traditional dial-up Internet access services to our telephone customers in 1995. In late 1999, we began offering high-speed Internet access services, a premium-priced broadband data service. As of December 31, 2007, approximately 84% of our access lines were broadband-enabled. At December 31, 2007, we provided high-speed Internet access services to over 555,000 customers and dial-up services to nearly 68,000 customers. During 2007, we added over 186,000 high-speed Internet customers (which includes approximately 58,000 from the Madison River acquisition).

Our data revenue also includes amounts billed to our business customers for dedicated circuits used for various purposes, including connecting the customer’s offices or networks to our networks.

Fiber transport and CLEC. Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier (“CLEC”) and security monitoring businesses.

In late 2000, we began offering competitive local exchange telephone services as part of a bundled service offering to small to medium-sized businesses in Monroe and Shreveport, Louisiana. In February 2002, we purchased the fiber network and customer base of KMC’s operations in Monroe and Shreveport, Louisiana and in June 2005, we purchased the fiber assets in 16 metropolitan markets from KMC which allowed us to offer broadband and competitive local exchange services to customers in these markets. We intend to focus our efforts on the CLEC markets with the most promise, and are exploring our alternatives with respect to the remaining markets. As of

December 31, 2007, our competitive local exchange markets provided service over 1,200 miles of fiber.

Under the name “LightCore”, we sell fiber capacity to other carriers and businesses over a network that encompassed, at December 31, 2007, over 9,900 miles of fiber in the central United States. We began our fiber transport business during 2001, when we began selling capacity over a 700-mile fiber optic ring that we constructed in southern and central Michigan. In June 2003, we acquired the assets of Digital Teleport, Inc., a regional communications company providing wholesale data transport services to other communications carriers over its fiber optic network located in Missouri, Arkansas, Oklahoma and Kansas. We have used the network to sell services to new and existing customers and to reduce our reliance on third party transport providers. In addition, in December 2003, we acquired additional fiber transport assets in Arkansas, Missouri and Illinois from Level 3 Communications, Inc. to provide services similar to those described above.

In addition to the above-described fiber network, in connection with our 2007 acquisition of Madison River, we acquired ownership in a 2,400 route mile fiber network located in six states which provides us the opportunity to expand our fiber network business and further reduce our reliance on third-party transport providers.

We offer 24-hour burglary and fire monitoring services to over 10,500 customers in select markets in Louisiana, Arkansas, Mississippi, Texas and Ohio.

Other. We derive our “other revenues” principally by (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services to third parties, (iii) participating in the publication of local telephone directories, which allows us to share in revenues generated by the sale of yellow page and related advertising to businesses, and (iv) offering our new services described below under the heading “-Recent Product Developments”. We also provide printing, database management and direct mail services and cable television services.

From time to time, we also make investments in other domestic or foreign communications companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see “Regulation and Competition” under this Item 1 below and “Risk Factors and Cautionary Statements” under Item 1A below. For more information on the financial contributions of our various services, see Item 7 of this annual report.

Recent Product Developments

Since 2005, we have offered in conjunction with EchoStar Communications Corporation (“EchoStar”) co-branded DISH Network satellite television service in substantially all of our local exchange service areas. Effective January 1, 2007, we changed our relationship with EchoStar from a revenue sharing arrangement to an agency relationship. In late 2005, we initiated our switched digital television service to the LaCrosse, Wisconsin market and, in October 2007, we commenced a second switched digital video service offering to our Columbia, Missouri market.

We also offer wireless communications services through a reselling arrangement with a nationwide wireless carrier and wireless broadband Internet services in select locations in certain markets in eight states.

Federal Financing Programs

Certain of our telephone subsidiaries receive long-term financing from the Rural Utilities Service (“RUS”), a federal agency that has historically provided long-term financing to telephone companies at relatively attractive interest rates. Approximately 14% of our plant is pledged to secure obligations of our telephone subsidiaries to the RUS. For additional information regarding our financing, see our consolidated financial statements included in Item 8 herein.

Sales and Marketing

We maintain local offices in most of the larger population centers within our service territories. These offices are typically staffed by local residents and provide sales and customer support services in the community. We also rely on our call center personnel to promote sales of services that meet the distinctive needs of our customers. In addition, our strategy is to enhance our communications services by offering comprehensive bundling of services and deploying new technologies to build upon the strong reputation we enjoy in our markets and to further promote customer loyalty.

Most of our services are offered under our “CenturyTel” brand name. However, we sell fiber capacity on our networks under the brand name “LightCore.” In addition, our satellite television service is offered on a co-branded basis with EchoStar under the DISH Network name.

Network Architecture

Our local exchange carrier networks consist of central office hosts and remote sites, all with advanced digital switches (primarily manufactured by Nortel and Siemens) and operating with licensed software. Our outside plant consists of transport and distribution delivery networks connecting each of our host central offices to our remote central offices, and ultimately to our customers. As of December 31, 2007, we maintained over 252,000 miles of copper plant and approximately 20,000 miles of fiber optic plant in our local exchange networks. Our fiber optic cable is the primary transport technology between our host and remote central offices and interconnection points with other incumbent carriers. Most of our long distance service is provided directly through our own switches and network equipment, with the balance being provided through reselling arrangements with other long distance carriers. We also maintain networks in connection with providing fiber transport and CLEC services. For additional information on these networks, see “Services - Fiber Transport and CLEC.”

Regulation and Competition Relating to Incumbent Local Exchange Operations

Traditionally, LECs operated as regulated monopolies having the exclusive right and responsibility to provide local telephone services in their franchised service territories. (These LECs are sometimes referred to below as “incumbent LECs” or “ILECs”). Consequently, most of our intrastate telephone operations have traditionally been regulated extensively by various state regulatory agencies (generally called public service commissions or public utility commissions) and our interstate operations have been regulated by the FCC under the Communications Act of 1934. As we discuss in greater detail below, passage of the 1996 Act, coupled with state legislative and regulatory initiatives and technological changes, fundamentally altered the telephone industry by generally reducing the regulation of LECs and attracting a substantial increase in the number of competitors and capital invested in existing and new services. We anticipate that these trends toward reduced regulation and increased competition will continue.

The following description discusses some of the major industry regulations that affect our traditional telephone operations, but numerous other regulations not discussed below could also impact us. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could substantially change the manner in which the communications industry operates. Neither the outcome of any of these developments, nor their potential impact on us, can be predicted at this time. The impact of regulatory changes in the communications industry could have a substantial impact on our operations. See Item 1A of this annual report below.

State regulation. The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke certifications authorizing companies to provide communications services. Most commissions have traditionally regulated pricing through “rate of return” regulation that focuses on authorized levels of earnings by LECs. Historically, most of these commissions also (i) regulated the purchase and sale of LECs, (ii) prescribed depreciation rates and certain accounting procedures, (iii) enforced laws requiring LECs to provide universal service under publicly filed tariffs setting forth the terms, conditions and prices of their LEC services, (iv) oversaw implementation of several federal

telecommunications laws including interconnection obligations and (v) regulated various other matters, including certain service standards and operating procedures.

In recent years, state legislatures and regulatory commissions in most of the 24 states in which our telephone subsidiaries operate have either reduced the regulation of LECs or have announced their intention to do so, and we expect this trend will continue. Essentially, such relief comes in two forms: (i) full or partial deregulation through legislation or (ii) the ability to elect into or renew existing state alternative regulation through a regulatory proceeding. Several states have implemented laws or rulings which require or permit LECs at the state level to either be deregulated for pricing or opt out of “rate of return” regulation in exchange for agreeing to alternative forms of regulation. Such alternatives permit the LEC greater freedom to establish local service rates in exchange for agreeing not to charge rates in excess of specified caps. As discussed further below, subsidiaries operating over 72% of our access lines in various states have agreed to be governed by alternative regulation plans, and we continue to explore our options for similar treatment in other states. We believe that reduced regulatory oversight of certain of our telephone operations may allow us to offer new and competitive services faster than under the traditional regulatory process. For a discussion of legislative, regulatory and technological changes that have introduced competition into the local exchange industry, see “Developments Affecting Competition.”

The following summary describes the alternative regulation plans applicable to us in Wisconsin, Missouri, Alabama and Arkansas, our four largest telephone markets.

- Our Wisconsin access lines, except for those acquired from Verizon in 2000 (which continue to be regulated under “rate of return” regulation), are regulated under various alternative regulation plans developed jointly between the Wisconsin Public Service Commission and us. Each of these alternative regulation plans permits us to adjust local rates within specified parameters if we meet certain quality-of-service and infrastructure-development commitments. These plans also include initiatives designed to promote competition.
- All of our Missouri LECs are regulated under a price-cap regulation plan whereby basic service rates are adjusted annually based on an inflation-based factor; non-basic services may be increased without restriction up to 5% annually. If the inflation-based factor were to decline as it has done in recent years, our revenues would be negatively impacted.
- In 2005, the state of Alabama passed legislation that essentially allowed telephone companies the option to phase in deregulation of certain LEC services. In February 2007, our Alabama LECs opted to provide all local services (including bundled services but excluding certain basic telephone and optional calling services) on a deregulated and detariffed basis. Certain basic telephone and optional calling services continue to be regulated and subject to a price cap. Our Alabama properties acquired from Madison River operate under a separate alternative regulation plan under which local rates are still governed by the state public service commission.
- Our Arkansas LECs acquired from Verizon Communications, Inc. are regulated under an alternative regulation plan under which rates can be adjusted based on an inflation-based factor. Other local rates can be adjusted without commission approval; however, such rates are subject to commission review under certain conditions. Our remaining Arkansas LECs have the option to increase rates up to certain specified amounts.

Notwithstanding the movement toward alternative regulation, LECs operating approximately 28% of our total access lines continue to be subject to “rate of return” regulation for intrastate purposes. These LECs remain subject to the powers of state regulatory commissions to conduct earnings reviews and adjust service rates, either of which could lead to revenue reductions.

Federal regulation. Our telephone subsidiaries are required to comply with the Communications Act of 1934, which requires us to offer services at just and reasonable rates and on non-discriminatory terms, as well as the 1996 Act, which amended the Communications Act to promote competition and reform the Universal Service Program.

The FCC regulates interstate services provided by our telephone subsidiaries primarily by regulating the interstate access charges that we bill to long distance companies and other communications companies for use of our network in connection with the origination and termination of interstate voice and data transmissions. Additionally, the FCC has prescribed certain rules and regulations for telephone companies, including a uniform system of accounts and rules regarding the separation of costs between jurisdictions and, ultimately, between interstate services. In addition, the FCC has responsibility for maintaining and administering the Universal Service Fund. LECs must obtain FCC approval to use certain radio frequencies, or to transfer control of any such licenses. The FCC retains the right to revoke these licenses if a carrier materially violates relevant legal requirements.

The FCC requires price-cap regulation of interstate access rates for the Regional Bell Operating Companies, and permits it for all other LECs. Under price-cap regulation, limits imposed on a company's interstate rates are adjusted periodically to reflect inflation, productivity improvement and changes in certain non-controllable costs. We have not elected price-cap regulation for our telephone operations, except for the properties we acquired from Verizon in 2002 which have continued to operate under price-cap regulation, as permitted under FCC rules for acquired properties. All of our other operations continue to be governed by traditional rate-of-return regulation for interstate access charges, which permits us to set rates based on forecasted investment and expenses plus a return on investment, which is currently 11.25%. In the last half of 2007, certain carriers filed a petition with the FCC seeking to convert their properties from rate of return regulation to price-cap regulation in the interstate jurisdiction. In order to achieve this conversion, these carriers petitioned the FCC to make numerous rule changes that would provide a blueprint for rate of return carriers to opt into price-cap regulation.

In 2003, the FCC opened a broad intercarrier compensation proceeding with the ultimate goal of creating a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or carrying telecommunications traffic. The FCC has received intercarrier compensation proposals from several industry groups, and in early 2005 solicited comments on all proposals previously submitted to it. Broad industry negotiations have taken place with the goal of developing a consensus plan that addresses the concerns of carriers from all industry segments. The ultimate outcome of this proceeding could change the way we receive compensation from, and remit compensation to, other carriers, our end user customers and the federal Universal Service Fund (the "USF"). Until the FCC's proceeding concludes and the changes, if any, to the existing rules are established, we cannot estimate the impact it will have on our results of operations.

In December 2005, a group of six mid-size carriers, including us, filed proposed rules with the FCC regarding "phantom traffic". "Phantom traffic" generally refers to telecommunications calls that cannot be billed properly to responsible carriers by other carriers in the call path because the traffic is mislabeled, unlabeled or improperly routed. The proposal requests that the FCC implement and enforce updated rules that require carriers to accurately identify, label and route network traffic so that appropriate bills can be created. In late 2006, the FCC opened a separate phantom traffic proceeding with the intent of formalizing potential phantom traffic rules for the industry. Overall, the comments received to date on the phantom traffic issue have been favorable to us; however, until the FCC concludes its phantom traffic proceeding and adopts changes, if any, to existing rules, we cannot estimate the impact any changes will have on our results of operations.

As discussed further below, certain providers of competitive communications services are currently not required to compensate ILECs for the use of their networks. Additionally, certain deregulated providers seek and receive high cost universal support funding based on the incumbent's costs rather than their own.

Our operations and those of all communications carriers also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act, and laws governing local number portability and customer proprietary network information requirements. These laws and regulations may cause us to incur additional costs.

Universal service support funds, revenue sharing arrangements and related matters. A significant number of our telephone subsidiaries recover a portion of their costs from the federal USF and from similar state “universal support” mechanisms, which receive their funding from fees charged to interexchange carriers and LECs. Disbursements from these programs traditionally have focused principally on allowing LECs serving small communities and rural areas to provide communications services on terms and at prices reasonably comparable to those available in urban areas. Other USF programs address other social goals, such as supporting schools and libraries through the USF’s E-rate program.

The table below sets forth the amounts received by our telephone subsidiaries in 2007 and 2006 from federal and state universal support programs.

| Support Program | Year ended December 31, | | | |
|--------------------------------|-------------------------|-----------------------------------------------------|-----------------|-------------------------------|
| | 2007 | | 2006 | |
| | Amount Received | % of Total Operating Revenues (amounts in millions) | Amount Received | % of Total Operating Revenues |
| USF High Cost Loop Support | \$ 166.5 | 6.3% | \$ 163.1 | 6.6% |
| Other Federal Support Programs | 133.9 | 5.0% | 134.6 | 5.5% |
| Total Federal Support Receipts | 300.4 | 11.3% | 297.7 | 12.1% |
| State Support Programs | 35.6 | 1.3% | 36.2 | 1.5% |
| TOTAL | \$ 336.0 | 12.6% | \$ 333.9 | 13.6% |

Federal USF programs have undergone substantial changes since 1997, and are expected to experience more changes in the coming years as modernization of the overall program moves forward. As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies by adopting an interim mechanism for a five-year period based on embedded, or historical, costs that provide relatively predictable levels of support to many LECs, including substantially all of our LECs. In May 2006, the FCC extended this interim mechanism until such time that new high-cost support rules are adopted for rural telephone companies.

Universal support funds available to ILECs are currently available to local competitors that (i) certify they will serve all customers in a study area, (ii) offer nine core services, and (iii) qualify as an “eligible telecommunications carrier.” Wireless and other competitive service providers continue to seek to qualify to receive USF support. This trend, coupled with changes in usage of telecommunications services, have placed stress on the funding mechanism of the USF, which is subject to annual caps on disbursements. These developments have placed additional financial pressure on the amount of money that is necessary and available to provide support to all eligible service providers, including support payments we receive from the USF High Cost Loop support program.

A significant portion of our support payments have varied over time based on our average cost to serve customers compared to national cost averages. Under the USF High Cost Loop support program, which is the USF’s principal support program, our payments from the USF will decrease if national average costs per loop increase at a rate greater than our average cost per loop. Increases in the nationwide average cost per loop factor used to allocate funds among all USF recipients caused our revenues from the USF High Cost Loop support program to decrease in 2006 when compared to 2005. While our 2007 USF High Cost Loop support program receipts approximated 2006 levels, we anticipate that our 2008 revenues from the USF High Cost Loop support program will be lower than 2007 by

approximately \$14-\$17 million.

In late 2002, the FCC requested that the Federal-State Joint Board (“FSJB”) on Universal Service review various FCC rules governing high cost universal service support, including rules regarding eligibility to receive support payments in markets served by LECs and competitive carriers. Since then, the FSJB recommended a comprehensive general review of the high-cost support mechanisms for rural and non-rural carriers and requested comments on the FCC’s current rules for the provision of high-cost support for rural companies, including comments on whether eligibility requirements should be amended in a manner that would adversely affect larger rural LECs such as us. In addition, the FCC has taken various other steps in anticipation of restructuring universal service support mechanisms, including, most recently, opening for public comment in early 2008 several proposals that contemplate a substantial restructuring of current USF programs.

On May 1, 2007, the FSJB proposed that the FCC consider an interim cap on the amount of high cost support that competitive eligible telecommunications carriers (“CETCs”) may receive. On November 20, 2007, the FSJB issued another recommended decision on universal service reform which suggested various reform measures including a migration of the present funding mechanisms to three new separate funds covering broadband providers, mobility providers, and providers of last resort. The FSJB also recommended elimination of the identical support rule which now enables wireless CETCs to draw identical support based on the ILEC’s cost. In addition, the FSJB is recommending certain other reforms, including (i) caps on the present high cost funding mechanism, (ii) certification of only one wireline, one wireless and one broadband carrier in each market and (iii) further consideration of competitive bidding as a distribution mechanism. Until the FCC acts on these recommendations, we cannot estimate the impact that such proposals would have on our operations. In addition, there are a number of judicial appeals challenging several aspects of the FCC’s universal service rules and various Congressional proposals seeking to substantially modify USF programs, none of which have been resolved at this time. We will continue to be active in monitoring and participating in these developments.

In 2004, the FCC mandated changes in the administration of the universal service support programs that temporarily suspended the disbursement of funds under the USF’s E-rate program (for service to Schools and Libraries), and, more significantly, created questions that these administrative changes could similarly delay the disbursement of funds to LECs from the Universal Service High Cost Loop support program. Congress has passed bills in recent years granting successive one-year exemptions from the federal law that impacted the E-rate program, including a bill extending the exemption through December 31, 2007. An additional exemption is currently pending before Congress. Although we expect funding from this program to continue, we cannot assure you that the lack of a definitive resolution of this issue will not delay or impede the disbursement of funds in the future.

A substantial portion of our state support payments are payable by Louisiana under a program restructured in 2005 into a state universal service fund that expanded the base of contributors to include all telecommunication service providers operating in Louisiana. Thus far, the payments we have received under this fund approximate those received by us under Louisiana’s predecessor program. The fund is subject to an annual review by the Louisiana Public Service Commission (the “LPSC”). As such, there can be no assurance that the fund will remain as adopted by the LPSC or that funding levels will remain at current levels. In November 2007, the LPSC initiated a docket to determine the best way to convert the existing universal service fund to a stable funding mechanism. The LPSC currently expects to complete its review by December 2008.

Some of our telephone subsidiaries operate in states where traditional cost recovery mechanisms, including rate structures, are under evaluation or have been modified. See “State Regulation”. There can be no assurance that these states will continue to provide for cost recovery at current levels.

All of our interstate network access revenues are based on access charges, cost separation studies or special settlement arrangements, many of which are administered by the FCC or NECA, and all of which are subject to change. See “Services.”

Certain long distance carriers continue to request that certain of our LECs reduce intrastate access tariffed rates. Long distance carriers have also aggressively pursued regulatory or legislative changes that would reduce access rates. However, in light of pending intercarrier compensation reform that is expected to address intrastate access charges, most states are deferring action until they receive direction from the FCC. However, some carriers are continuing to pursue lower intrastate access rates in some states.

Developments affecting competition. Over the past decade, fundamental technological, regulatory and legislative changes have significantly impacted the communications industry, and we expect these changes will continue. Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the communications industry in recent years. As a result, we increasingly face competition from other communication service providers, as further described below.

Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. This trend is more pronounced among residential customers, which comprise 73% of our access line customers. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services, and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from a competitive service provider. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, coaxial cable, fiber optics, local multipoint distribution services and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline services.

The 1996 Act, which obligates LECs to permit competitors to interconnect their facilities to the LEC's network and to take various other steps that are designed to promote competition, imposes several duties on a LEC if it receives a specific request from another entity which seeks to connect with or provide services using the LEC's network. In addition, each incumbent LEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the LEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to collocate their physical plant on the LEC's property, or provide virtual collocation if physical collocation is not practicable. During 2003, the FCC released new rules outlining the obligations of incumbent LECs to lease to competitors elements of their circuit-switched networks on an unbundled basis at prices that substantially limited the profitability of these arrangements to incumbent LECs. In response to successful judicial challenges to these rules, in 2005 the FCC released rules that required incumbent LECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network element, and where the unbundling would not interfere with the development of facilities-based competition. These rules are further designed to remove LECs' unbundling obligations over time as competing carriers deploy their own networks and local exchange competition increases.

Under the 1996 Act's rural telephone company exemption, approximately half of our telephone access lines are exempt from certain of the 1996 Act's interconnection requirements unless and until the appropriate state regulatory commission overrides the exemption upon receipt from a competitor of a bona fide request meeting certain criteria. States are permitted to adopt laws or regulations that provide for greater competition than is mandated under the 1996 Act.

As a result of these regulatory, consumer and technological developments, ILECs increasingly face competition from CLECs, particularly in densely populated areas. CLECs provide competing services through reselling the ILECs' local services, through use of the ILECs' unbundled network elements or through their own facilities. The number of companies which have requested authorization to provide local exchange service in our service areas has increased in

recent years, especially in our markets acquired from Verizon in 2002 and 2000. We anticipate that similar action may be taken by other competitors in the future, especially if all forms of federal support available to ILECs continue to remain available to these competitors.

As noted above, wireless and other competitive services providers have been increasingly aggressive in seeking and obtaining USF support funds. This support is likely to encourage additional competitors to enter our high-cost service areas.

Technological developments have led to the development of new services that compete with traditional LEC services. Technological improvements have enabled cable television companies to provide telephone service over their cable networks, and several national cable companies have aggressively pursued this opportunity. As of December 31, 2007, we believe that approximately 40-45% of our access lines currently face competition from cable voice offerings. Additionally, several large electric utilities have announced plans to offer communications services that compete with some LECs.

Improvements in the quality of VoIP service have led several cable, Internet, data and other communications companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers route calls partially or wholly over the Internet, without use of ILEC's circuit switches and, in certain cases, without use of ILEC's networks to carry their communications traffic. VoIP providers frequently use existing broadband networks to deliver flat-rate, all distance calling plans that may offer features that cannot readily be provided by traditional LECs. These plans may also be priced competitively or below those currently charged for traditional local and long distance telephone services for several reasons, including lower operating costs. In December 2003, the FCC initiated rulemaking that is expected to address the effect of VoIP on intercarrier compensation, universal service and emergency services. Although the FCC's rulemaking regarding VoIP-enabled services remains pending, the FCC has adopted orders establishing broad guidelines for the regulation of such services, including (i) an April 2004 order that found an IP-telephony service using the public switched telephone network to be a regulated telecommunications service subject to interstate access charges, (ii) a November 2004 order that Internet-based services provided by Vonage Holdings Corporation should be subject to federal rather than state regulation and (iii) a June 2005 order requiring all VoIP service providers whose services are interconnected to the public switched telephone network to provide E-911 services to their customers. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for our customers.

Similar to us, many cable, entertainment, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Several of these companies started offering full service bundles before us, which could give them an advantage in building customer loyalty. Such activities will continue to place downward pressure on the demand for our access lines.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers or alternative access vendors. These systems, which have become more prevalent as a result of the 1996 Act, are capable of originating or terminating calls without use of the ILECs' networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of special access or independent switching services and the concentration of telecommunications traffic on a few of the ILECs' access lines. We anticipate that all these trends will continue and lead to decreased use of our networks.

Significant competitive factors in the local telephone industry include pricing, packaging of services and features, quality and convenience of service and meeting customer needs such as simplified billing and timely response to

service calls.

As the telephone industry increasingly experiences competition, the size and resources of each respective competitor may increasingly influence its prospects. Many companies currently providing or planning to provide competitive communication services have substantially greater financial and marketing resources than we do or own larger or more diverse networks than ours. In addition, many of them are not subject to the same regulatory constraints we are.

Competition can harm us by causing us to lose customers, or by causing us to lower prices or increase our capital or operating expenses to retain customers. Competing communications services, such as wireless, VoIP, electronic mail and optional calling services, can also reduce usage of our network and thereby decrease our network access revenues. Competition can also cause customers to reduce either usage of our services or switch to less profitable services, and could impede our ability to diversify into new lines of business dominated by incumbent providers.

We anticipate that the traditional operations of LECs will continue to be impacted by changes in regulation, technology, and consumer preferences affecting the ability of LECs to attract and retain customers and the capability of wireless companies, CLECs, cable television companies, VoIP providers, electric utilities and others to provide competitive LEC services. Competition relating to traditional LEC services has thus far affected large urban areas to a greater extent than the less dense areas in which we operate. We will actively monitor these developments, observe the effect of emerging competitive trends in larger markets and continue to evaluate new business opportunities that may arise out of future technological, legislative and regulatory developments.

We expect our operating revenues in 2008 to decline as we continue to experience downward pressure primarily due to continued access line losses, reduced network access revenues and lower prior year revenue settlement amounts. We expect such declines to be partially offset primarily due to increased demand for our high-speed Internet service offering and the impact of recognizing a full year of revenues associated with our Madison River properties acquired in April 2007.

Regulation and Competition Relating to Other Operations

Long Distance Operations. We offer intra-LATA, intrastate and interstate long distance services. State public service commissions generally regulate intra-LATA toll calls within the same LATA and inter-LATA toll calls between different LATAs located in the same state. Federal regulators have jurisdiction over interstate toll calls. Recent state regulatory changes have increased competition to provide intra-LATA toll services in our local exchange markets. Competition for intrastate and interstate long distance services has been intense for several years, and focuses primarily on price and pricing plans, and secondarily on customer service, reliability and communications quality. Traditionally, our principal competitors for providing long distance services were large long distance companies such as AT&T, regional phone companies and dial-around resellers. Increasingly, however, we have experienced competition from newer sources, including wireless companies offering attractively-priced calling plans. Technological substitutions, including VoIP and electronic mail, have further reduced demand for traditional long distance services. To counter such competition, we now offer unlimited long distance calling plans.

Data Operations. In connection with our data business, we face competition from Internet service providers, satellite companies, long distance carriers and cable companies which use wired or wireless technologies to offer dial-up Internet access services or high-speed broadband services. As of December 31, 2007, we believe approximately 60% of our local exchange markets are overlapped by cable systems offering data services competitive with ours. Many of these competitors offer content that we cannot match. Moreover, many of these providers have traditionally been subject to less rigorous regulatory scrutiny than our subsidiaries, although recent FCC rule changes classifying our high-speed offering as an "information service" has helped reduce regulatory disparities. These recent rule changes further provided companies the option to deregulate (for price cap companies) or detariff (for rate of return companies) high-speed Internet services. During 2006, all of our operating companies elected to either deregulate or detariff their high-speed Internet services, which decreased regulatory oversight and increased our retail pricing

flexibility.

Fiber Transport Operations. When our fiber transport networks are used to provide intrastate telecommunications services, we must comply with state requirements for telecommunications utilities, including state tariffing requirements. To the extent our facilities are used to provide interstate communications, we are subject to federal regulation as a non-dominant common carrier. Due largely to excess capacity, the fiber transport industry is highly competitive. Our primary competitors are from other communications companies, many of whom operate networks and have resources much larger than ours. Over the last few years, several large communications companies have merged and have implemented strategies to transfer a significant portion of their voice and data traffic from our fiber network to their networks. We expect this trend to continue as companies seek opportunities to reduce their transport-related costs. In addition, new IP-based services may enable new entrants to transport data at prices lower than we currently offer.

CLEC Operations. Competitive local exchange carriers are subject to certain reporting and other regulatory requirements by the FCC and state public service commissions, although the degree of regulation is much less substantial than that imposed on ILECs operating in the same markets. Local governments also frequently require competitive local exchange carriers to obtain licenses or franchises regulating the use of rights-of-way necessary to install and operate their networks. In each of our CLEC markets, we face competition from the ILEC, which traditionally has long-standing relationships with its customers. Over time, we may also face competition from one or more other CLECs, or from other communications providers who can provide comparable services.

Other Operations. Similar to our CLEC business, we may be required to obtain licenses or franchises to enter new markets for our switched digital television and wireless broadband services, which could delay our rollout of these offerings. The television and wireless communications markets we have recently entered are highly competitive, which could limit our ability to compete effectively.

OTHER DEVELOPMENTS OR MATTERS

In August 2007, our board of directors approved a \$750 million stock repurchase program which expires in September 2009, unless extended by the board. Through December 31, 2007, we had repurchased approximately 3.6 million shares for \$158.5 million under this program. We previously repurchased approximately \$401.0 million, \$186.7 million, \$437.5 million and \$1.028 billion of our shares under separate repurchase programs approved in February 2004, February 2005, May 2005 and February 2006, respectively. For additional information, see Liquidity and Capital Resources included in Item 7 of this annual report.

We have certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2007 have not been material and we currently have no reason to believe that such costs will become material.

For additional information concerning our business and properties, see Items 2 and 7 elsewhere herein, and the Consolidated Financial Statements and notes 2, 4, 5, and 16 thereto set forth in Item 8 elsewhere herein.

Item 1A. Risk Factors

RISK FACTORS AND CAUTIONARY STATEMENTS

Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects. The risks described below are not the only risks facing us. Please be aware that additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also materially and adversely affect our business operations.

Risks Related to Our Business

If we continue to experience access line losses like we have in the past several years, our revenues, earnings and cash flows may be adversely impacted.

Our business generates a substantial portion of its revenues by delivering voice and data services over access lines. We have experienced access line losses over the past several years, including a 5.7% decline during the year ended December 31, 2007 (exclusive of the Madison River acquisition), due to a number of factors, including increased competition and wireless and broadband substitution, which are described further below. We expect to continue to experience access line losses in our markets for an unforeseen period of time. Our inability to retain access lines could adversely impact our revenues, earnings and cash flow from operations.

We face competition, which we expect to intensify.

As a result of various technological, regulatory and other changes, the telecommunications industry has become increasingly competitive, and we expect these trends to continue. In our LEC markets, we face competition from wireless telephone services, which we expect to increase if wireless providers continue to expand and improve their network coverage, offer fixed-rate calling plans, lower their prices and offer enhanced services. In certain of our LEC markets, we also face competition from cable television operators, CLECs and VoIP providers. Over time, we expect to face additional local exchange competition from more recent market entrants, including (i) electric utility and satellite communications providers and (ii) alternative networks or non-carrier systems designed to reduce demand for our switching or access services. The Internet, long distance and data services markets are also highly competitive, and we expect that competition will intensify in these and other markets that we serve. The recent proliferation of companies offering integrated service offerings has further intensified competition in the markets we serve.

We expect competition to intensify as a result of new competitors and the development of new products and services. Our competitive position could be weakened by strategic alliances or consolidation within the communications industry or the development of new technologies. We cannot predict which future products or services will be important to maintain our competitive position or what funding will be required to develop and provide these products or services. Our ability to compete successfully will depend on how well we market our products and services and on our ability to anticipate and respond to various competitive and technological factors affecting the industry, including changes in regulation (which may affect us differently from our competitors), changes in consumer preferences or demographics, and changes in the product offerings or pricing strategies of our competitors.

Many of our current and potential competitors have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources substantially greater than ours. In addition, some of our competitors own larger and more diverse networks, can conduct operations or raise capital at a lower cost than we can, are subject to less regulation, have lower benefit plan costs, offer greater online content services, or have substantially stronger

brand names. Consequently, some competitors may be better equipped than us to charge lower prices for their products and services, to provide more attractive offerings, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, and to devote greater resources to the marketing and sale of their products and services.

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers reducing their usage of our services or shifting to less profitable services, (iii) reduced traffic on our networks, (iv) our need to expend substantial time or money on new capital improvement projects, (v) our need to lower prices or increase marketing expenses to remain competitive and (vi) our inability to diversify by successfully offering new products or services.

We could be harmed by rapid changes in technology.

The communications industry is experiencing significant technological changes, particularly in the areas of VoIP, data transmission and wireless communications. Several large electric utilities have announced plans to offer communications services that will compete with LECs. Some of our competitors may enjoy network advantages that will enable them to provide services more efficiently or at lower cost. Rapid changes in technology could result in the development of additional products or services that compete with or displace those offered by traditional LECs, or that enable current customers to reduce or bypass use of our networks. We cannot predict with certainty which technological changes will provide the greatest threat to our competitive position. We may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into our systems in a cost effective manner, or at all. If we cannot develop new products to keep pace with technological advances, or if such products are not widely embraced by our customers, we could be adversely impacted.

We cannot assure you that our diversification efforts will be successful.

Due to the above-cited changes, the telephone industry has recently experienced a decline in access lines and intrastate minutes of use. This decline in access lines and usage, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely affect our core business and future prospects. Exclusive of the Madison River acquisition, our access lines declined 5.7% in 2007. Based on our planned results for recent sales and retention initiatives, we are targeting our access line loss to be between 4.5% and 6.0% in 2008. We also earned less intrastate revenues in 2007 due to reductions in intrastate minutes of use (partially due to the displacement of minutes of use by wireless, electronic mail and other optional calling services). We believe our intrastate minutes of use will continue to decline, although the magnitude of such decrease is uncertain.

We have traditionally sought growth largely through acquisitions of properties similar to those currently operated by us. However, we cannot assure you that properties will be available for purchase on terms attractive to us, particularly if they are burdened by regulations, pricing plans or competitive pressures that are new or different from those historically applicable to our incumbent properties. Moreover, we cannot assure you that we will be able to arrange additional financing on terms acceptable to us or to obtain timely federal and state governmental approvals on terms acceptable to us, or at all.

In recent years, we have attempted to broaden our services and products by offering satellite television services and reselling wireless services as part of our bundled product and service offerings. Our reliance on other companies and their networks to provide these services could constrain our flexibility and limit the profitability of these new offerings. In addition, during 2005 we launched our facilities-based digital video offering to select markets in Wisconsin and, in October 2007, we launched a second switched digital video offering in our Columbia, Missouri market. We may initiate other new service or product offerings in the future. We anticipate new offerings will generate lower profit margins than many of our traditional services. As such, to the extent revenues from these new offerings replace revenues lost from declines in our traditional LEC business, our overall profit margins will decline. We cannot assure you that our recent or future diversification efforts will be successful.

Future deterioration in our financial performance could adversely impact our credit ratings, our cost of capital and our access to the capital markets.

Our future results will suffer if we do not effectively adjust to changes in our industry.

The above-described changes in our industry have placed a higher premium on marketing, technological, engineering and provisioning skills. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen these skills, and, where necessary, to attract and retain new personnel that possess these skills.

Our future results will suffer if we do not effectively manage our expanded operations.

In the past several years, we have expanded our operations through acquisitions and new product and service offerings, some of which involve complex technical, engineering, and operational challenges. We may pursue similar opportunities in the future. Our future success depends, in part, upon our ability to manage our expansion opportunities, including our ability to:

- retain and attract key personnel that have the skills necessary to implement and manage the new business opportunities
- effectively manage our day to day operations while attempting to execute our strategy of expanding our business
- realize the projected growth and revenue targets developed by management for our newly acquired and emerging businesses, and
- continue to identify new acquisition or growth opportunities that we can finance, consummate and operate on attractive terms.

Expansion opportunities pose substantial challenges for us to integrate new operations into our existing business in an efficient and timely manner, to successfully monitor our operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. In addition, acquisitions entail the additional risk that we will incur unanticipated liabilities or contingencies of the acquired business, unbudgeted expenses or the loss of key employees or customers. We cannot assure you that our expansion or acquisition opportunities will be successful, or that we will realize our expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits. If we are not able to meet these challenges effectively, our results of operations may be harmed.

Network disruptions could adversely affect our operating results.

To be successful, we will need to continue providing our customers with a high capacity, reliable and secure network. Some of the risks to our network and infrastructure include:

- power losses or physical damage to our access lines, whether caused by fire, adverse weather conditions, terrorism or otherwise
 - capacity limitations
 - software and hardware defects
- breaches of security, including sabotage, tampering, computer viruses and break-ins, and
 - other disruptions that are beyond our control.

Disruptions or system failures may cause interruptions in service or reduced capacity for customers. If service is not restored in a timely manner, agreements with our customers or service standards set by state regulatory commissions could obligate us to provide credits or other remedies, and this would reduce our revenues or increase our costs. Service disruptions could also damage our reputation with customers, causing us to lose existing customers or have difficulty attracting new ones.

Any failure or inadequacy of our information technology infrastructure could harm our business.

The capacity, reliability and security of our information technology hardware and software infrastructure (including our billing systems) is important to the operation of our current business, which would suffer in the event of system failures. Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs are important to the continued implementation of our new service offering initiatives. Our inability to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, service or billing interruptions, and the diversion of development resources.

We rely on a limited number of key suppliers and vendors to operate our business.

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. If these suppliers experience interruptions or other problems delivering or servicing these network components on a timely basis, our operations could suffer significantly. To the extent that proprietary technology of a supplier is an integral component of our network, we may have limited flexibility to purchase key network components from alternative suppliers. We also rely on a limited number of other communications companies in connection with reselling long distance, wireless and satellite entertainment services to our customers. In addition, we rely on a limited number of software vendors to support our business management systems. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies or services on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

Portions of our property, plant and equipment are located on property owned by third parties.

Over the past few years, certain utilities, cooperatives and municipalities in certain of the states in which we operate have requested significant rate increases for attaching our plant to their facilities. To the extent that these entities are successful in increasing the amount we pay for these attachments, our future operating costs will increase.

In addition, we rely on rights-of-way, co-location agreements and other authorizations granted by governmental bodies and other third parties to locate our cable, conduit and other network equipment on their respective properties. If any of these authorizations terminate or lapse, our operations could be adversely affected.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect us.

We originate and terminate calls for long distance carriers and other interexchange carriers over our network in exchange for access charges that represent a significant portion of our revenues. Should these carriers go bankrupt or experience substantial financial difficulties, our inability to timely collect access charges from them could have a negative effect on our business and results of operations.

In addition, our LightCore operations carry a significant amount of voice and data traffic for larger communications companies. As these larger communications companies consolidate or expand their networks, it is possible that they could transfer a significant portion of this traffic from our fiber network to their networks, which could have a

negative effect on our business and results of operations.

We depend on key members of our senior management team.

Our success depends largely on the skills, experience and performance of a limited number of senior officers, none of whom are parties to employment agreements. Competition for senior management in our industry is intense and we may have difficulty retaining our current senior managers or attracting new ones in the event of terminations or resignations.

We could be affected by certain changes in labor matters.

At December 31, 2007, approximately 25% of our employees were members of 15 separate bargaining units represented by two different unions. From time to time, our labor agreements with these unions lapse, and we typically negotiate the terms of new agreements. We cannot predict the outcome of these negotiations. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. Moreover, our post-employment benefit offerings cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

Risks Related to Our Regulatory Environment

Our revenues could be materially reduced or our expenses materially increased by changes in regulations.

The majority of our revenues are substantially dependent upon regulations which, if changed, could result in material revenue reductions. Laws and regulations applicable to us and our competitors may be, and have been, challenged in the courts, and could be changed by federal or state legislators. Any of the following could significantly impact us:

Risk of loss or reduction of network access charge revenues. A significant portion of our network access revenues are paid to us by intrastate and interstate long distance carriers for originating and terminating calls in the regions we serve. The amount of access charge revenues that we receive is based largely on rates set by federal and state regulatory bodies, and such rates could change. The FCC is currently weighing several proposals to comprehensively reform the intercarrier compensation regime in order to create a uniform system of intercarrier payments. Any reform eventually adopted by the FCC will likely involve significant changes in the access charge system and could potentially result in a significant decrease or elimination of access charges altogether. In addition, our financial results could be harmed if carriers that use our access services become financially distressed or bypass our networks, either due to changes in regulation or other factors. Furthermore, access charges currently paid to us could be diverted to competitors who enter our markets or expand their operations, either due to changes in regulation or otherwise.

Risk of loss or reduction of support fund payments. We receive a substantial portion of our revenues from the federal Universal Service Fund and, to a lesser extent, intrastate support funds. These governmental programs are reviewed and amended from time to time, and we cannot assure you that they will not be changed or impacted in a manner adverse to us. In August 2004, a federal-state joint board requested comments on the FCC's current rules for high-cost support payments to rural telephone companies, including comments on whether eligibility requirements should be amended in a manner that would adversely affect larger rural LECs such as us. In May 2007, this board proposed that the FCC consider an interim cap on the amount of the high-cost support that competitive eligible telecommunications carriers may receive. Several parties have objected to the size of the USF or questioned the continued need to maintain the program in its current form. Pending judicial appeals and Congressional proposals create additional uncertainty regarding our future receipt of support payments. We cannot estimate the impact that these developments will have on us.

We expect our 2008 high cost support fund revenues to be approximately \$14 to \$17 million lower than 2007 due to (i) an expected increase in the nationwide average cost per loop factor and (ii) an expected decline in the overall size of the high cost support fund. In addition, the number of eligible telecommunications carriers receiving support payments from this program continues to increase, which, coupled with other factors, has placed additional financial pressure on the amount of money that is necessary and available to provide support payments to all eligible recipients, including us.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. Affiliates of ours operating approximately half of our telephone access lines are exempt from the 1996 Act's more burdensome requirements governing the rights of competitors to interconnect to incumbent local exchange carrier networks and to utilize discrete network elements of the incumbent's network at favorable rates. If state regulators decide that it is in the public's interest to impose these more burdensome interconnection requirements on us, these affiliates would be required to provide unbundled network elements to competitors. As a result, more competitors could enter our traditional telephone markets than we currently expect, resulting in lower revenues and higher additional administrative and regulatory expenses.

Risk of losses from rate reductions. Notwithstanding the movement toward alternative state regulation, LECs operating approximately 28% of our total access lines continue to be subject to "rate of return" regulation for intrastate purposes. These LECs remain subject to the powers of state regulatory commissions to conduct earnings reviews and adjust service rates, which could lead to revenue reductions. LECs governed by alternative regulatory plans could also under certain circumstances be ordered to reduce rates or could experience rate reductions following the lapse of plans currently in effect.

The FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of our revenues. As noted above, the FCC currently is considering proposals to reduce interstate access charges for carriers like us. We could be adversely affected if the FCC lowers or eliminates interstate access charges without adopting an adequate revenue replacement mechanism.

Risks posed by costs of regulatory compliance. Regulations continue to create significant compliance costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers. Our business also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business (including local number portability and customer proprietary network information requirements). For example, existing provisions of the Communications Assistance for Law Enforcement Act require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We expect our compliance costs to increase if future legislation or regulations continue to increase our obligations to assist other governmental agencies.

Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition against us.

The 1996 Act provides for significant changes and increased competition in the communications industry, including the local communications and long distance industries. This Act and the FCC's implementing regulations remain subject to judicial review and additional rulemakings, thus making it difficult to predict what effect the legislation will ultimately have on us and our competitors. Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced, which address issues affecting our operations and those of our competitors. Moreover, certain communities nationwide have expressed an interest in establishing a municipal telephone utility that would compete for customers. We cannot predict the outcome of these developments, nor can we assure that these changes will not have a material adverse effect on us or our industry.

We are subject to significant regulations that limit our flexibility.

As a diversified full service incumbent local exchange carrier, or ILEC, we have traditionally been subject to significant regulation that does not apply to many of our competitors. For instance, unlike many of our competitors, we are subject to federal mandates to share facilities, file and justify tariffs, maintain certain accounts and file reports, and state requirements that obligate us to maintain service standards and limit our ability to change tariffs in a timely manner. This regulation imposes substantial compliance costs on us and restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. Although newer alternative forms of regulation permit us greater freedoms in several states in which we operate, they nonetheless typically impose caps on the rates that we can charge our customers. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could impede our ability to compete. Litigation and different objectives among federal and state regulators could create uncertainty and impede our ability to respond to new regulations. Moreover, changes in tax laws, regulations or policies could increase our tax rate, particularly if state regulators continue to search for additional revenue sources to address budget shortfalls. We are unable to predict the future actions of the various regulatory bodies that govern us, but such actions could materially affect our business.

We are subject to franchising requirements that could impede our expansion opportunities.

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements generally apply to our fiber transport and CLEC operations, and to our emerging switched digital television and wireless broadband businesses. These requirements could delay us in expanding our operations or increase the costs of providing these services.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC, the New York Stock Exchange and the Public Company Accounting Oversight Board, are increasing legal and financial compliance costs and making some activities more time consuming. The annual evaluation of our internal controls required by Section 404 of the Sarbanes-Oxley Act may result in identifying material weaknesses in our internal controls. Any future failure to successfully or timely complete these annual assessments could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or investors' confidence in us, and could cause our stock price to fall. If we fail to maintain effective controls and procedures, we may be unable to provide financial information in a timely and reliable manner, which could in certain instances limit our ability to borrow or raise capital.

For a more thorough discussion of the regulatory issues that may affect our business, see "Operations" above.

Other Risks

We have a substantial amount of indebtedness and may need to incur more in the future.

We have a substantial amount of indebtedness, which could have material adverse consequences for us, including (i) hindering our ability to adjust to changing market, industry or economic conditions; (ii) limiting our ability to access the capital markets to refinance maturing debt or to fund acquisitions or emerging businesses; (iii) limiting the amount of free cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses; (iv) making us more vulnerable to economic or industry downturns, including interest rate increases; and (v) placing us at a competitive disadvantage to those of our competitors that have less indebtedness.

In connection with executing our business strategies, we are continuously evaluating the possibility of acquiring additional communications assets, and we may elect to finance acquisitions by incurring additional indebtedness. Moreover, to respond to the competitive challenges discussed above, we may be required to raise substantial additional capital to finance new product or service offerings. Our ability to arrange additional financing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain additional financing on terms acceptable to us or at all. If we are able to obtain additional financing, our credit ratings could be adversely affected. As a result, our borrowing costs would likely increase, our access to capital may be adversely affected and our ability to satisfy our obligations under our current indebtedness could be adversely affected.

As a holding company, we rely on payments from our operating companies to meet our obligations.

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and the distribution of those earnings to, or upon loans or other payments of funds by those subsidiaries to, us. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. Certain of our subsidiaries may be restricted under loan agreements or regulatory orders from transferring funds to us, including certain loan provisions that restrict the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. The footnotes to our consolidated financial statements included elsewhere herein describe these matters in additional detail.

Our agreements and organizational documents and applicable law could limit another party's ability to acquire us.

Under our articles of incorporation, each share of common stock that has been beneficially owned by the same person or entity continually since May 30, 1987 generally entitles the holder to ten votes on all matters duly submitted to a vote of shareholders. As of January 31, 2008, we estimate that the holders of our ten-vote shares held approximately 26% of our total voting power. Our articles also provide for a classified board of directors, which limits the ability of an insurgent to rapidly replace the board. In addition, a number of other provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyTel unless the takeover is approved by our board of directors. This could deprive our shareholders of any related takeover premium.

We face other risks.

The list of risks above is not exhaustive, and you should be aware that we face various other risks. For a description of additional risks, please see "Operations" above, "Forward-Looking Statements" below, and the other items of this annual report, particularly Items 3, 7 and 8.

Forward-Looking Statements

This report on Form 10-K and other documents filed by us under the federal securities laws include, and future oral or written statements or press releases by us and our management may include, certain forward-looking statements, including without limitation statements with respect to our anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, investment results, financing opportunities and sources (including the impact of financings on our financial position, financial performance or credit ratings), pricing plans, strategic alternatives, business strategies, and other similar statements of expectations or objectives or accompanying statements of assumptions that are highlighted by words such as "expects,"

“anticipates,” “intends,” “plans,” “believes,” “projects,” “seeks,” “estimates,” “hopes,” “should,” “could,” and “may,” and various other forward-looking expressions. Such forward-looking statements are based upon our judgment and assumptions as of the date such statements are made concerning future developments and events, many of which are outside of our control. These forward-looking statements, and the assumptions upon which such statements are based, are inherently speculative and are subject to uncertainties that could cause our actual results to differ materially from such statements. These uncertainties include but are not limited to those set forth below:

- the extent, timing, success and overall effects of competition from wireless carriers, VoIP providers, CLECs, cable television companies, electric utilities and others, including without limitation the risks that these competitors may offer less expensive or more innovative products and services
- the risks inherent in rapid technological change, including without limitation the risk that new technologies will displace our products and services
- the effects of ongoing changes in the regulation of the communications industry, including without limitation (i) increased competition resulting from the FCC’s regulations relating to interconnection and other matters, (ii) the final outcome of various federal, state and local regulatory initiatives and proceedings that could impact our competitive position, revenues, compliance costs, capital expenditures or prospects, and (iii) reductions in revenues received from the federal Universal Service Fund or other current or future federal and state support programs designed to compensate LECs operating in high-cost markets
- our ability to effectively adjust to changes in the communications industry
- our ability to effectively manage our growth, including without limitation our ability to (i) effectively manage our expansion opportunities, including successfully integrating newly-acquired businesses into our operations, (ii) attract and retain technological, managerial and other key personnel, (iii) achieve projected growth, revenue and cost savings targets, and (iv) otherwise monitor our operations, costs, regulatory compliance, and service quality and maintain other necessary internal controls
- possible changes in the demand for, or pricing of, our products and services, including without limitation reduced demand for traditional telephone services caused by greater use of wireless or Internet communications or other factors and reduced demand for our access services
- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis, including without limitation our ability to (i) successfully roll out our new video, voice and broadband services, (ii) expand successfully our long distance, Internet access and fiber transport service offerings to new or acquired markets and (iii) offer bundled service packages on terms attractive to our customers
- our continued access to credit markets on favorable terms, including our continued access to financing in amounts, and on terms and conditions, necessary to support our operations and refinance existing indebtedness when it becomes due
- our ability to collect receivables from financially troubled communications companies
- our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages
- regulatory limits on our ability to change the prices for telephone services in response to industry changes
- impediments to our ability to expand through attractively priced acquisitions, whether caused by regulatory limits, financing constraints, a decrease in the pool of attractive target companies, or competition for acquisitions from other interested buyers

- the possible need to make abrupt and potentially disruptive changes in our business strategies due to changes in competition, regulation, technology, product acceptance or other factors
- the lack of assurance that we can compete effectively against better-capitalized competitors
- the impact of network disruptions on our business
- the effects of adverse weather on our customers or properties
- other risks referenced in this report and from time to time in our other filings with the Securities and Exchange Commission
- the effects of more general factors, including without limitation:
 - ∴ changes in general industry and market conditions and growth rates
 - ∴ changes in labor conditions, including workforce levels and labor costs
 - ∴ changes in interest rates or other general national, regional or local economic conditions
 - ∴ changes in legislation, regulation or public policy, including changes in federal rural financing programs or changes that increase our tax rate
 - ∴ increases in capital, operating, medical or administrative costs, or the impact of new business opportunities requiring significant up-front investments
 - ∴ changes in our relationships with vendors, or the failure of these vendors to provide competitive products on a timely basis
 - ∴ failures in our internal controls that could result in inaccurate public disclosures or fraud
 - ∴ changes in our debt ratings
 - ∴ unfavorable outcomes of regulatory or legal proceedings, including rate proceedings and tax audits
 - ∴ losses or unfavorable returns on our investments in other communications companies
 - ∴ delays in the construction of our networks
 - ∴ changes in accounting policies, assumptions, estimates or practices adopted voluntarily or as required by generally accepted accounting principles, including the possible future unavailability of Statement of Financial Accounting Standards No. 71 to our wireline subsidiaries.

For additional information, see the description of our business included above, as well as Item 7 of this report. Due to these uncertainties, there can be no assurance that our anticipated results will occur, that our judgments or assumptions will prove correct, or that unforeseen developments will not occur. Accordingly, you are cautioned not to place undue reliance upon any of our forward-looking statements, which speak only as of the date made. Additional risks that we currently deem immaterial or that are not presently known to us could also cause our actual results to differ materially from those expected in our forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise.

Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them selectively any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

ItemUnresolved Staff Comments

1B.

Not applicable.

Item 2. Properties.

Our properties consist principally of telephone lines, central office equipment, and land and buildings related to telephone operations. As of December 31, 2007 and 2006, our gross property, plant and equipment of approximately \$8.7 billion and \$7.9 billion, respectively, consisted of the following:

| | December 31, 2007 | 2006 |
|--------------------------|----------------------|-------|
| Cable and wire | 52.8% | 53.5 |
| Central office | 32.0 | 32.0 |
| General support | 9.4 | 9.6 |
| Fiber transport | 3.3 | 2.8 |
| Construction in progress | 1.1 | 0.7 |
| Other | 1.4 | 1.4 |
| | 100.0 | 100.0 |

“Cable and wire” facilities consist primarily of buried cable and aerial cable, poles, wire, conduit and drops used in providing local and long distance services. “Central office” consists primarily of switching equipment, circuit equipment and related facilities. “General support” consists primarily of land, buildings, tools, furnishings, fixtures, motor vehicles and work equipment. “Fiber transport” consists of network assets and equipment to provide fiber transport services. “Construction in progress” includes property of the foregoing categories that has not been placed in service because it is still under construction.

The properties of certain of our telephone subsidiaries are subject to mortgages securing the debt of such companies. We own substantially all of the central office buildings, local administrative buildings, warehouses, and storage facilities used in our telephone operations.

For further information on the location and type of our properties, see the descriptions of our operations in Item 1.

Item 3. Legal Proceedings.

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 monetary 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. Our appeal of this class certification decision was denied. Our preliminary analysis indicates that we billed less than \$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 and amounts of which, if any, remain 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 result, 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.

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, proceedings by or against taxing authorities, 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.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

Executive Officers of the Registrant - Information concerning our Executive Officers, set forth at Item 10 in Part III hereof, is incorporated in Part I of this Report by reference.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange and is traded under the symbol CTL. The following table sets forth the high and low sales prices, along with the quarterly dividends, for each of the quarters indicated.

| | Sales prices | | Dividend per common share |
|----------------|--------------|-------|------------------------------------|
| | High | Low | |
| 2007: | | | |
| First quarter | \$ 46.80 | 42.66 | .0650 |
| Second quarter | \$ 49.94 | 45.14 | .0650 |
| Third quarter | \$ 49.91 | 41.10 | .0650 |
| Fourth quarter | \$ 46.90 | 39.91 | .0650 |
| 2006: | | | |
| First quarter | \$ 39.90 | 32.54 | .0625 |
| Second quarter | \$ 40.00 | 34.79 | .0625 |
| Third quarter | \$ 40.14 | 35.38 | .0625 |
| Fourth quarter | \$ 44.11 | 39.34 | .0625 |

Common stock dividends during 2007 and 2006 were paid each quarter. As of February 15, 2008, there were approximately 3,800 stockholders of record of our common stock. As of February 28, 2008, the closing stock price of our common stock was \$37.45.

In February 2006, our Board of Directors authorized a \$1.0 billion share repurchase program under which, in February 2006, we repurchased \$500 million (or approximately 14.36 million shares) of our common stock under accelerated share repurchase agreements with certain investment banks at an initial average price of \$34.83. The investment banks completed their repurchases in mid-July 2006 and in connection therewith we paid an aggregate of approximately \$28.4 million cash to the investment banks to compensate them for the difference between their weighted average purchase price during the repurchase period and the initial average price. We repurchased the remaining \$500 million of common stock of this program in open-market transactions through June 2007.

In August 2007, our board of directors authorized a \$750 million share repurchase program which expires on September 30, 2009, unless extended by the board. The following table reflects our repurchases of common stock during the fourth quarter of 2007.

| Total Number of Shares Purchased as Part of Publicly | Approximate Dollar Value of Shares (or Units) that May Yet Be |
|---------------------------------------------------------------------|---------------------------------------------------------------------------|
|---------------------------------------------------------------------|---------------------------------------------------------------------------|

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| Period | Total Number of Shares Purchased | Average Price Per Share | Announced Plans or Programs | Purchased Under the Plans or Programs* |
|-----------------------------------|----------------------------------------|-------------------------------|-----------------------------------|----------------------------------------------|
| October 1 – October 31, 2007 | 830,500 | \$ 45.64 | 830,500 | \$ 675,700,931 |
| November 1 – November 30, 2007 | 1,013,381 | \$ 43.02 | 1,013,381 | \$ 632,103,121 |
| December 1 – December 31, 2007 | 975,520 | \$ 41.63 | 975,520 | \$ 591,496,447 |
| Total | 2,819,401 | \$ 43.31 | 2,819,401 | \$ 591,496,447 |

*Authority to purchase under this program runs through September 30, 2009.

In addition to the above repurchases, we also withheld 123 shares of stock at an average price of \$45.10 per share to pay taxes due upon the vesting of restricted stock for certain of our employees in October 2007.

For information regarding shares of our common stock authorized for issuance under our equity compensation plans, see Item 12.

Item 6. Selected Financial Data.

The following table presents certain selected consolidated financial data as of and for each of the years ended in the five-year period ended December 31, 2007:

Selected Income Statement Data

| | Year ended December 31, | | | | |
|------------------------------------|------------------------------------------------------------------------|-----------|-----------|-----------|-----------|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| | (Dollars, except per share amounts, and shares expressed in thousands) | | | | |
| Operating revenues | \$ 2,656,241 | 2,447,730 | 2,479,252 | 2,407,372 | 2,367,610 |
| Operating income | \$ 793,078 | 665,538 | 736,403 | 753,953 | 750,396 |
| Net income | \$ 418,370 | 370,027 | 334,479 | 337,244 | 344,707 |
| Basic earnings per share | \$ 3.82 | 3.17 | 2.55 | 2.45 | 2.40 |
| Diluted earnings per share | \$ 3.72 | 3.07 | 2.49 | 2.41 | 2.35 |
| Dividends per common share | \$.26 | .25 | .24 | .23 | .22 |
| Average basic shares outstanding | 109,360 | 116,671 | 130,841 | 137,215 | 143,583 |
| Average diluted shares outstanding | 113,094 | 122,229 | 136,087 | 142,144 | 148,779 |

Selected Balance Sheet Data

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| | 2007 | 2006 | December 31, 2005 | 2004 | 2003 |
|-----------------------------------|------------------------|-----------|----------------------|-----------|-----------|
| | (Dollars in thousands) | | | | |
| Net property, plant and equipment | \$ 3,108,376 | 3,109,277 | 3,304,486 | 3,341,401 | 3,455,481 |
| Goodwill | \$ 4,010,916 | 3,431,136 | 3,432,649 | 3,433,864 | 3,425,001 |
| Total assets | \$ 8,184,553 | 7,441,007 | 7,762,707 | 7,796,953 | 7,895,852 |
| Long-term debt | \$ 2,734,357 | 2,412,852 | 2,376,070 | 2,762,019 | 3,109,302 |
| Stockholders' equity | \$ 3,409,205 | 3,190,951 | 3,617,273 | 3,409,765 | 3,478,516 |

The following table presents certain selected consolidated operating data as of the following dates:

| | 2007 | 2006 | December 31, 2005 | 2004 | 2003 |
|-----------------------------------|-----------|-----------|----------------------|-----------|-----------|
| Telephone access lines (1) (2) | 2,135,000 | 2,094,000 | 2,214,000 | 2,314,000 | 2,376,000 |
| High-speed Internet customers (1) | 555,000 | 369,000 | 249,000 | 143,000 | 83,000 |

(1) In connection with our Madison River acquisition in April 2007, we acquired approximately 164,000 telephone access lines and 57,000 high-speed Internet customers.

(2) Excluding adjustments during 2006 to reflect (i) the removal of test lines, (ii) database conversion and clean-up and (iii) the sale of our Arizona properties, access line losses for 2006 were approximately 107,000.

See Items 1 and 2 in Part I and Items 7 and 8 elsewhere herein for additional information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

OVERVIEW

CenturyTel, Inc., together with its subsidiaries, is 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.

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. On June 30, 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. ("KMC") for approximately \$75.5 million cash and have reflected the results of operations of KMC in our consolidated results of operations beginning July 1, 2005.

During 2007, we recognized approximately \$49.0 million of network access revenues in connection with the settlement of a dispute with a carrier and approximately \$42.2 million of revenues in connection with the lapse of a regulatory monitoring period (of which approximately \$25.4 million is reflected in network access revenues and \$16.8 million is reflected in data revenues). Neither of these favorable revenue items in 2007 are expected to reoccur in the future.

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 (which we previously incurred as subscriber acquisition costs) 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 arrangement.

In September 2007, we announced a reduction of our workforce to be completed by mid-2008 of approximately 200 jobs and, in connection therewith, incurred a net pre-tax charge of approximately \$2.2 million (consisting of a \$2.7 million charge to operating expenses, net of a \$527,000 favorable revenue impact related to such expenses as allowed through our rate-making process) for severance and related costs. On March 1 and August 31, 2006, we announced workforce reductions involving an aggregate of approximately 400 jobs and, in connection therewith, incurred an aggregate net pre-tax charge of approximately \$7.5 million (consisting of a \$9.4 million charge to operating expenses, net of a \$1.9 million favorable revenue impact related to such expenses as allowed through our rate-making process) for severance and related costs. See Note 8 for additional information.

In the fourth quarter of 2007, we recorded a \$16.6 million pre-tax impairment charge in order to write-down the value of certain long-lived assets in certain of our CLEC markets to their estimated realizable value. The estimated realizable value was determined based on current proposals received during our sales process of such properties.

In the third quarter of 2007, we recorded a one-time pre-tax gain of approximately \$10.4 million related to the sale of our interest in a real estate partnership. In the second quarter of 2006, we 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"). Subsequently, in the fourth quarter of 2007, upon final distribution of the remaining proceeds from the RTB dissolution, we recorded a pre-tax gain of approximately \$5.2 million. See Note 15 for additional information.

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Our net income for 2007 was \$418.4 million, compared to \$370.0 million during 2006 and \$334.5 million during 2005. Diluted earnings per share for 2007 was \$3.72 compared to \$3.07 in 2006 and \$2.49 in 2005. The number of average diluted shares outstanding declined 7.5% in 2007 and 10.2% in 2006 primarily due to our share repurchases during the past three years.

| Year ended December 31, | 2007 | 2006 | 2005 |
|---------------------------------------|--------------------------------------------------------------|-----------|-----------|
| | (Dollars, except per share amounts, and shares in thousands) | | |
| Operating income | \$ 793,078 | 665,538 | 736,403 |
| Interest expense | (212,906) | (195,957) | (201,801) |
| Other income (expense) | 38,770 | 121,568 | 3,168 |
| Income tax expense | (200,572) | (221,122) | (203,291) |
| Net income | \$ 418,370 | 370,027 | 334,479 |
| Basic earnings per share | \$ 3.82 | 3.17 | 2.55 |
| Diluted earnings per share | \$ 3.72 | 3.07 | 2.49 |
| Average basic shares outstanding | 109,360 | 116,671 | 130,841 |
| Average diluted shares outstanding | 113,094 | 122,229 | 136,087 |

Operating income increased \$127.5 million in 2007 as a \$208.5 million increase in operating revenues was partially offset by an \$81.0 million increase in operating expenses. Operating income decreased \$70.9 million in 2006 due to a \$31.5 million decrease in operating revenues and a \$39.3 million increase in operating expenses.

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 our business are described in greater detail in Item 1A included herein. 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.

All references to “Notes” in this Item 7 refer to the Notes to Consolidated Financial Statements included in Item 8 of this annual report.

OPERATING REVENUES

| Year ended December 31, | 2007 | 2006 | 2005 |
|-----------------------------|--------------|------------------------|-----------|
| | | (Dollars in thousands) | |
| Voice | \$ 889,960 | 871,767 | 902,510 |
| Network access | 941,506 | 878,702 | 959,838 |
| Data | 460,755 | 351,495 | 318,770 |
| Fiber transport and CLEC | 159,317 | 149,088 | 115,454 |
| Other | 204,703 | 196,678 | 182,680 |
| Operating revenues | \$ 2,656,241 | 2,447,730 | 2,479,252 |

During 2007 and 2005, we recognized revenues of approximately \$42.2 million and \$35.9 million, respectively, related to the expiration of regulatory monitoring periods. Of the \$42.2 million recognized in 2007, approximately \$25.4 million is reflected in network access revenues and \$16.8 million is reflected in data revenues. Of the \$35.9 million recognized in 2005, approximately \$24.5 million is reflected in network access revenues and approximately \$11.4 million is reflected in data revenues. In addition, in 2007 we recognized approximately \$49.0 million of revenues related to the settlement of a dispute with a carrier. We do not expect this level of favorable revenue settlements to reoccur in the future.

Revenues from voice mail services previously reflected in “other” revenues have been reclassified to “voice” revenues for all periods presented.

Voice revenues. We derive voice revenues by providing local exchange telephone services and retail long distance services to customers in our service areas. The \$18.2 million (2.1%) increase in voice revenues in 2007 is primarily due to \$43.3 million of revenues attributable to the Madison River properties acquired April 30, 2007. Such increase was partially offset by (i) a \$20.7 million decrease due to a 5.2% decline in the average number of access lines (normalized for acquisitions, dispositions and previously-disclosed adjustments made during 2006) and (ii) a \$6.0 million decline as a result of a decrease in revenues associated with extended area calling plans.

The \$30.7 million (3.4%) decrease in voice revenues in 2006 is primarily due to (i) a \$22.3 million decrease due a 4.8% decline in the average number of access lines served and (ii) a \$26.1 million decline as a result of a decrease in minutes of use in extended area calling plans in certain areas. Such decreases were partially offset by (i) a \$12.6 million increase in long distance revenues primarily attributable to an increase in the number of long distance lines and increased long distance minutes of use, both of which were partially offset by a decline in the average rate we charged our long distance customers, and (ii) a \$9.9 million increase due to providing custom calling features to more customers.

Normalized for the adjustments mentioned above, access lines declined 119,700 (5.7%) during 2007 compared to a decline of 107,000 (4.8%) during 2006. We believe the decline in the number of access lines during 2007 and 2006 is primarily due to the displacement of traditional wireline telephone services by other competitive services. Based on our planned results for recent sales and retention initiatives, we are targeting our access line loss to be between 4.5% and 6.0% in 2008.

Network access revenues. 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 transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms. Certain of our interstate network access revenues are based on tariffed access charges filed directly with the Federal Communications Commission (“FCC”); the remainder of such revenues are derived under revenue sharing arrangements with other local exchange carriers (“LECs”) administered by the National Exchange Carrier Association. Intrastate network access revenues are based on tariffed access charges filed with state regulatory agencies or are derived under revenue sharing arrangements with other LECs.

Network access revenues increased \$62.8 million (7.1%) in 2007 and decreased \$81.1 million (8.5%) in 2006 due to the following factors:

| | 2007 increase (decrease) | 2006 increase (decrease) |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| | (Dollars in thousands) | |
| Settlement of a dispute with a carrier | \$ 48,987 | - |
| Acquisition of Madison River | 33,923 | - |
| Expiration of regulatory monitoring periods | 25,402 | (24,556) |
| Intrastate revenues due to decreased minutes of use, decreased access rates in certain states and recovery | | |
| from state support funds | (20,912) | (19,201) |
| Partial recovery of operating costs through revenue sharing arrangements with other telephone companies, interstate | | |
| access revenues and return on rate base | (21,311) | (16,825) |
| Recovery from the federal Universal Service | | |
| High Cost Loop support program | 2,231 | (11,637) |
| Prior year revenue settlement agreements | (2,346) | (6,663) |
| Other, net | (3,170) | (2,254) |
| | \$ 62,804 | (81,136) |

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 2007 results of operations as a component of “Network access” revenues.

In third quarter 2007, upon the lapse of the applicable 2003/2004 monitoring period for certain of our tariffed billings, we recognized approximately \$42.2 million of revenues (of which approximately \$25.4 million is reflected in network access revenues and \$16.8 million is reflected in data revenues). Such amount represented billings from tariffs prior to July 2004 in excess of the authorized rate of return that we initially recorded as a deferred credit pending completion of such 2003/2004 monitoring period.

Our revenues from the Universal Service High Cost Loop Fund increased approximately \$2.2 million in 2007 after decreasing \$11.6 million in 2006. Such decrease in 2006 was primarily due to an increase in the nationwide average cost per loop factor used by the FCC to allocate funds among all recipients. We anticipate our 2008 revenues from the federal Universal Service High Cost Loop support program will decrease between \$14 and \$17 million compared to 2007.

In 2007 and 2006, we experienced reductions in our intrastate revenues of approximately \$20.9 million and \$19.2 million, respectively, primarily due to a reduction in intrastate minutes (partially due to the displacement of minutes by wireless, electronic mail and other optional calling services). We believe that intrastate minutes will continue to decline in 2008, although we cannot estimate the magnitude of such decrease.

Data revenues. We derive our data revenues primarily by providing Internet access services (both DSL and dial-up services) and data transmission services over special circuits and private lines. Data revenues in 2007 increased \$109.3 million (31.1%) substantially due to (i) a \$66.4 million increase in DSL-related revenues due primarily to growth in the number of DSL customers; (ii) \$34.5 million of revenues contributed by Madison River and (iii) \$16.8 million of one-time revenues recorded in third quarter 2007 upon expiration of the above-described regulatory monitoring period. Such increases were partially offset by a \$5.4 million decrease in special access revenues primarily due to certain customers disconnecting circuits and a \$5.1 million decrease in dial-up Internet revenues due to a decline in the number of dial-up customers.

Data revenues increased \$32.7 million (10.3%) in 2006, substantially due to a \$54.0 million increase in DSL-related revenues primarily due to growth in the number of high-speed Internet customers. Such increase was partially offset by a decrease in prior year revenue settlements due to the above-described recognition of approximately \$11.4 million of revenues in third quarter 2005 upon the lapse of a regulatory monitoring period and a \$4.9 million decrease due to a reduced number of dial-up Internet customers.

Fiber transport and CLEC. Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier ("CLEC") and security monitoring businesses. Fiber transport and CLEC revenues increased \$10.2 million (6.9%) in 2007, of which \$8.7 million was due to growth in our incumbent fiber transport business and \$4.8 million was contributed by Madison River. Such increases were partially offset by a \$3.5 million decrease in CLEC revenues primarily due to customer disconnects.

Fiber transport and CLEC revenues increased \$33.6 million (29.1%) in 2006, of which \$24.4 million was due to revenues from the fiber assets acquired on June 30, 2005 from KMC and \$8.5 million was attributable to growth in our incumbent fiber transport business.

Other revenues. 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) providing new service offerings, principally consisting of our new video and wireless reseller services. Other revenues increased \$8.0 million (4.1%) in 2007. Such increase was primarily due to \$13.9 million of revenues contributed by Madison River. In connection with receiving a one-time reimbursement as a result of our above-described change in our contractual relationship with our satellite television service provider, we recorded a \$1.9 million one-time increase to revenues in 2007. The impact of the change in the arrangement from a gross to a net revenue presentation resulted in an \$8.2 million decrease in recurring revenues for the twelve months ended December 31, 2007 compared to 2006.

Other revenues increased \$14.0 million (7.7%) during 2006 primarily due to a \$12.1 million increase in revenues of our video and wireless reseller offerings and a \$2.5 million increase in directory revenues.

OPERATING EXPENSES

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| Year ended December 31, | 2007 | 2006 | 2005 |
|----------------------------------------------------------------------------|------------------------|-----------|-----------|
| | (Dollars in thousands) | | |
| Cost of services and products (exclusive of depreciation and amortization) | \$ 937,375 | 888,414 | 821,929 |
| Selling, general and administrative | 389,533 | 370,272 | 388,989 |
| Depreciation and amortization | 536,255 | 523,506 | 531,931 |
| Operating expenses | \$ 1,863,163 | 1,782,192 | 1,742,849 |

Cost of services and products. Cost of services and products increased \$49.0 million (5.5%) in 2007 primarily due to (i) \$52.5 million of costs incurred by our Madison River properties; (ii) a \$20.9 million increase in DSL-related expenses due to growth in the number of DSL customers; (iii) a \$16.6 million impairment charge related to certain of our CLEC assets that we expect to sell in the near term; and (iv) a \$7.8 million increase in expenses associated with pole attachments primarily due to rate increases. Such increases were partially offset by (i) a \$33.1 million decrease in salaries and benefits due to costs associated with workforce reductions in 2006 and due to fewer incumbent employees resulting from our recent workforce reductions and (ii) a \$19.7 million decrease in expenses associated with our satellite television service offering due to a change in our arrangement as mentioned above (such reduction includes a \$4.1 million one-time reimbursement of costs received from the service provider in 2007 in connection with the change in the arrangement, as described above).

Cost of services and products increased \$66.5 million (8.1%) in 2006 primarily due to (i) an \$18.9 million increase in expenses incurred by the properties acquired from KMC; (ii) an \$18.3 million increase in costs associated with growth in our long distance business; (iii) a \$14.3 million increase in expenses associated with our video and wireless reseller service offerings; (iv) an \$11.5 million increase in Internet operating expenses primarily due to growth in the number of high-speed Internet customers; and (v) \$8.6 million of severance and related costs associated with our workforce reduction in 2006 (see Note 8).

Selling, general and administrative. Selling, general and administrative expenses increased \$19.3 million (5.2%) in 2007 primarily due to (i) \$16.4 million of costs incurred by Madison River; (ii) an \$8.2 million increase in salaries and benefits; and (iii) a \$5.6 million increase in sales and marketing expenses. Such increases were partially offset by (i) a \$5.7 million reduction in bad debt expense and (ii) a \$4.3 million decrease in information technology expenses.

Selling, general and administrative expenses decreased \$18.7 million (4.8%) in 2006 primarily due to an \$11.0 million decrease in marketing expenses; a \$10.6 million reduction in information technology expenses; an \$8.7 million reduction in bad debt expense; and a \$5.8 million decrease in operating taxes. These decreases were partially offset by a \$9.9 million increase in salaries and benefits and a \$5.5 million increase in expenses incurred from the properties acquired from KMC.

Depreciation and amortization. Depreciation and amortization increased \$12.7 million (2.4%) in 2007 primarily due to \$32.5 million of depreciation and amortization incurred by Madison River and a \$14.8 million increase due to higher levels of plant in service. Such increases were substantially offset by a \$31.7 million reduction in depreciation expense due to certain assets becoming fully depreciated.

Depreciation and amortization decreased \$8.4 million (1.6%) in 2006, primarily due to a \$25.3 million reduction in depreciation expense due to certain assets becoming fully depreciated. Such decrease was partially offset by (i) a \$16.6 million increase due to higher levels of plant in service and (ii) a \$3.1 million increase due to depreciation and amortization of the properties acquired from KMC.

Other. For additional information regarding certain matters that have impacted or may impact our operations, see "Regulation and Competition".

INTEREST EXPENSE

Interest expense increased \$16.9 million (8.6%) in 2007 compared to 2006. A \$22.7 million increase due to increased average debt outstanding (primarily due to the \$750 million of senior notes issued in March 2007 to fund the Madison River acquisition) was partially offset by a \$5.9 million decrease due to lower average interest rates.

Interest expense decreased \$5.8 million (2.9%) in 2006 compared to 2005 as a \$10.5 million decrease due primarily to a decrease in average debt outstanding was partially offset by a \$7.1 million increase due to higher average interest rates.

OTHER INCOME (EXPENSE)

Other income (expense) includes the effects of certain items not directly related to our core operations, including gains or losses from nonoperating asset dispositions and impairments, our share of the income from our 49% interest in a cellular partnership, interest income and allowance for funds used during construction. Other income (expense) was \$38.8 million in 2007, \$121.6 million in 2006 and \$3.2 million in 2005. The years 2007, 2006 and 2005 were impacted by certain charges and credits that are not expected to occur in the future. The year 2007 include a non-recurring pre-tax gain of \$10.4 million related to the sale of our interest in a real estate partnership and a \$5.2 million pre-tax gain resulting from the final distribution of funds from the RTB redemption mentioned below. Included in 2006 were pre-tax gains of approximately \$118.6 million (substantially all of which related to the redemption of our RTB stock upon dissolution of the RTB), which was partially offset by pre-tax charges of approximately \$11.7 million due to the impairment of certain non-operating investments. Included in 2005 was (i) a \$16.2 million pre-tax charge due to the impairment of a non-operating investment; (ii) a \$4.8 million debt extinguishment expense related to purchasing and retiring approximately \$400 million of our Senior J notes; (iii) \$3.2 million of non-recurring interest income related to the settlement of various income tax audits; and (iv) a \$3.5 million gain from the sale of a non-operating investment.

Our share of income from our 49% interest in a cellular partnership increased \$8.7 million in 2007 compared to 2006. Such increase was partially due to favorable adjustments recorded in 2007 that resulted from the unaffiliated general partner completing the audited financial statements of this partnership for the years ended December 31, 2006 and 2005. Previously for these time periods, we had recorded our share of the partnership income based on unaudited results of operations.

INCOME TAX EXPENSE

The effective income tax rate was 32.4%, 37.4%, and 37.8% for 2007, 2006 and 2005, respectively. Income tax expense was reduced by approximately \$32.7 million in 2007 due to the recognition of previously unrecognized tax benefits (see below and Note 12). Income tax expense was reduced by approximately \$6.4 million in 2006 due to the resolution of various income tax audit issues.

Income tax expense for 2005 was increased by \$19.5 million as a result of increasing the valuation allowance related to net state operating loss carryforwards. This increase was primarily due to changes in state income tax laws and other factors which impacted the projections of future taxable income. This tax expense increase was more than offset by (i) a reduction of state income tax reserves (\$11.6 million, net of federal income tax benefit); (ii) a reduction in our composite state income tax rate due to more income being apportioned to states with lower state tax rates (\$8.5 million); and (iii) the favorable settlement of various federal income tax audits (\$1.3 million).

ACCOUNTING PRONOUNCEMENTS

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 required 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. See Note 12 for additional information related to our income tax uncertainties.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements required or permitted under other accounting pronouncements. SFAS 157 is effective for us beginning January 1, 2008. We currently do not expect SFAS 157 to have a material adverse effect on our results of operations.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Plans and Other Postretirement Plans" ("SFAS 158"). SFAS 158 was effective for our December 31, 2006 balance sheet and required us to recognize the overfunded or underfunded status of our defined benefit and postretirement plans as an asset or liability on our balance sheet and to recognize changes in that funded status in the year in which the changes occur through adjustments to other comprehensive income (loss) and to stockholders' equity, reflected in accumulated other comprehensive loss. As a result of the implementation of SFAS 158 on December 31, 2006, our non-current assets decreased \$64.7 million, our current liabilities decreased \$898,000, our non-current liabilities (excluding deferred income taxes) increased approximately \$99.5 million, our deferred income taxes decreased approximately \$65.4 million and our stockholders' equity (reflected in accumulated other comprehensive loss) decreased approximately \$97.9 million. See Note 1 for additional information.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using both a balance sheet approach and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of the relevant quantitative and qualitative factors. We adopted SAB 108 in the fourth quarter of 2006. Upon the implementation of SAB 108, we recognized a net \$9.7 million increase to January 1, 2006 retained earnings for the cumulative effect of correcting prior year uncorrected misstatements. See Note 1 for additional information.

On January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and be capitalized as part of the book value of the long-lived asset. Although we generally have no legal obligation to remove obsolete assets, depreciation rates of certain assets established by regulatory authorities for our telephone operations subject to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), have historically included a component for removal costs in excess of the related estimated salvage value. Notwithstanding the adoption of SFAS 143, SFAS 71 requires us to continue to reflect this accumulated liability for removal costs in excess of salvage value even though there is no legal obligation to remove the assets. Therefore, we did not adopt the provisions of SFAS 143 for our telephone operations subject to SFAS 71. For these reasons, the adoption of SFAS 143 did not have a material effect on our financial statements. For our telephone operations acquired from Verizon in 2002 (which are not subject to SFAS 71) and our other non-regulated operations, we have not accrued a liability for anticipated removal costs related to tangible long-lived assets through an adjustment to our depreciation rates for these assets.

On March 31, 2005, the Financial Accounting Standards Board issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), an interpretation of SFAS 143. FIN 47, which was effective for fiscal years ending after December 15, 2005, clarifies that the recognition and measurement provisions of SFAS 143 apply to asset retirement obligations in which the timing or method of settlement may be conditional on a future event

that may or may not be within control of the entity. We identified conditional asset retirement obligations for (i) asbestos removal in buildings, (ii) removal of underground storage tanks, (iii) our property located on public and private rights-of way and (iv) our property that is attached to poles owned by other utilities and municipalities. Due to a lack of historical experience from which to reasonably estimate a settlement date or range of settlement dates, we concluded that an asset retirement obligation associated with our property located on rights-of-way is indeterminate. We also concluded that our conditional asset retirement obligations related to the removal of asbestos, underground storage tanks and our property that is attached to other entities' poles was immaterial to our financial condition and results of operations and therefore has not been recognized.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We continually evaluate our estimates and assumptions including those related to (i) revenue recognition, (ii) allowance for doubtful accounts, (iii) pension and postretirement benefits, (iv) intangible and long-lived assets and (v) income taxes. Actual results may differ from these estimates and assumptions. We believe these critical accounting policies discussed below involve a higher degree of judgment or complexity.

Revenue recognition. Certain of our interstate network access and data revenues are based on tariffed access charges filed directly with the FCC; the remainder of such revenues is derived from revenue sharing arrangements with other LECs administered by the National Exchange Carrier Association, with the exception of DSL-related revenues which were removed from our pooled interstate tariff filing effective July 1, 2006 and are now recognized as revenues when billed. During 2004, we began generally recognizing such interstate network access revenues at the authorized rate of return, unless the actual achieved or projected rate of return was lower than authorized.

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 revenue since we believe such tariffs are "deemed lawful". There is no assurance that our future tariff filings will be "deemed lawful". For those billings from tariffs prior to July 2004, we initially recorded as a deferred credit our earnings in excess of the authorized rate of return. Upon the lapse of the applicable regulatory monitoring periods, we recorded approximately \$42.2 million as revenue in 2007 and approximately \$35.9 million as revenue in 2005. We do not expect these favorable revenue settlements to reoccur in the future.

Allowance for doubtful accounts. In evaluating the collectibility of our accounts receivable, we assess a number of factors, including a specific customer's or carrier's ability to meet its financial obligations to us, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for uncollectible accounts receivable to reduce the related accounts receivable to the amount we ultimately expect to collect from customers and carriers. If circumstances change or economic conditions worsen such that our past collection experience is no longer relevant, we may need to increase our reserves from the levels reflected in our accompanying consolidated balance sheet.

Pension and postretirement benefits. The amounts recognized in our financial statements related to pension and postretirement benefits are determined on an actuarial basis, which utilizes many assumptions in the calculation of such amounts. A significant assumption used in determining our pension and postretirement expense is the expected long-term rate of return on plan assets. For 2007 and 2006, we utilized an expected long-term rate of return on plan assets of 8.25%, which we believe reflects the expected long-term rates of return in the financial markets.

Another assumption used in the determination of our pension and postretirement benefit plan obligations is the appropriate discount rate. Our discount rate at December 31, 2007 ranged from 6.3-6.5% compared to 5.75-5.80% at December 31, 2006, which we believe is the appropriate rate at which the pension and postretirement benefits could be effectively settled. Such rates were determined based on a discounted cash flow analysis of the expected cash outflows of our benefit plans. A 25 basis point decrease in the assumed discount rate would increase annual combined pension and postretirement expense approximately \$1.7 million.

Intangible and long-lived assets. We are subject to testing for impairment of long-lived assets under two accounting standards, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

SFAS 142 requires goodwill recorded in business combinations to be reviewed for impairment at least annually and requires write-downs only in periods in which the recorded amount of goodwill exceeds the fair value. Under SFAS 142, impairment of goodwill is tested by comparing the fair value of the reporting unit to its carrying value (including goodwill). Estimates of the fair value of the reporting unit are based on valuation models using techniques such as multiples of earnings (before interest, taxes and depreciation and amortization). If the fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to its carrying value. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value. We completed the required annual test of goodwill impairment (as of September 30, 2007) under SFAS 142 and determined our goodwill was not impaired as of such date.

Under SFAS 144, the carrying value of long-lived assets other than goodwill is reviewed for impairment whenever events or circumstances indicate that such carrying amount cannot be recoverable by assessing the recoverability of the carrying value through estimated undiscounted net cash flows expected to be generated by the assets. If the undiscounted net cash flows are less than the carrying value, an impairment loss would be measured as the excess of the carrying value of a long-lived asset over its fair value. We recognized a \$16.6 million pre-tax impairment charge in 2007 related to certain of our CLEC assets that we expect to sell.

Income taxes. We estimate our current and deferred income taxes based on our assessment of the future tax consequences of transactions that have been reflected in our financial statements or applicable tax returns. Actual income taxes paid could vary from these estimates due to future changes in income tax law or the resolution of audits by federal and state taxing authorities. We maintain liabilities for unrecognized tax benefits for various uncertain tax positions taken in our tax returns. These liabilities are estimated based on our judgment of the probable outcome of the uncertain tax positions and are adjusted periodically based on changing facts and circumstances. Changes to the liabilities for unrecognized tax benefits could materially affect operating results in the period of change. During 2007, we released approximately \$32.7 million of previously unrecognized tax benefits (including related interest and net of federal benefit) in accordance with FIN 48. Such benefit was recorded primarily as a result of the favorable resolution of audits, administrative practices and the lapse of statute of limitations in certain jurisdictions. See Note 12 for additional information regarding our unrecognized tax benefits.

For additional information on our critical accounting policies, see "Accounting Pronouncements" and "Regulation and Competition – Other Matters" below, and the footnotes to our consolidated financial statements included elsewhere herein.

INFLATION

Historically, we have mitigated the effects of increased costs by recovering over time certain costs applicable to our regulated telephone operations through the rate-making process. However, LECs operating over 72% of our total access lines are now governed by state alternative regulation plans, some of which restrict or delay our ability to

recover increased costs. Additional future regulatory changes and competitive situations may further alter our ability to recover increased costs in our regulated operations. For the properties acquired from Verizon in 2002, which are regulated under price-cap regulation for interstate purposes, price changes for certain revenue components are limited to the rate of inflation. As operating expenses in our nonregulated lines of business increase as a result of inflation, we, to the extent permitted by competition, attempt to recover the costs by increasing prices for our services and equipment.

MARKET RISK

We are exposed to market risk from changes in interest rates on our long-term debt obligations. We have estimated our market risk using sensitivity analysis. Market risk is defined as the potential change in the fair value of a fixed-rate debt obligation due to a hypothetical adverse change in interest rates. Fair value of long-term debt obligations is determined based on a discounted cash flow analysis, using the rates and maturities of these obligations compared to terms and rates currently available in the long-term financing markets. The results of the sensitivity analysis used to estimate market risk are presented below, although the actual results may differ from these estimates.

At December 31, 2007, the fair value of our long-term debt was estimated to be \$3.0 billion based on the overall weighted average rate of our long-term debt of 6.6% and an overall weighted maturity of 8 years compared to terms and rates available on such date in long-term financing markets. Market risk is estimated as the potential decrease in fair value of our long-term debt resulting from a hypothetical increase of 66 basis points in interest rates (ten percent of our overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a \$106 million decrease in the fair value of our long-term debt. As of December 31, 2007, after giving effect to interest rate swaps currently in place, approximately 83% of our long-term debt obligations were fixed rate.

We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates. From time to time, we use derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes. We periodically review our exposure to interest rate fluctuations and implement strategies to manage the exposure.

At December 31, 2007, we had outstanding four fair value interest rate hedges associated with the full \$500 million aggregate principal amount of our Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. These hedges are “fixed to variable” interest rate swaps that effectively convert our fixed rate interest payment obligations under these notes into obligations to pay variable rates that range from the six-month London InterBank Offered Rate (“LIBOR”) plus 3.229% to the six-month LIBOR plus 3.67%, with settlement and rate reset dates occurring each six months through the expiration of the hedges in August 2012. During 2007, we realized an average interest rate under these hedges of 8.70% and interest expense was greater than it would have otherwise been by \$4.1 million during 2007 as a result of these hedges. The aggregate fair market value of these hedges was \$3.0 million at December 31, 2007 and is reflected both as an asset and as an increase in our underlying long-term debt on the December 31, 2007 balance sheet. With respect to each of these hedges, market risk is estimated as the potential change in the fair value of the hedge resulting from a hypothetical 10% increase in the forward rates used to determine the fair value. A hypothetical 10% increase in the forward rates would result in a \$9.6 million decrease in the fair value of these hedges at December 31, 2007, and would also increase our interest expense.

In third quarter 2007, we entered into a hedge transaction that effectively locked-in the interest rate for the six-month period ended February 2008 related to the \$500 million of Series L notes that previously were effectively converted to variable rate notes pursuant to the “fixed to variable” interest rate swaps described above. This hedge did not qualify for hedge accounting treatment and therefore is adjusted to its fair value each period (with a corresponding adjustment through the income statement).

In January 2008, we terminated all of our existing derivatives (including those described above) and received a net cash settlement of approximately \$20.7 million in connection therewith. See Note 20 for additional information regarding the termination of our derivatives.

In anticipation of the issuance of Senior Notes in connection with the Madison River acquisition, we entered into four cash flow hedges that effectively locked in the interest rate on an aggregate of \$400 million of debt. The issuance of these Senior Notes was completed in late March 2007 with the issuance of \$500 million of 6.0% Senior Notes, due 2017, and \$250 million of 5.5% Senior Notes, due 2013. 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 cash, which is being amortized as a reduction of interest expense over the 10-year term of the debt.

During 2007, we also reviewed our exposure to risks related to the assets in our investment portfolios (including our pension plan assets) in connection with the market volatility related to the sub-prime credit market issues and other economic factors. These unfavorable economic factors did not have a material adverse impact on the valuation of the assets in our investment portfolios.

Certain shortcomings are inherent in the method of analysis presented in the computation of fair value of financial instruments. Actual values may differ from those presented if market conditions vary from assumptions used in the fair value calculations. The analysis above incorporates only those risk exposures that existed as of December 31, 2007.

LIQUIDITY AND CAPITAL RESOURCES

Excluding cash used for acquisitions, we rely on cash provided by operations to provide for our cash needs. Our operations have historically provided a stable source of cash flow which has helped us continue our long-term program of capital improvements.

Operating activities. Net cash provided by operating activities was \$1.0 billion, \$840.7 million and \$967.1 million in 2007, 2006 and 2005, respectively. Our accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of those years. As relief from the effects of Hurricane Katrina, certain of our affected subsidiaries were granted a deferral from making their remaining 2005 estimated federal income and excise tax payments until 2006. During 2006, we made payments of approximately \$75 million to satisfy our remaining 2005 estimated payments. For additional information relating to our operations, see "Results of Operations" above.

Investing activities. Net cash used in investing activities was \$619.2 million, \$193.7 million and \$483.7 million in 2007, 2006 and 2005, respectively. We used \$306.8 million of cash (net of approximately \$20.0 million of acquired cash) to purchase Madison River Communications Corp. ("Madison River") and pay related closing costs on April 30, 2007 (see below and Note 2 for additional information). Cash used for acquisitions was \$75.5 million in 2005 (due to the acquisition of fiber assets in 16 metropolitan markets from KMC). We received approximately \$122.8 million cash from the redemption of our RTB stock upon dissolution of the RTB during 2006. See Note 15 for additional information. Capital expenditures during 2007, 2006 and 2005 were \$326.0 million, \$314.1 million and \$414.9 million, respectively.

Financing activities. Net cash used in financing activities was \$402.1 million in 2007, \$780.2 million in 2006 and \$491.7 million in 2005. In late March 2007, we publicly issued an aggregate of \$750 million of Senior Notes (see Note 5 for additional information). The net proceeds from the issuance of such Senior Notes aggregated approximately \$741.8 million and were used (along with cash on hand and approximately \$50 million of borrowings

under our commercial paper program) to (i) finance the initial purchase price for the April 30, 2007 acquisition of Madison River (\$322 million) and (ii) pay off Madison River's existing indebtedness (including accrued interest) at closing (\$522 million). We invested the cash proceeds from the debt offering in short-term cash equivalents prior to the acquisition of Madison River. Payments of debt were \$713.0 million in 2007, \$82.0 million in 2006 and \$693.3 million in 2005.

In accordance with previously announced stock repurchase programs, we repurchased 10.2 million shares (for \$460.7 million), 21.4 million shares (for \$802.2 million), and 16.4 million shares (for \$551.8 million) in 2007, 2006 and 2005, respectively. The 2006 repurchases include 14.36 million shares repurchased (for an aggregate final adjusted price of approximately \$528.4 million) under accelerated share repurchase agreements with investment banks (see Note 9 for additional information). We initially funded purchases under these agreements principally through borrowings under our \$750 million credit facility and cash on hand and subsequently refinanced the credit facility borrowings through the issuance of short-term commercial paper. The 2005 repurchases include 12.9 million shares repurchased (for an aggregate final price of \$437.5 million) under accelerated share repurchase agreements (see below and Note 9 to the accompanying financial statements for additional information).

As described further in Note 5, we called for redemption on August 14, 2007, all of our \$165 million aggregate principal amount of Series K convertible senior debentures, subject to the right of holders to convert their debentures into shares of our common stock at a conversion price of \$40.455. In lieu of cash redemption, holders of approximately \$149.6 million aggregate principal amount of the debentures elected to convert their holdings into approximately 3.7 million shares of CenturyTel common stock. The remaining \$15.4 million of outstanding debentures were retired for cash (including premium and accrued and unpaid interest).

In February 2005, we remarketed substantially all of our \$500 million of outstanding Series J senior notes due 2007 at an interest rate of 4.628%. We received no proceeds in connection with the remarketing as all proceeds were held in trust to secure the obligation of our equity unit holders to purchase common stock from us on May 16, 2005. In connection with the remarketing, we purchased and retired approximately \$400 million of the notes, resulting in approximately \$100 million remaining outstanding through their maturity in May 2007. We incurred a pre-tax charge of approximately \$6 million in the first quarter of 2005 related to purchasing and retiring the notes. We purchased such notes with proceeds from the February 2005 issuance of \$350 million of 5% senior notes, Series M, due 2015 and cash on hand.

On May 16, 2005, upon settlement of 15.9 million of our outstanding equity units, we received proceeds of approximately \$398.2 million and issued approximately 12.9 million common shares. In late May 2005, we entered into accelerated share repurchase agreements with investment banks whereby we repurchased and retired 12.9 million shares of common stock for an aggregate final price of \$437.5 million, the proceeds of which came from the settlement of the equity units mentioned above and cash on hand.

Other. For 2008, we have budgeted \$300 million for capital expenditures. In 2006, we concluded that our prior extensive capital investment in our wireline network permitted us to reduce network capital spending to maintenance levels. Our 2008 capital expenditure budget also includes amounts for expanding our new service offerings and expanding our data networks.

In the first quarter of 2008, we paid a \$25.0 million deposit to the FCC to enable us to participate in its auction of 700 MHz spectrum, which is still ongoing. Our deposit will be credited against the cost of any spectrum purchased by us in the auction.

The following table contains certain information concerning our material contractual obligations as of December 31, 2007.

Payments due by period

| Contractual obligations | Total | 2008 | 2009-2010 | 2011-2012 | After 2012 and Other |
|--------------------------------------------------------------------------------|--------------|---------|------------------------|-----------|----------------------------|
| | | | (Dollars in thousands) | | |
| Long-term debt, including current maturities and capital lease obligations (1) | \$ 3,014,255 | 279,898 | 528,143 | 522,587 | 1,683,627 |
| Interest on long-term debt obligations | \$ 1,525,455 | 187,192 | 359,314 | 266,915 | 712,034 |
| Unrecognized tax benefits (2) | \$ 31,981 | - | - | - | 31,981 |

(1) For additional information on the terms of our outstanding debt instruments, see Note 5 to the consolidated financial statements included in Item 8 of this annual report.

(2) Represents the amount of tax and interest we would pay assuming we are required to pay the entire amount that we have reserved for our unrecognized tax benefits (see Note 12 for additional information). The timing of any payments for our unrecognized tax benefits cannot be predicted with certainty; therefore, such amount is reflected in the "After 2012 and Other" column in the above table.

We continually evaluate the possibility of acquiring additional communications operations and expect to continue our long-term strategy of pursuing the acquisition of attractively-priced communications properties in exchange for cash, securities or both. At any given time, we may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement. We may require additional financing in connection with any such acquisitions, the consummation of which could have a material impact on our financial condition or operations. Approximately 4.1 million shares of our common stock and 200,000 shares of our preferred stock remain available for future issuance in connection with acquisitions under our acquisition shelf registration statement. We also have access to debt and equity capital markets.

We have available a five-year, \$750 million revolving credit facility which expires in December 2011. The credit facility contains financial covenants that require us to meet a consolidated leverage ratio (as defined in the facility) not exceeding 4 to 1 and a minimum interest coverage ratio (as defined in the facility) of at least 1.5 to 1. The interest rate on revolving loans under the facility is based on our choice of several prevailing commercial lending rates plus an additional margin that varies depending on our credit ratings and aggregate borrowings under the facility. We must pay a quarterly commitment fee on the unutilized portion of the facility, the amount of which varies based on our credit ratings. Up to \$150 million of the credit facility can be used for letters of credit, which reduces the amount available for other extensions of credit. Available borrowings under our credit facility are also effectively reduced by any outstanding borrowings under our commercial paper program. Our commercial paper program borrowings in turn are effectively limited to the total amount available under our credit facility. As of December 31, 2007, we had no amounts outstanding under our credit facility or commercial paper program.

Moody's Investors Service ("Moody's") rates our long-term debt Baa2 (with a stable outlook) and Standard & Poor's ("S&P") rates our long-term debt BBB (with a negative outlook). Our commercial paper program is rated P2 by Moody's and A3 by S&P. Any downgrade in our credit ratings will increase our borrowing costs and commitment fees under our \$750 million revolving credit facility. Downgrades could also restrict our access to the capital markets, increase our borrowing costs under new or replacement debt financings, or otherwise adversely affect the terms of future borrowings by, among other things, increasing the scope of our debt covenants and decreasing our financial or operating flexibility.

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The following table reflects our debt to total capitalization percentage and ratio of earnings to fixed charges and preferred stock dividends as of and for the years ended December 31, 2007, 2006 and 2005. Our debt to capitalization ratio has increased primarily due to share repurchases we have made during the last few years.

| | 2007 | 2006 | 2005 |
|-------------------------------------------------------------------|-------|------|------|
| Debt to total capitalization | 46.9% | 44.8 | 42.3 |
| Ratio of earnings to fixed charges and preferred stock dividends* | 3.87 | 3.97 | 3.60 |

* For purposes of the chart above, “earnings” consist of income before income taxes and fixed charges, and “fixed charges” include our interest expense, including amortized debt issuance costs, and our preferred stock dividend costs.

REGULATION AND COMPETITION

The communications industry continues to undergo various fundamental regulatory, legislative, competitive and technological changes. These changes may have a significant impact on the future financial performance of all communications companies.

Events affecting the communications industry. Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, offer fixed-rate calling plans, improve the quality of their services, and offer enhanced new services.

In 1996, the United States Congress enacted the Telecommunications Act of 1996 (the "1996 Act"), which obligates LECs to permit competitors to interconnect their facilities to the LEC's network and to take various other steps that are designed to promote competition. Under the 1996 Act's rural telephone company exemption, approximately half of our telephone access lines are exempt from certain of these interconnection requirements unless and until the appropriate state regulatory commission overrides the exemption upon receipt from a competitor of a bona fide request meeting certain criteria.

Prior to and since the enactment of the 1996 Act, the FCC and a number of state legislative and regulatory bodies have also taken steps to foster local exchange competition. Coincident with this recent movement toward increased competition has been the reduction of regulatory oversight of LECs. These cumulative changes, coupled with various technological developments, have led to the continued growth of various companies providing services that compete with LECs' services.

Federal USF programs have undergone substantial changes since 1997, and are expected to experience more changes in the coming years as modernization of the overall program moves forward. As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies by adopting an interim mechanism for a five-year period based on embedded, or historical, costs that provide relatively predictable levels of support to many LECs, including substantially all of our LECs. In May 2006, the FCC extended this interim mechanism until such time that new high-cost support rules are adopted for rural telephone companies. Wireless and other competitive service providers continue to seek to qualify to receive USF support. This trend, coupled with changes in usage of telecommunications services, have placed stress on the funding mechanism of the USF, which is subject to annual caps on disbursements. These developments have placed additional financial pressure on the amount of money that is necessary and available to provide support to all eligible service providers, including support payments we receive from the USF High Cost Loop support program. While our 2007 USF High Cost Loop support program receipts approximated 2006 levels, we anticipate that our 2008 revenues from the USF High Cost Loop support program will be lower than 2007 by approximately \$14-17 million.

Since May 2007, the FCC and the Federal-State Joint Board on Universal Service have each proposed a series of reforms that could, if adopted, substantially restructure current USF programs. Until the FCC acts on those recommendations or issues final rules, we cannot estimate the impact that such proposals would have on our operations. In addition, there are a number of judicial appeals challenging several aspects of the FCC's universal service rules and various Congressional proposals seeking to substantially modify USF programs, none of which have been resolved at this time. We will continue to be active in monitoring these developments.

Technological developments have led to the development of new services that compete with traditional LEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively

pursued this opportunity. Additionally, several large electric utilities have announced plans to offer communications services that compete with LECs. Improvements in the quality of "Voice-over-Internet Protocol" ("VoIP") service have led several cable, Internet, data and other communications companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers frequently use existing broadband networks to deliver flat-rate, all distance calling plans that may offer features that cannot readily be provided by traditional LECs and may be priced below those currently charged for traditional local and long distance telephone services. In late 2003, the FCC initiated rulemaking proceedings to address the regulation of VoIP, and has adopted orders establishing some initial broad regulatory guidelines. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for our customers.

In 2003, the FCC opened a broad intercarrier compensation proceeding with the ultimate goal of creating a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, carrying or delivering telecommunications traffic. The FCC has received intercarrier compensation proposals from several industry groups, and industry negotiations are continuing with the goal of developing a consensus plan that addresses the concerns of carriers from all industry segments. Until the FCC's proceeding concludes and the changes, if any, to the existing rules are established, we cannot estimate the impact this proceeding will have on our results of operations.

Many cable, entertainment, technology or other communication companies that previously offered a limited range of services are now, like us, offering diversified bundles of services. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Several of these companies started offering full service bundles before us, which could give them an advantage in building customer loyalty.

Recent events affecting us. During the last few years, all of the states in which we provide telephone services have taken legislative or regulatory steps to further introduce competition into the LEC business. The number of companies which have requested authorization to provide local exchange service in our service areas has increased in recent years, especially in the markets acquired from Verizon in 2002 and 2000, and it is anticipated that similar action may be taken by others in the future.

Certain long distance carriers continue to request that certain of our LECs reduce their intrastate access tariffed rates. In addition, we have recently experienced reductions in intrastate traffic, partially due to the displacement of minutes by wireless, electronic mail and other optional calling services. In 2007 we incurred a reduction in our intrastate revenues of approximately \$20.9 million compared to 2006 primarily due to these factors. The corresponding decrease in 2006 compared to 2005 was \$19.2 million. We believe this trend of decreased intrastate minutes will continue in 2008, although the magnitude of such decrease is uncertain.

We expect our operating revenues in 2008 to decline as we continue to experience downward pressure primarily due to continued access line losses, reduced network access revenues and lower prior year revenue settlement amounts. We expect such declines to be partially offset primarily due to increased demand for our high-speed Internet service offering and the impact of recognizing a full year of revenues associated with our Madison River properties acquired in April 2007.

For a more complete description of regulation and competition impacting our operations and various attendant risks, please see Items 1 and 1A of this annual report.

Other matters. Our regulated telephone operations (except for the properties acquired from Verizon in 2002) are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). Actions by regulators can provide reasonable assurance of the recognition of an asset, reduce or eliminate the value of an asset and impose a liability on a regulated enterprise. Such regulatory assets and liabilities are required to be recorded and, accordingly, reflected in the balance sheet of an entity subject to

SFAS 71. We are monitoring the ongoing applicability of SFAS 71 to our regulated telephone operations due to the changing regulatory, competitive and legislative environments, and it is possible that changes in regulation, legislation or competition or in the demand for regulated services or products could result in our telephone operations no longer being subject to SFAS 71 in the near future.

Statement of Financial Accounting Standards No. 101, "Regulated Enterprises – Accounting for the Discontinuance of Application of FASB Statement No. 71" ("SFAS 101"), specifies the accounting required when an enterprise ceases to meet the criteria for application of SFAS 71. SFAS 101 requires the elimination of the effects of any actions of regulators that have been recognized as assets and liabilities in accordance with SFAS 71 but would not have been recognized as assets and liabilities by nonregulated enterprises. Depreciation rates of certain assets established by regulatory authorities for our telephone operations subject to SFAS 71 have historically included a component for removal costs in excess of the related estimated salvage value. Notwithstanding the adoption of SFAS 143, SFAS 71 requires us to continue to reflect this accumulated liability for removal costs in excess of salvage value even though there is no legal obligation to remove the assets. Therefore, we did not adopt the provisions of SFAS 143 for our telephone operations subject to SFAS 71. SFAS 101 further provides that the carrying amounts of property, plant and equipment are to be adjusted only to the extent the assets are impaired and that impairment shall be judged in the same manner as for nonregulated enterprises.

Our consolidated balance sheet as of December 31, 2007 included regulatory liabilities of approximately \$198.4 million related to estimated removal costs embedded in accumulated depreciation (as described above). Net deferred income tax assets related to the regulatory assets and liabilities quantified above were \$77.0 million.

When and if our regulated operations no longer qualify for the application of SFAS 71, we currently do not expect to record any impairment charge related to the carrying value of the property, plant and equipment of our regulated telephone operations. Additionally, upon the discontinuance of SFAS 71, we would be required to revise the lives of our property, plant and equipment to reflect the estimated useful lives of the assets. We currently do not expect such revisions in asset lives will have a material impact on our results of operations. Upon the discontinuance of SFAS 71, we also would be required to eliminate certain intercompany transactions with regulated affiliates that currently are not eliminated under the application of SFAS 71. For the year ended December 31, 2007, approximately \$146 million of revenues (and related costs) would have been eliminated had we not been subject to the provisions of SFAS 71. Such elimination would have had no impact on total operating income. For regulatory purposes, the accounting and reporting of our telephone subsidiaries will not be affected by the discontinued application of SFAS 71.

We have certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2007 have not been material, and we currently do not believe that such costs will become material.

Item Quantitative and Qualitative Disclosure About Market Risk

7A.

For information pertaining to the our market risk disclosure, see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk".

Item 8. Financial Statements and Supplementary Data
Report of Management

The Shareholders
CenturyTel, Inc.:

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

Management is responsible for establishing and maintaining adequate internal control over financial reporting, a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our evaluation under the framework of COSO, management concluded that our internal control over financial reporting was effective as of December 31, 2007. The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by KPMG LLP, as stated in their report which is included herein.

On April 30, 2007, CenturyTel, Inc. (“CenturyTel”) acquired Madison River Communications Corp. (“Madison River”) and management excluded from its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007, Madison River’s internal control over financial reporting associated with total assets of \$967.9 million and total revenues of \$130.5 million included in the consolidated financial statements of CenturyTel as of and for the year ended December 31, 2007.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit Committee of the Board of Directors is composed of independent directors who are not officers or employees. The Committee meets periodically with the external auditors, internal auditors and management. The Committee considers the independence of the external auditors and the audit scope and discusses internal control, financial and reporting matters. Both the external and internal auditors have free access to the Committee.

/s/ R. Stewart Ewing, Jr.
R. Stewart Ewing, Jr.
Executive Vice President and Chief Financial Officer
February 29, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CenturyTel, Inc.:

We have audited the consolidated financial statements of CenturyTel, Inc. and subsidiaries as listed in Item 15a(1). In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15a(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CenturyTel, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 12 to the consolidated financial statements, effective January 1, 2007 the Company changed its method of accounting for uncertain tax positions. In addition, as discussed in Note 1 to the consolidated financial statements, in 2006 the Company changed its method of accounting for share-based payments (effective January 1, 2006) and pension and postretirement benefits (as of December 31, 2006).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Shreveport, Louisiana
February 29, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
CenturyTel, Inc.:

We have audited CenturyTel, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, CenturyTel, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

On April 30, 2007, CenturyTel, Inc. ("CenturyTel") acquired Madison River Communications Corp. ("Madison River") and management excluded from its assessment of the effectiveness of its internal control over financial reporting as of December 31, 2007, Madison River's internal control over financial reporting associated with total assets of \$967.9 million and total revenues of \$130.5 million included in the consolidated financial statements of CenturyTel as of and for the year ended December 31, 2007. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Madison River.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of CenturyTel, Inc. and subsidiaries as listed in Item 15(a)(1), and our

report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Shreveport, Louisiana
February 29, 2008

CENTURYTEL, INC.
Consolidated Statements of Income

| | Year ended December 31, | | |
|----------------------------------------------------------------------------|--------------------------------------------------------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| | (Dollars, except per share amounts, and shares in thousands) | | |
| OPERATING REVENUES | \$ 2,656,241 | 2,447,730 | 2,479,252 |
| OPERATING EXPENSES | | | |
| Cost of services and products (exclusive of depreciation and amortization) | 937,375 | 888,414 | 821,929 |
| Selling, general and administrative | 389,533 | 370,272 | 388,989 |
| Depreciation and amortization | 536,255 | 523,506 | 531,931 |
| Total operating expenses | 1,863,163 | 1,782,192 | 1,742,849 |
| OPERATING INCOME | 793,078 | 665,538 | 736,403 |
| OTHER INCOME (EXPENSE) | | | |
| Interest expense | (212,906) | (195,957) | (201,801) |
| Other income (expense) | 38,770 | 121,568 | 3,168 |
| Total other income (expense) | (174,136) | (74,389) | (198,633) |
| INCOME BEFORE INCOME TAX EXPENSE | 618,942 | 591,149 | 537,770 |
| Income tax expense | 200,572 | 221,122 | 203,291 |
| NET INCOME | \$ 418,370 | 370,027 | 334,479 |
| BASIC EARNINGS PER SHARE | \$ 3.82 | 3.17 | 2.55 |
| DILUTED EARNINGS PER SHARE | \$ 3.72 | 3.07 | 2.49 |
| DIVIDENDS PER COMMON SHARE | \$.26 | .25 | .24 |
| AVERAGE BASIC SHARES OUTSTANDING | 109,360 | 116,671 | 130,841 |
| AVERAGE DILUTED SHARES OUTSTANDING | 113,094 | 122,229 | 136,087 |

See accompanying notes to consolidated financial statements.

CENTURYTEL, INC.
Consolidated Statements of Comprehensive Income

| | 2007 | Year ended December 31, 2006 2005 | |
|------------------------------------------------------------------------------------------------------------------------|------------------------|-----------------------------------------------------------|---------|
| | (Dollars in thousands) | | |
| NET INCOME | \$ 418,370 | 370,027 | 334,479 |
| OTHER COMPREHENSIVE INCOME, NET OF TAXES | | | |
| Minimum pension liability adjustment, net of \$965 and \$1,438 tax | - | 1,548 | 2,307 |
| Unrealized holding gains related to marketable securities arising during the period, net of \$547, \$411 and \$165 tax | 877 | 659 | 264 |
| Derivative instruments: | | | |
| Net gains (losses) on derivatives hedging variability of cash flows, net of \$294 and (\$2,606) tax | 471 | - | (4,180) |
| Reclassification adjustment for gains (losses) included in net income, net of \$254, \$234 and \$202 tax | 407 | 375 | 324 |
| Items related to employee benefit plans*: | | | |
| Change in net actuarial loss, net of \$28,583 tax | 52,485 | - | - |
| Change in net prior service credit, net of \$1,724 tax | 2,766 | - | - |
| Reclassification adjustment for gains (losses) included in net income: | | | |
| Amortization of net actuarial loss, net of \$4,409 tax | 6,554 | - | - |
| Amortization of net prior service credit, net of (\$771) tax | (1,236) | - | - |
| Amortization of unrecognized transition asset, net of (\$55) tax | (89) | - | - |
| Net change in other comprehensive income (loss) (net of reclassification adjustment), net of taxes | 62,235 | 2,582 | (1,285) |
| COMPREHENSIVE INCOME | \$ 480,605 | 372,609 | 333,194 |

* 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

| | December 31, 2007 2006 (Dollars in thousands) | |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 34,402 | 25,668 |
| Accounts receivable | | |
| Customers, less allowance of \$12,129 and \$11,321 | 152,809 | 150,892 |
| Interexchange carriers and other, less allowance of \$8,232 and \$9,584 | 70,218 | 76,454 |
| Materials and supplies, at average cost | 8,558 | 6,628 |
| Other | 26,412 | 30,475 |
| Total current assets | 292,399 | 290,117 |
| NET PROPERTY, PLANT AND EQUIPMENT | 3,108,376 | 3,109,277 |
| GOODWILL AND OTHER ASSETS | | |
| Goodwill | 4,010,916 | 3,431,136 |
| Other | 772,862 | 610,477 |
| Total goodwill and other assets | 4,783,778 | 4,041,613 |
| TOTAL ASSETS | \$ 8,184,553 | 7,441,007 |
| LIABILITIES AND EQUITY | | |
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 279,898 | 155,012 |
| Short-term debt | - | 23,000 |
| Accounts payable | 120,381 | 129,350 |
| Accrued expenses and other current liabilities | | |
| Salaries and benefits | 64,380 | 54,100 |
| Income taxes | 54,233 | 60,522 |
| Other taxes | 48,961 | 46,890 |
| Interest | 80,103 | 73,725 |
| Other | 30,942 | 23,352 |
| Advance billings and customer deposits | 57,637 | 51,614 |
| Total current liabilities | 736,535 | 617,565 |
| LONG-TERM DEBT | 2,734,357 | 2,412,852 |
| DEFERRED CREDITS AND OTHER LIABILITIES | 1,304,456 | 1,219,639 |
| STOCKHOLDERS' EQUITY | | |
| Common stock, \$1.00 par value, authorized 350,000,000 shares, issued and outstanding 108,491,736 and 113,253,889 shares | 108,492 | 113,254 |
| Paid-in capital | 91,147 | 24,256 |
| Accumulated other comprehensive loss, net of tax | (42,707) | (104,942) |

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| | | |
|----------------------------------|--------------|-----------|
| Retained earnings | 3,245,302 | 3,150,933 |
| Preferred stock - non-redeemable | 6,971 | 7,450 |
| Total stockholders' equity | 3,409,205 | 3,190,951 |
| TOTAL LIABILITIES AND EQUITY | \$ 8,184,553 | 7,441,007 |

See accompanying notes to consolidated financial statements.

CENTURYTEL, INC.

Consolidated Statements of Cash Flows

| | Year ended December 31, | | |
|----------------------------------------------------------------------------------|-------------------------|-----------|-----------|
| | 2007 | 2006 | 2005 |
| | (Dollars in thousands) | | |
| OPERATING ACTIVITIES | | | |
| Net income | \$ 418,370 | 370,027 | 334,479 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation and amortization | 536,255 | 523,506 | 531,931 |
| Gains on asset dispositions | (15,643) | (118,649) | (3,500) |
| Deferred income taxes | 1,018 | 49,685 | 69,530 |
| Share-based compensation | 19,962 | 11,904 | 4,721 |
| Income from unconsolidated cellular entity | (14,578) | (5,861) | (4,910) |
| Distributions from unconsolidated cellular entity | 10,229 | - | 2,339 |
| Changes in current assets and current liabilities | | | |
| Accounts receivable | 15,920 | 7,909 | (685) |
| Accounts payable | (13,698) | 24,906 | (37,174) |
| Accrued taxes | 11,604 | (49,735) | 72,971 |
| Other current assets and other current liabilities, net | 23,782 | 10,269 | (8,111) |
| Retirement benefits | 27,350 | 5,963 | (16,815) |
| Excess tax benefits from share-based compensation | (6,427) | (12,034) | - |
| Decrease in noncurrent assets | 12,718 | 9,078 | 1,973 |
| Increase (decrease) in other noncurrent liabilities | (20,781) | 709 | 2,638 |
| Other, net | 23,905 | 13,042 | 17,691 |
| Net cash provided by operating activities | 1,029,986 | 840,719 | 967,078 |
| INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment | (326,045) | (314,071) | (414,872) |
| Proceeds from redemption of Rural Telephone Bank stock | 5,206 | 122,819 | - |
| Proceeds from sale of assets | 8,231 | 5,865 | 4,000 |
| Acquisitions, net of cash acquired | (306,805) | - | (75,453) |
| Investment in unconsolidated cellular entity | (2,667) | (5,222) | - |
| Other, net | 2,892 | (3,122) | 2,594 |
| Net cash used in investing activities | (619,188) | (193,731) | (483,731) |
| FINANCING ACTIVITIES | | | |
| Payments of debt | (712,980) | (81,995) | (693,345) |
| Proceeds from issuance of debt | 741,840 | 23,000 | 344,173 |
| Repurchase of common stock | (460,676) | (802,188) | (551,759) |
| Settlement of equity units | - | - | 398,164 |
| Proceeds from issuance of common stock | 49,404 | 97,803 | 50,374 |
| Settlements of interest rate hedge contracts | 765 | - | (7,357) |
| Excess tax benefits from share-based compensation | 6,427 | 12,034 | - |
| Cash dividends | (29,052) | (29,203) | (31,862) |
| Other, net | 2,208 | 383 | (104) |
| Net cash used in financing activities | (402,064) | | |