CENTURYTEL INC
Form 10-K
March 01, 2010

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

FORM 10-K

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

For the fiscal year ended December 31, 2009

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 CenturyLink 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)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [X] 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 [X]

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, a non-accelerated filer, or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

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 $2.4 billion as of June 30, 2009. As of February 26, 2010, there were 299,570,335 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant’s Proxy Statement to be furnished in connection with the 2010 annual meeting of shareholders are incorporated by reference in Part III of this Annual Report.

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All references herein to "we", "us", "our" or "CenturyTel" refer to CenturyTel, Inc. and its consolidated subsidiaries, including, for all references to dates or periods on or after July 1, 2009 (except as otherwise stated herein), Embarq Corporation and its subsidiaries, which we acquired on July 1, 2009. All references to "Notes" herein refer to the Notes to the Financial Statements included in Item 8 of this Annual Report on Form 10-K.

PART I

Item 1. Business

On July 1, 2009, CenturyTel, Inc. acquired Embarq Corporation (“Embarq”) in a transaction that substantially expanded the size and scope of our business. Any references to results of operations, financial condition or subscriber data in this Annual Report on Form 10-K include Embarq’s results or subscriber information after July 1, 2009 only. Due to the significant size of Embarq, direct comparisons of our results of operations or subscriber data with prior periods are less meaningful. For additional information on our Embarq acquisition, see “Embarq acquisition” below.

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, wholesale local network access, high-speed Internet access, other data services and video 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 primarily conduct our operations in 33 states located within the continental United States.

At December 31, 2009, our incumbent local exchange telephone subsidiaries operated approximately 7.0 million telephone access lines in 33 states, with over 75% of these lines located in Florida, North Carolina, Missouri, Nevada, Ohio, Wisconsin, Texas, Pennsylvania, Virginia and Alabama. According to published sources, we are currently the fourth 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 service, security monitoring, pay telephone and other communications, professional and business information services in certain local and regional markets.

In recent years, we have expanded our product offerings to include satellite television services 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.

Embarq acquisition. On July 1, 2009, pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of October 26, 2008 (the “Merger Agreement”), we acquired Embarq through a merger transaction. Embarq, which was spun-off from Sprint Nextel Corporation in 2006, became a wholly-owned subsidiary of CenturyTel. As a result of the transaction, each outstanding share of Embarq common stock was converted into 1.37 shares of CenturyTel common stock, with cash paid in lieu of fractional shares. We also assumed approximately $5.1 billion of Embarq’s indebtedness upon the consummation of the transaction. As of the acquisition date, Embarq served approximately 5.4 million access lines and 1.5 million high-speed Internet customers located in 18 states.

See Item 1A, Risk Factors, for additional information concerning the acquisition of Embarq. Additional information about Embarq is included elsewhere herein and in documents that it previously filed with the U.S. Securities and Exchange Commission (the “SEC”). See “Where to find additional information” below.

Other recently completed 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.

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. During 2008, we sold the assets in six of these markets in two separate transactions.

In June 2003, we purchased 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 a separate transaction, in December 2003 we acquired additional fiber transport assets in Arkansas, Missouri and Illinois. 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 other properties, 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 all of our filings with the SEC (including Forms 10-K, 10-Q and 8-K) on our website (www.centurylink.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. You may obtain copies of Embarq's previous filings with the SEC from our website or the SEC's website.

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We also make available on our website our Corporate Governance Guidelines, our corporate ethics and 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 ethics and 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, we will post notice of such amendment or waiver on our website or disclose the amendment or waiver in a report on Form 8-K filed with the SEC. Only our board of directors, or an authorized committee of the board, may consider a waiver of our corporate ethics and 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 2009 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, 2009, we had approximately 20,200 employees, of which approximately 6,700 were members of 46 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. Over the last several years, we announced reductions of our workforce primarily due to (i) progress made on our integration efforts from recent acquisitions (including the recently completed Embarq acquisition); (ii) increased competitive pressures and the loss of access lines over the last several years, and (iii) the elimination of certain customer service personnel due to reduced call volumes.

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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 CenturyLink Drive, Monroe, Louisiana 71203 and our telephone number is (318) 388-9000.

OPERATIONS

According to published sources, our acquisition of Embarq on July 1, 2009 positioned us as the fourth largest local exchange telephone company in the United States, based on the approximately 7.0 million access lines we served at December 31, 2009, all of which are digitally switched. "Access lines" are telephone lines that connect homes or businesses to the public switched telephone network.

Before the Embarq acquisition, (i) CenturyTel provided local exchange telephone services to predominantly rural areas and small to mid-size cities in 25 states and (ii) Embarq provided local exchange telephone services to a wide variety of markets in 18 states, including Las Vegas, Nevada, and surrounding areas of Orlando, Florida as well as the suburbs of several other large U.S. cities. At the time of the acquisition, the average population density of CenturyTel's and Embarq's local exchange markets was 25 and 94 persons per square mile, respectively. Although the services provided by each company prior to the acquisition were substantially similar, the merger resulted in several important changes to our operations, including:

- providing services to an expanded number of densely-populated markets, which tend to afford consumers access to a greater range of competitive communications products than less dense markets and exposes the incumbent telephone service provider to higher levels of service terminations;

- reducing the percentage of our total revenue derived from governmental support programs, which typically focus on disbursing payments to companies operating in less densely populated areas;

- structuring our operations into five newly-configured operating regions in order to provide day-to-day decision making at the regional level as opposed to Embarq's prior operating model which operated under a more centralized structure; and

- offering certain services, such as inmate payphone services, that CenturyTel did not historically provide.

The following table lists additional information (rounded to the nearest thousand lines) regarding our access lines as of (i) December 31, 2009, which reflects the Embarq acquisition, and (ii) December 31, 2008, which pre-dates the Embarq acquisition.

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State	December 31, 2009 Number of access lines	Percent of access lines	December 31, 2008 (1) Number of access lines	Percent of access lines
Florida	1,352,000	19 %	-	- %
North Carolina	1,071,000	15	13,000	*
Missouri	548,000	8	392,000	19
Nevada	523,000	7	-	*
Ohio	388,000	5	59,000	3
Wisconsin (2)	343,000	5	368,000	18
Texas	303,000	4	32,000	2
Pennsylvania	271,000	4	-	-
Virginia	260,000	4	-	-
Alabama	254,000	4	274,000	13
Washington	200,000	3	147,000	7
Indiana	186,000	3	4,000	*
Arkansas	182,000	3	199,000	10
Tennessee	176,000	2	22,000	1
New Jersey	145,000	2	-	-
Minnesota	144,000	2	25,000	1
Oregon	109,000	2	62,000	3
All other states (3)	584,000	8	428,000	21
	7,039,000	100 %	2,025,000	100 %

* Represents less than 1% of access lines.

(1) Access line counts for 2008 reflect line count methodology adjustments to standardize legacy CenturyTel and Embarq line counts.

(2) As of December 31, 2009 and 2008, approximately 45,000 and 48,000, respectively, of these lines were owned and operated by our 89%-owned affiliate.

(3) Includes all of the remaining 16 states in which we operate, each of which has less than 100,000 access lines served.

The following table summarizes certain information related to our customer base, operating revenues and capital expenditures for the past five years. The 2009 information includes the Embarq operations we acquired on July 1, 2009. The 2009, 2008 and 2007 information includes the Madison River properties we acquired on April 30, 2007. All periods reflect access line count methodology adjustments to standardize legacy CenturyTel and Embarq line counts.

Year ended or as of December 31, (Dollars in thousands)	2009	2008	2007	2006	2005
Access lines	7,039,000	2,025,000	2,135,000	2,094,000	2,214,000
% Residential	68 %	73	73	74	75
% Business	32 %	27	27	26	25
Internet customers	2,259,000	683,000	623,000	459,000	357,000
% High-speed Internet service	99 %	94	89	80	70
% Dial-up service	1 %	6	11	20	30

Operating revenues	$4,974,239	2,599,747	2,656,241	2,447,730	2,479,252
Capital expenditures	$754,544	286,817	326,045	314,071	414,872

As discussed further below, during the last several years (exclusive of acquisitions and certain non-recurring favorable adjustments), we have experienced revenue declines in our voice and network access revenues primarily due to declines in access lines, intrastate access rates, minutes of use, and federal support fund payments. To mitigate these declines, we plan 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 broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission ("FCC") or improvements in our infrastructure, (iii) provide our broadband and 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 and (vi) market our products to new customers. See "Services" and "Regulation and Competition" for additional information.

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Services

We derive revenue from providing (i) local exchange and long distance voice telephone services, (ii) wholesale local network access services, (iii) data services, including high-speed 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 each of these services:

	2009		2008	2007
Voice	36.7	%	33.6	33.5
Network access	25.5		31.6	35.4
Data	24.2		20.2	17.4
Fiber transport and CLEC	3.5		6.2	6.0
Other	10.1		8.4	7.7
	100.0	%	100.0	100.0

Voice. We offer local calling service to residential and business customers within our local service areas, generally for a fixed monthly charge. While we have achieved significant pricing deregulation over time, the maximum amount that we can charge a customer for local calling services is still largely governed by state and federal regulatory authorities and by our competitors. We offer a number of enhanced voice services (such as call forwarding, caller identification, conference calling, voicemail, selective call ringing and call waiting) to our local exchange customers for an additional monthly fee. At December 31, 2009, over 65% of both our business and residential customers subscribed to one or more enhanced services. We also offer long distance services to our customers based on either usage or pursuant to flat-rate calling plans. Several Embarq markets currently offer long distance voice services through a wholesale arrangement with Sprint Nextel. We expect to transition such services to our owned networks during the next few years. We anticipate that most of our long distance service will continue to be provided as part of an integrated bundle with our other service offerings, including our local exchange telephone service offering.

Total access lines declined 380,000 during 2009 (excluding access lines we acquired from Embarq on July 1, 2009 but including access lines lost in Embarq's markets following such acquisition) compared to a decline of 136,800 during 2008. 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 and recent economic conditions. Over the last few years, our recently-acquired Embarq markets have experienced higher rates of access line losses than our incumbent markets due principally to such markets being more densely-populated and competitive. Our legacy CenturyTel access lines declined 6.6% in 2009 and 5.9% in 2008 while the legacy Embarq access lines declined 9.5% in 2009 and 9.7% in 2008. Based on our current retention initiatives, we estimate that our combined access line loss will be between 7.5% and 8.5% in 2010.

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Network access. We derive our network access revenues primarily from (i) providing wholesale services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice transmissions; (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), (iii) receiving reciprocal compensation from competitive local exchange carriers (“CLECs”) and wireless service providers for terminating their calls on our networks and (iv) offering certain network facilities and related services to CLECs. Our revenues for switched access services depend primarily on the level of call volumes.

Substantially all of our interstate network access revenues are based on tariffed access charges prescribed by the FCC. 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.

Pursuant to the Telecommunications Act of 1996, we offer certain network facilities to CLEC’s on a resale or unbundled basis and allow them to collocate certain of their equipment in our central offices. The FCC sets general guidelines for pricing of resale, unbundled network elements and collocation agreements, while the state regulatory authorities approve the actual prices charged.

Data. We derive our data revenues primarily from monthly recurring charges for providing high-speed Internet access services and data transmission services over special circuits and private lines. CenturyTel began offering traditional dial-up Internet access services to its telephone customers in 1995. In late 1999, CenturyTel began offering high-speed Internet access services, a broadband data service. At December 31, 2009, approximately 89% of our access lines were broadband-enabled and we provided high-speed Internet access services to over 2.2 million customers. During 2009, we added approximately 1.591 million high-speed Internet customers, which includes approximately 1.465 million we acquired in connection with our acquisition of Embarq.

We offer a range of data services to businesses, long distance carriers, wireless carriers and CLECs. Our most significant data service is special access, which consists of providing dedicated circuits connecting other carriers’ networks to their customers’ locations, wireless carriers’ cell towers to mobile switching centers or business customers to our network. Although the traffic handled through special access facilities may include voice as well as data, we report revenues associated with special access as data revenue.

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

In late 2000, CenturyTel 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. As part of our plan to focus our efforts on the CLEC markets with the most promise, in mid-2008 we sold the assets in six of our CLEC markets to other communications companies in two separate transactions. At December 31, 2009, our competitive local exchange operations provided service over 800 miles of fiber.

Under the name "LightCore", we sell fiber capacity to other carriers and businesses over a network that encompassed, at December 31, 2009, nearly 10,300 miles of fiber in the central United States. CenturyTel began its 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 2,100 route mile fiber network located in six states which has enabled us to expand our fiber network business and further reduce our reliance on third-party transport providers.

We offer 24-hour security and fire monitoring services to approximately 10,900 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 to our business customers, (ii) providing payphone services primarily within our local service territories and at various state and county correctional facilities around the country, (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, (iv) providing network database services and (v) offering our new services described below under the heading "Recent Product Developments". We also provide printing, direct mail services and cable television services.

During 2008, we paid an aggregate of approximately $149 million for 69 licenses in the FCC's auction of 700 megahertz ("MHz") wireless spectrum. We expect to complete our planning regarding the use of this spectrum in the first half of 2010 and to begin our trial phase in late 2010 or early 2011. Based on our planning, we are considering developing wireless voice and data service capabilities based on equipment using LTE (Long-Term Evolution) technology. Given that simple data devices are not expected to be commercially available until later this year and more complex, integrated voice and data devices such as smartphones are not expected to be available until 2012, we do not expect to deploy network equipment, other than trial equipment, in 2010.

From time to time, we also make investments in other 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, CenturyTel, in conjunction with DISH Network Corporation ("DISH"), has offered satellite television service to households in substantially all of its local exchange service areas. Effective January 1, 2007, we changed our relationship with DISH from a revenue sharing arrangement to an agency relationship. Embarq also has an existing sales agency relationship with DirecTV for certain business customers and with DISH for residential customers. In late 2005, we initiated our switched digital television service in the LaCrosse, Wisconsin market and, in October 2007, we commenced a second switched digital video service offering in our Columbia, Missouri market. We also recently launched switched digital video service in Jefferson City, Missouri, a legacy Embarq market.

We also offer wireless broadband Internet services in select locations in certain markets in 14 states.

Federal Financing Programs

Some 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. For additional information regarding our financing, see our consolidated financial statements included in Item 8 herein.

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Sales and Marketing

Subsequent to our acquisition of Embarq on July 1, 2009, we changed our trade name to "CenturyLink" and have used this name in our recent marketing and advertising efforts. We plan to change the legal name of the corporation to "CenturyLink, Inc." in May 2010 upon approval of the name change by our shareholders. In addition, we currently sell fiber capacity on our networks under the brand name "LightCore" and our satellite television service is offered on a co-branded basis under the "DISH Network" or "DirecTV" name. We expect to discontinue the LightCore brand name in the near future and transition that brand name to CenturyLink.

We maintain local offices in most of the larger population centers within our service territories. These offices 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 needs of our customers. 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 enhance customer loyalty.

Our consumer marketing approach emphasizes customer-oriented sales, marketing and service with a local presence. We market our products and services primarily through direct sales representatives, local retail stores, telemarketing and third parties. We support our distribution with direct mail, bill inserts, newspaper advertising, website promotions, public relations activities and sponsorship of community events. Our business marketing approach includes a commitment to deliver communications solutions that meet existing and future business customer needs through bundles of services and integrated service offerings, focusing on end-to-end customers' communications solutions from small businesses to large enterprise customers.

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, 2009, we maintained over 594,000 miles of copper plant and approximately 67,000 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 through reselling arrangements with other long distance carriers, with the balance being provided directly through CenturyTel's own switches and network equipment. We are currently transitioning Embarq's legacy long distance traffic to our owned networks.

In our markets, high-speed Internet-enabled technologies are being deployed to provide significant broadband capacity to our customers. We continue to remove network impediments to offer high-speed Internet service to more customers. At the end of 2009, approximately 89% of our access lines were capable of providing high-speed Internet service to our customers.

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."

Rapid and significant changes in technology are expected in the communications industry. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes.

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 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 ILECs and creating a substantial increase in the number of competitors. 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 proceedings which could substantially change the manner in which the communications industry operates. Neither the outcome of these proceedings, 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. State commissions traditionally regulated pricing through "rate of return" regulation that focused on authorized levels of earnings by LECs. Only a few states (representing a small portion of our access lines) continue to regulate us in this manner. In recent years, state legislatures and regulatory commissions in most of the 33 states in which our telephone subsidiaries operate have either reduced the regulation of ILECs or have announced their intention to do so, and we expect this trend will continue. In most of our states, we are generally regulated under various forms of alternative regulation that typically limit our ability to increase rates for local services, but relieve us from the requirement to meet certain earnings tests. Moreover, in a few states, we have recently gained pricing freedom for the majority of retail services except for the most basic of services, such as stand alone basic residential service. Additionally, in most of the states in which we operate, we have gained pricing flexibility for certain enhanced calling services, such as caller identification, and for bundled services that include local voice service.

For a discussion of legislative, regulatory and technological changes that have introduced competition into the local exchange industry, see “Developments Affecting Competition.”

As an ILEC, we generally face carrier of last resort obligations which include an ongoing requirement to provide service to all prospective and current customers in our service territories who request service and are willing to pay rates prescribed in our tariffs. In competitively-bid situations, such as newly constructed housing developments or multi-tenant dwellings, this may constitute a competitive disadvantage to us if competitors can choose to exclusively tie service to homeowners’ association fees or choose not to provide service to customers who are poor credit risks or whom they believe would be uneconomic to serve. Strict adherence to carrier of last resort requirements may force us to construct facilities with a low likelihood of positive economic return. A few of our states provide relief from such obligations under certain circumstances, relieving us of the duty to build facilities, typically in developments served by alternative providers with exclusive service arrangements. Additionally, we are seeking regulatory approval in targeted circumstances to deploy service using less costly alternative technologies, such as fixed wireless, and seeking to share the cost of constructing networks with those customers. Currently, in certain areas our costs to build and maintain network infrastructure are partially offset by payments from universal service programs.

At the state level, we are responding to carrier complaints, legislation or generic investigations regarding our intrastate switched access rate levels in Minnesota, Missouri, Ohio, Pennsylvania, North Carolina, Wisconsin, and Virginia. Although outcomes cannot be determined at this time, we believe our intrastate switched access rate levels are appropriate and we plan to vigorously defend them. If we are required to reduce our intrastate switched access rates as a result of any of these complaints, we will seek to recover displaced switched access revenues from state universal service funds or other services; however, the amount of such recovery, if any, is not assured.

Under state law, our telephone operating subsidiaries are typically governed by laws and regulations that (i) regulate the purchase and sale of LECs, (ii) prescribe depreciation rates and certain accounting procedures, (iii) require LECs to provide service under publicly-filed tariffs setting forth the terms, conditions and prices of regulated services, (iv) limit LECs’ ability to borrow and establish asset liens and (v) impose various other service standards.

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.

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 federal 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. On July 1, 2009, we converted substantially all of our remaining rate-of-return study areas to price cap regulation. In addition, all of the properties we acquired from Embarq operate under price cap regulation.

The FCC has a proceeding underway that would review the state of the special access market and current pricing flexibility and price cap policies applicable to ILECs' marketing of special access services. The FCC is also reviewing requests by some other carriers to order reductions in some or all ILECs' rates for special access services. It is uncertain whether or how the FCC might order changes in how special access services are regulated, or in the rates ILECs are able to charge for them. If the FCC were to adopt significant changes in regulations affecting special access services, the proceeding could have a significant impact on our provision and pricing of special access services.

Beginning in 2003, the FCC initiated broad intercarrier compensation proceedings designed to create a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or transiting telecommunications traffic. In connection therewith, the FCC has received intercarrier compensation proposals from several industry groups, and solicited public comments on a variety of topics related to access charges and intercarrier compensation. 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 the FCC's intercarrier compensation proceedings 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").

The American Recovery and Reinvestment Act of 2009 (the "Recovery Act") was signed into law in February 2009. As part of the Recovery Act, the FCC is required to present a National Broadband Plan (the "Plan") to Congress. We expect issues such as universal service and intercarrier compensation reform will be incorporated into the Plan. The FCC is expected to deliver a Plan recommendation to Congress by the end of the first quarter of 2010. We anticipate that the FCC's Plan will propose significant changes while also seeking additional comment on a variety of issues ranging from universal service funding for broadband to open network requirements for providers. Until the FCC's proceedings conclude and the changes, if any, to the existing rules, including rules applicable to intercarrier compensation and USF, are established, we cannot estimate the impact these proceedings will have on our results of operations. The impact of regulatory change, including those involving intercarrier compensation and USF, could have a substantial impact on our operations.

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The Recovery Act also includes certain broadband initiatives that are intended to accelerate broadband deployment across the United States. The Recovery Act approved $7.2 billion in funding for broadband stimulus projects across the United States to be administered by two governmental agencies. The programs implemented by the two agencies are expected to provide grants and loans to applicants for construction of certain broadband infrastructure, provision of certain broadband services, and support of certain broadband adoption initiatives. This program has attracted a wide range of applicants including states, municipalities, start-up companies and consortiums. To date we have not applied for funding under the Recovery Act programs; however, we continue to evaluate all opportunities for our business. The participation of other parties could lead to some overbuilding of our networks by competitors in selected areas which may increase our marketing costs and decrease our revenues in those areas. We cannot estimate the impact these programs may have on our operations.

We have been working with other midsize carriers to develop proposals that would advance universal broadband deployment while reforming intercarrier compensation and universal service funding at the same time. In December

2009, we and other midsize carriers submitted a proposal to the FCC designed to significantly expand high-speed Internet access in rural America, in support of the FCC's broadband deployment goals, while paving the way for more fundamental reforms in the future. The proposal includes reducing terminating switched access and reciprocal compensation rates while eliminating loopholes and regulatory arbitrage opportunities. Under this plan, a significant portion of displaced revenue would be replaced with explicit, predictable support funding to increase carriers' ability to attract private investment capital needed for increased broadband deployment. We plan to continue to work with other like-minded carriers to advocate for regulatory outcomes that promote broadband deployment while also reforming intercarrier compensation and universal service fund support. We cannot predict what part, if any, of such proposals and advocacy will ultimately be adopted.

Our operations and those of all communications carriers also may be impacted by legislation and regulation imposing new or greater obligations on us. The most likely areas of impact include regulations or laws related to bolstering homeland security, increasing disaster recovery requirements, minimizing environmental impacts, enhancing privacy, 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 and could impact our ability to compete effectively.

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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. However, use of universal service funding for other social policy goals continues to grow and to exert pressure on the size of the fund and the contribution rate.

The table below sets forth the amounts received by our telephone subsidiaries in 2009 and 2008 from federal and state universal service programs. We anticipate that the percentage of our total 2010 operating revenues attributable to these programs will be lower than the percentages reflected below since it will reflect a full year of the combined operations of CenturyTel and Embarq (due to Embarq having historically received a substantially lower percentage of its revenues from these programs than has CenturyTel).

	Year ended December 31,			
	2009		2008	
		% of Total		% of Total