

CENTURYTEL INC
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

or

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

Commission File Number: 1-7784

CenturyTel, Inc.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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

CenturyTel, Inc.
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Signature

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

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

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

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

See accompanying notes to consolidated financial statements.

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

| | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|---------|------------------------------|---------|
| | 2007 | 2006 | 2007 | 2006 |
| | (Dollars in thousands) | | | |
| NET INCOME | \$ 112,265 | 152,210 | 190,135 | 221,470 |
| OTHER COMPREHENSIVE INCOME, NET OF TAX: | | | | |
| Minimum pension liability adjustment, net of \$799 and (\$25) tax | - | 1,282 | - | (41) |
| Unrealized gain (loss) on investments, net of \$355, (\$133), \$304 and (\$92) tax | 570 | (213) | 488 | (148) |
| Derivative instruments: | | | | |
| Net loss on derivatives hedging the variability of cash flows, net of \$294 tax | - | - | 471 | - |
| Reclassification adjustment for losses included in net income, net of \$61, \$59, \$120 and \$117 tax | 99 | 94 | 193 | 188 |
| Items related to employee benefit plans*: | | | | |
| Change in net actuarial loss, net of \$5,755 and \$5,973 tax | 9,233 | - | 9,582 | - |
| Amortization of net actuarial loss, net of \$908 and \$1,815 tax | 1,456 | - | 2,912 | - |
| Amortization of net prior service credit, net of (\$178) and (\$356) tax | (285) | - | (571) | - |
| Amortization of unrecognized transition asset, net of (\$14) and (\$28) tax | (22) | - | (44) | - |
| Net change in other comprehensive income (loss), net of tax | 11,051 | 1,163 | 13,031 | (1) |
| COMPREHENSIVE INCOME | \$ 123,316 | 153,373 | 203,166 | 221,469 |

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

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

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

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

(1) Basis of Financial Reporting

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

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

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

(2) Acquisition

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

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

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

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

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

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

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

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

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

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

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

(3) Goodwill and Other Intangible Assets

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

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

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

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

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

(4) Postretirement Benefits

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

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

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

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

(5) Defined Benefit Retirement Plans

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

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

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

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

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

(6) Stock-based Compensation

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

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

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

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

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

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

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

(7)

Income Tax Uncertainties

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

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

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

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

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

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

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

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

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

(8) Debt Offerings

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

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

(9) Business Segments

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

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

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

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

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

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

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

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

(10) Gain on Asset Dispositions

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

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

(11) Recent Accounting Pronouncement

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

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

(12) Commitments and Contingencies

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

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

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

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

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

(13)

Subsequent Event

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

Item 2.

CenturyTel, Inc.

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

Overview

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

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

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

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

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

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

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

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

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

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

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

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

Operating Revenues

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

| | | |
|--------------------------|------------|---------|
| Fiber transport and CLEC | 40,714 | 36,051 |
| Other | 55,066 | 50,261 |
| | \$ 689,991 | 608,907 |

Of the \$3.3 million (1.5%) increase in voice revenues, approximately \$10.9 million was attributable to the Madison River properties acquired April 30, 2007. The remaining \$7.6 million decrease was primarily due to (i) a \$5.3 million decrease due to a 5.0% decline in the average number of access lines (normalized for acquisitions, dispositions and previously-disclosed adjustments made during 2006) and (ii) a \$2.0 million decline in our long distance revenues primarily due to a decrease in the average rate we charge our customers.

Normalized for the adjustments mentioned above, access lines declined 29,300 (1.4%) during the second quarter of 2007 compared to a decline of 24,100 (1.1%) during the second quarter of 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 current conditions and anticipated competition, we expect access lines to decline between 5.0% and 6.0% for 2007.

Network access revenues increased \$44.5 million (20.1%) in the second quarter of 2007 primarily due to the \$49.0 million of one-time revenue recorded in second quarter 2007 upon settlement of a dispute with a carrier and \$8.3 million of revenues contributed by Madison River. Such increases were partially offset by a \$12.8 million decrease in network access revenues for our incumbent telephone operations, principally due to (i) a \$7.1 million decrease in intrastate revenues due to a reduction in intrastate minutes (partially due to the displacement of minutes by wireless, electronic mail and other optional calling services) and (ii) a \$3.3 million reduction in the partial recovery of lower operating costs through revenue sharing arrangements and return on rate base. We believe that intrastate minutes will continue to decline in 2007, although we cannot estimate the magnitude of such decrease.

Data revenues increased \$23.8 million (28.1%) substantially due to (i) an \$18.9 million increase in DSL-related revenues due primarily to growth in the number of DSL customers and (ii) \$8.5 million of revenues contributed by Madison River. Such increases were partially offset by a \$2.8 million decrease in special access revenues and a \$1.3 million decrease in dial-up Internet revenues due to a decline in the number of dial-up customers.

Fiber transport and CLEC revenues increased \$4.7 million (12.9%), of which \$3.7 million was due to growth in our incumbent fiber transport business and \$1.3 million was contributed by Madison River.

Other revenues increased \$4.8 million (9.6%) primarily due to \$3.1 million of revenues contributed by Madison River. In connection with receiving a one-time reimbursement as a result of our above-mentioned change in accounting for our relationship with our satellite television service provider, we recorded a \$1.9 million one-time increase to revenues in the second quarter of 2007. The impact of the change in the arrangement to recurring revenues resulted in a \$1.9 million decrease in revenues in second quarter 2007 compared to 2006.

Operating Expenses

| | Three months ended June 30, | |
|--|--------------------------------|---------|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Cost of services and products (exclusive of depreciation and amortization) | \$ 226,388 | 216,191 |
| Selling, general and administrative | 97,456 | 95,596 |
| Depreciation and amortization | 134,311 | 132,127 |
| | \$ 458,155 | 443,914 |

Cost of services and products increased \$10.2 million (4.7%) primarily due to (i) \$12.1 million of costs incurred by the Madison River properties, (ii) a \$5.5 million increase in DSL-related expenses primarily due to growth in the number of DSL customers, and (iii) a \$3.7 million increase in expenses associated with pole attachments primarily due to rate increases. Such increases were partially offset by (i) a \$7.4 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 the second quarter of 2007 in connection with the change in the arrangement) and (ii) a \$3.9 million decrease in salaries and benefits due to fewer incumbent employees resulting from our 2006 workforce reduction.

Selling, general and administrative expenses increased \$1.9 million (1.9%) primarily due to \$4.6 million of costs incurred by Madison River and a \$4.0 million increase in salaries and benefits. Such increases were substantially offset by a \$5.3 million reduction in bad debt expense and a \$1.6 million decrease in information technology expenses.

Depreciation and amortization increased \$2.2 million (1.7%) as a \$7.2 million increase due to depreciation and amortization incurred by Madison River and a \$3.7 million increase due to higher levels of plant in service were substantially offset by a \$7.6 million reduction in depreciation expense due to certain assets becoming fully depreciated.

Interest Expense

Interest expense increased \$7.0 million (13.9%) in the second quarter of 2007 compared to the second quarter of 2006 primarily due to an increase in average debt outstanding caused by the March 2007 issuance of \$750 million of senior notes used to fund the Madison River acquisition (see Note 8).

Other Income (Expense)

Other income (expense) includes the effects of certain items not directly related to our core operations, including gains/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 \$8.1 million for the second quarter of 2007 compared to \$123.5 million for the second quarter of 2006. The second quarter of 2006 included nonrecurring pre-tax gains of \$118.6 million, substantially all of which related to the redemption of our RTB stock upon dissolution of the RTB. Our share of income from our 49% interest in a cellular partnership increased \$2.5 million in the second quarter of 2007 compared to the second quarter of 2006 (primarily due to one-time favorable adjustments in 2007).

Income Tax Expense

The effective income tax rate was 38.4% and 36.0% for the three months ended June 30, 2007 and 2006, respectively. Income tax expense was reduced by approximately \$6.4 million in the second quarter of 2006 due to the resolution of various income tax audit issues.

**Six Months Ended June 30, 2007 Compared
to Six Months Ended June 30, 2006**

Net income was \$190.1 million and \$221.5 million for the first six months of 2007 and 2006, respectively. Diluted earnings per share for the first six months of 2007 and 2006 was \$1.67 and \$1.79, respectively. We recorded a \$49.0 million one-time increase to operating revenues in 2007 (\$.26 per share) upon settlement of a dispute with a carrier. Included in net income (and diluted earnings per share) for the first six months of 2006 was approximately \$72.4 million (\$.58 per share) related to nonrecurring gains, substantially all of which related to the redemption of our RTB stock. The decline in the number of average diluted shares outstanding is attributable to share repurchases that have occurred since the beginning of 2006.

| | Six months ended June 30, | |
|------------------------------------|---|-----------|
| | 2007 | 2006 |
| | (Dollars, except per share amounts, and shares in thousands) | |
| Operating income | \$ 399,919 | 322,917 |
| Interest expense | (104,628) | (100,725) |
| Other income (expense) | 13,370 | 128,056 |
| Income tax expense | (118,526) | (128,778) |
| Net income | \$ 190,135 | 221,470 |
| Basic earnings per share | \$ 1.73 | 1.86 |
| Diluted earnings per share | \$ 1.67 | 1.79 |
| Average basic shares outstanding | 109,718 | 118,917 |
| Average diluted shares outstanding | 115,015 | 124,798 |

Operating income increased \$77.0 million (23.8%) due to a \$70.6 million (5.8%) increase in operating revenues and a \$6.4 million (0.7%) decrease in operating expenses.

Operating Revenues

| | Six months ended June 30, | |
|--------------------------|------------------------------|---------|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Voice | \$ 428,878 | 433,499 |
| Network access | 477,601 | 446,986 |
| Data | 204,070 | 167,685 |
| Fiber transport and CLEC | 79,040 | 71,831 |

| | | |
|-------|--------------|-----------|
| Other | 101,257 | 100,197 |
| | \$ 1,290,846 | 1,220,198 |

The \$4.6 million (1.1%) decrease in voice revenues is primarily due to (i) a \$10.4 million decrease due to a 5.0% decline in the average number of access lines (normalized for acquisitions, dispositions and previously-disclosed adjustments made during 2006); (ii) a \$3.9 million decline as a result of a decrease in revenues associated with extended area calling plans and (iii) a \$2.4 million decrease in our long distance revenues primarily due to a decrease in the average rate we charge our customers. Such decreases were partially offset by \$10.9 million of revenues attributable to the Madison River properties acquired April 30, 2007.

Normalized for the adjustments mentioned above, access lines declined 53,200 (2.5%) during the first six months of 2007 compared to a decline of 47,900 (2.2%) during the first six months of 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 current conditions and anticipated competition, we expect access lines to decline between 5.0% and 6.0% for 2007.

Network access revenues increased \$30.6 million (6.8%) in the first six months of 2007 primarily due to the \$49.0 million of one-time revenue recorded in second quarter 2007 upon settlement of a dispute with a carrier and \$8.3 million of revenues contributed by Madison River. Such increases were partially offset by a \$26.7 million decrease in network access revenues for our incumbent telephone operations, principally due to (i) an \$11.2 million decrease in the partial recovery of lower operating costs through revenue sharing arrangements and return on rate base and (ii) a \$9.0 million decrease in intrastate revenues 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 2007, although we cannot estimate the magnitude of such decrease.

Data revenues increased \$36.4 million (21.7%) substantially due to (i) a \$36.6 million increase in DSL-related revenues due primarily to growth in the number of DSL customers and (ii) \$8.5 million of revenues contributed by Madison River. Such increases were partially offset by a \$6.3 million decrease in special access revenues primarily due to certain customers disconnecting circuits and a \$2.4 million decrease in dial-up Internet revenues due to a decline in the number of dial-up customers.

Fiber transport and CLEC revenues increased \$7.2 million (10.0%), of which \$8.3 million was due to growth in our incumbent fiber transport business and \$1.3 million was contributed by Madison River. Such increases were partially offset by a \$2.7 million decrease in CLEC revenues primarily due to customer disconnects.

Other revenues increased \$1.1 million (1.1%). Such increase was primarily due to \$3.1 million of revenues contributed by Madison River. In connection with receiving a one-time reimbursement as a result of our above-described change in accounting for our 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 to recurring revenues resulted in a \$3.5 million decrease in revenues for the six months ended June 30, 2007 compared to 2006. In addition, our directory revenues decreased \$3.2 million in 2007 compared to 2006.

Operating Expenses

| | Six months ended June 30, | |
|--|------------------------------|---------|
| | 2007 | 2006 |
| | (Dollars in thousands) | |
| Cost of services and products (exclusive of depreciation and amortization) | \$ 439,919 | 438,746 |
| Selling, general and administrative | 188,913 | 191,536 |
| Depreciation and amortization | 262,095 | 266,999 |
| | \$ 890,927 | 897,281 |

Cost of services and products increased \$1.2 million (0.3%) primarily due to (i) a \$12.3 million increase in DSL-related expenses due to growth in the number of DSL customers; (ii) \$12.1 million of costs incurred by our Madison River properties and (iii) a \$4.4 million increase in expenses associated with pole attachments primarily due to rate increases. Such increases were substantially offset by (i) an \$11.7 million decrease in salaries and benefits due to fewer incumbent employees resulting from our 2006 workforce reduction; (ii) a \$10.2 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 the second quarter of 2007 in connection with the change in the arrangement) and (iii) \$5.5 million of severance and related costs associated with our 2006 workforce reduction.

Selling, general and administrative expenses decreased \$2.6 million (1.4%) primarily due to (i) an \$8.6 million reduction in bad debt expense; (ii) a \$3.7 million decrease in information technology expenses; and (iii) a \$2.3 million decrease in sales and marketing expenses. Such decreases were partially offset by a \$5.5 million increase in salaries and benefits and \$4.6 million of costs incurred by Madison River.

Depreciation and amortization decreased \$4.9 million (1.8%) primarily due to a \$14.9 million reduction in depreciation expense due to certain assets becoming fully depreciated and a \$2.1 million reduction due to depreciation rate reductions in certain jurisdictions. Such decreases were substantially offset by a \$7.5 million increase due to higher levels of plant in service and \$7.2 million of depreciation and amortization incurred by Madison River.

Interest Expense

Interest expense increased \$3.9 million (3.9%) in the first six months of 2007 compared to the first six months of 2006. A \$7.8 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 \$2.9 million decrease due to lower average interest rates.

Other Income (Expense)

Other income (expense) includes the effects of certain items not directly related to our core operations, including gains/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 \$13.4 million for the first six months of 2007 compared to \$128.1 million for the first six months of 2006. The first six months of 2006 included nonrecurring pre-tax gains of \$118.6 million, substantially all of which relates to the redemption of our RTB stock upon dissolution of the RTB. Our share of income from our 49% interest in a cellular partnership increased \$2.4 million in the first six months of 2007 compared to 2006 (primarily due to one-time favorable adjustments in 2007).

Income Tax Expense

The effective income tax rate was 38.4% and 36.8% for the six months ended June 30, 2007 and 2006, respectively. Income tax expense was reduced by approximately \$6.4 million in the first six months of 2006 due to the resolution of various income tax audit issues.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities was \$--558.0 million during the first six months of 2007 compared to \$406.3 million during the first six months of 2006. Our accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of these periods. 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. In the first six months of 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.

Net cash used in investing activities was \$412.8 million and \$8.3 million for the six months ended June 30, 2007 and 2006, respectively. We used \$307.4 million of cash (net of cash acquired) to purchase Madison River Communications Corp. ("Madison River") on April 30, 2007 (see below and Note 2 for additional information). Payments for property, plant and equipment were \$23.6 million less in the first six months of 2007 than in the comparable period during 2006. Our budgeted capital expenditures for 2007 total approximately \$325 million. We received approximately \$128.7 million cash from asset dispositions in 2006, of which approximately \$122.8 million was from the redemption of our RTB stock upon dissolution of the RTB and \$5.9 million was from the sale of our local exchange operations in Arizona.

Net cash used in financing activities was \$127.4 million during the first six months of 2007 compared to \$555.1 million during the first six months of 2006. In late March 2007, we publicly issued an aggregate of \$750 million of Senior Notes (see Note 8 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 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.

We repurchased 6.6 million shares (for \$302.0 million) and 16.5 million shares (for \$573.9 million) in the first six months of 2007 and 2006, respectively. The 2006 repurchases include 14.36 million shares repurchased (for a total price of approximately \$500 million) under accelerated share repurchase agreements with investment banks. We initially funded the accelerated share repurchase 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.

As described further in Note 13, we have called for redemption on August 14, 2007, all of our \$165 million aggregate principal amount of 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, which is equal to a conversion rate of approximately 24.7188 shares per \$1,000 principal amount of debentures. Assuming that trading prices for our stock remain above

the \$40.455 conversion price, we anticipate that all or substantially all of the holders will convert their debentures into stock. If we are required to redeem any of our debentures for cash, we would fund such redemption payments with cash on hand or short term borrowings.

We have available a five-year, \$750 million revolving credit facility which expires in December 2011. 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 are effectively limited to the total amount available under our credit facility. As of June 30, 2007, we had \$87 million outstanding under our credit facility or commercial paper program.

OTHER MATTERS

Accounting for the Effects of Regulation

We currently account for our regulated telephone operations (except for the properties acquired from Verizon in 2002) in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). While we continuously monitor the ongoing applicability of SFAS 71 to our regulated telephone operations due to the changing regulatory, competitive and legislative environments, we believe that SFAS 71 still applies. However, it is possible that changes in regulation or legislation or anticipated changes in competition or in the demand for regulated services or products could result in our telephone operations not being subject to SFAS 71 in the future. In that event, implementation of Statement of Financial Accounting Standards No. 101 ("SFAS 101"), "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71," would require the write-off of previously established regulatory assets and liabilities. 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.

If our regulated operations cease to qualify for the application of SFAS 71, we do not expect to record an 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 do not expect such revisions in asset lives, or the elimination of other regulatory assets and liabilities, to have a material unfavorable impact on our results of operations. For regulatory purposes, the accounting and reporting of our telephone subsidiaries would not be affected by the discontinued application of SFAS 71.

Recent Competitive Developments

As of June 30, 2007, we believe that over 30% of our access lines faced competition from cable voice offerings, and we expect that figure to increase to approximately 40-45% by December 31, 2007.

Item 3.

CenturyTel, Inc.

**QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT 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 on 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 June 30, 2007, the fair value of our long-term debt was estimated to be \$3.1 billion based on the overall weighted average rate of our debt of 6.7% and an overall weighted maturity of 8 years compared to terms and rates currently available 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 67 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 \$118 million decrease in fair value of our long-term debt at June 30, 2007. As of June 30, 2007, after giving effect to interest rate swaps currently in place, approximately 84% 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. Management periodically reviews our exposure to interest rate fluctuations and implements strategies to manage the exposure.

At June 30, 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 the first six months of 2007, we realized an average interest rate under these hedges of 9.0%. Interest expense was increased by \$2.8 million during the first six months of 2007 as a result of these hedges. The aggregate fair market value of these hedges was \$28.5 million at June 30, 2007 and is reflected both as a liability and as a decrease in our underlying long-term debt on the June 30, 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 \$13.2 million decrease in the fair value of these hedges at June 30, 2007, and would also increase our interest expense.

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.

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 June 30, 2007.

Item 4.

CenturyTel, Inc.

CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to provide reasonable assurances that information required to be disclosed by us in the reports we file under the Securities Exchange Act of 1934 is timely recorded, processed, summarized and reported as required. Our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated our disclosure controls and procedures as of June 30, 2007. Based on the evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures have been effective in providing reasonable assurance that they have been timely alerted of material information required to be filed in this quarterly report. Since the date of Messrs. Post's and Ewing's most recent evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect these controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events and contingencies, and there can be no assurance that any design will succeed in achieving its stated goals. Because of inherent limitations in any control system, misstatements due to error or fraud could occur and not be detected.

PART II. OTHER INFORMATION

CenturyTel, Inc.Item 1. Legal Proceedings.

See Note 12 included in Part I, Item 1, of this report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

After completing the \$500 million accelerated share repurchase agreements with investment banks in mid-2006 as part of our \$1.0 billion share repurchase program authorized in February 2006, we began repurchasing our common stock under the remaining \$500 million of the program in August 2006. We completed the remaining \$500 million of the program in June 2007.

The following table reflects the repurchases of our common stock during the second quarter of 2007 under our \$1.0 billion program. All of these repurchases were effected in open-market transactions in accordance with our stock repurchase program.

| Period | Total Number of Shares Purchased | Average Price Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|--------------------------|---|-------------------------------|---|--|
| April 1 – April 30, 2007 | 981,600 | \$ 45.77 | 981,600 | \$ 91,378,071 |
| May 1 – May 31, 2007 | 1,031,975 | \$ 47.89 | 1,031,975 | \$ 41,954,387 |
| June 1 – June 30, 2007 | 856,997 | \$ 48.95 | 856,997 | \$ - |
| Total | 2,870,572 | \$ 47.49 | 2,870,572 | |

* * * * *

In addition to the above repurchases, we also withheld 37,893 shares of stock at an average price of \$43.70 per share to pay taxes due upon vesting of restricted stock for certain of our employees in April 2007.

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

At our annual meeting of shareholders on May 10, 2007, the shareholders elected four Class I directors to serve until the 2010 annual meeting of shareholders and until their successors are duly elected and qualified.

The following number of votes were cast for or were withheld from the following nominees:

| <u>Class I Nominees</u> | <u>For</u> | <u>Withheld</u> |
|-------------------------|-------------|-----------------|
| William R. Boles, Jr | 129,619,737 | 14,934,579 |
| W. Bruce Hanks | 134,045,353 | 10,508,963 |
| C. G. Melville, Jr. | 136,143,133 | 8,411,183 |
| Glen F. Post, III | 135,817,890 | 8,736,426 |

The Class II and Class III directors whose terms continued after the meeting are:

| <u>Class II</u> | <u>Class III</u> |
|-------------------|------------------|
| Virginia Boulet | Fred R. Nichols |
| Calvin Czeschin | Harvey P. Perry |
| James B. Gardner | Jim D. Reppond |
| Gregory J. McCray | Joseph R. Zimmel |

The following represents the votes cast by the shareholders to ratify the appointment of KPMG LLP as our independent auditor for 2007:

| | |
|---------|-------------|
| For | 128,302,227 |
| Against | 12,195,821 |
| Abstain | 4,056,268 |

The following represents the votes cast by the shareholders for the proposal regarding executive compensation:

| | |
|------------------|-------------|
| For | 24,390,597 |
| Against | 105,841,147 |
| Abstain | 4,963,316 |
| Broker non-votes | 9,359,256 |

For additional information on each of these matters voted upon, see our proxy statement dated April 4, 2007.

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

4.2(l) Fourth Supplemental Indenture, dated as of March 26, 2007, to Indenture dated March 31, 1994, by and between CenturyTel and Regions Bank, as trustee (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K dated March 29, 2007).

4.2(m) Form of the 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (included in Exhibit 4.2(l)).

10.1 Amendment No. 6 to Registrant's Key Employee Incentive Compensation Plan, dated February 27, 2007.

11 Computations of Earnings Per Share.

31.1 Registrant's Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Registrant's Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Registrant's Chief Executive Officer and Chief Financial Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

B. Reports on Form 8-K

The following items were reported in the Form 8-K filed May 3, 2007:

Items 2.02, 8.01 and 9.01 - Results of Operations and Financial Condition, Other Events and Financial Statements and Exhibits. News release announcing first quarter 2007 operating results and press release announcing the completion of the acquisition of Madison River Communications Corp.

The following items were reported in the Form 8-K filed June 28, 2007:

Items 8.01 and 9.01 – Other Events and Financial Statements and Exhibits. Press release announcing completion of \$1 billion share repurchase program.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CenturyTel, Inc.

Date: August 8, 2007

/s/ Neil A. Sweasy
Neil A. Sweasy
Vice President and Controller
(Principal Accounting Officer)

