

**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 March 31, 2004

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)  
☒ Yes ☐ No

As of April 30, 2004, there were 138,872,890 shares of common stock outstanding.

# CenturyTel, Inc.

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# PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	Three months ended March 31,	
	2004	2003
	(Dollars, except per share amounts, and shares in thousands)	
OPERATING REVENUES	\$ 593,704	578,014
OPERATING EXPENSES		
Cost of services and products (exclusive of depreciation and amortization)	181,549	177,860
Selling, general and administrative	101,606	88,616
Depreciation and amortization	126,992	126,765
Total operating expenses	410,147	393,241
OPERATING INCOME	183,557	184,773
OTHER INCOME (EXPENSE)		
Interest expense	(52,543)	(55,592)
Income from unconsolidated cellular entity	2,059	1,569
Other income and expense	2,304	(932)
Total other income (expense)	(48,180)	(54,955)
INCOME BEFORE INCOME TAX EXPENSE	135,377	129,818
Income tax expense	52,098	45,899
NET INCOME	\$ 83,279	83,919
BASIC EARNINGS PER SHARE	\$ .58	.59
DILUTED EARNINGS PER SHARE	\$ .58	.58
DIVIDENDS PER COMMON SHARE	\$ .0575	.055
AVERAGE BASIC SHARES OUTSTANDING	142,585	142,901
AVERAGE DILUTED SHARES OUTSTANDING	143,347	143,797

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2004	2003
	(Dollars in thousands)	
NET INCOME	\$ 83,279	83,919
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Minimum pension liability adjustment, net of (\$1,739) and (\$5,484) tax	(3,229)	(10,186)
Unrealized gain on investments, net of \$251 tax	466	-
Derivative instruments:		
Net losses on derivatives hedging the variability of cash flows, net of (\$173) tax	-	(322)
Less: reclassification adjustment for losses included in net income, net of \$173 tax	-	322
COMPREHENSIVE INCOME	\$ 80,516	73,733

See accompanying notes to consolidated financial statements.

**CenturyTel, Inc.**  
**CONSOLIDATED BALANCE SHEETS**  
(UNAUDITED)

	March 31, 2004	December 31, 2003
	(Dollars in thousands)	
-----		
ASSETS		
-----		
CURRENT ASSETS		
Cash and cash equivalents	\$ 273,293	203,181
Accounts receivable, less allowance of \$22,923 and \$23,679	213,681	236,187
Materials and supplies, at average cost	9,488	9,229
Other	16,638	14,342
-----		
Total current assets	513,100	462,939
-----		
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	7,227,139	7,184,155
Accumulated depreciation	(3,838,323)	(3,728,674)
-----		
Net property, plant and equipment	3,388,816	3,455,481
-----		
INVESTMENTS AND OTHER ASSETS		
Goodwill	3,426,714	3,425,001
Other	567,875	552,431
-----		
Total investments and other assets	3,994,589	3,977,432
-----		
TOTAL ASSETS	\$ 7,896,505	7,895,852
=====		
LIABILITIES AND EQUITY		
-----		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 172,258	72,453
Accounts payable	127,833	113,274
Accrued expenses and other liabilities		
Salaries and benefits	81,818	83,628
Income taxes	53,815	43,082
Other taxes	44,721	35,532
Interest	56,170	64,247
Other	28,739	14,555
Advance billings and customer deposits	45,083	44,612
-----		
Total current liabilities	610,437	471,383
-----		
LONG-TERM DEBT	3,016,992	3,109,302
-----		
DEFERRED CREDITS AND OTHER LIABILITIES	854,432	836,651
-----		
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 350,000,000 shares, issued and outstanding 139,493,771 and 144,364,168 shares	139,494	144,364
Paid-in capital	445,000	576,515
Accumulated other comprehensive loss, net of tax	(2,763)	-
Retained earnings	2,825,188	2,750,162
Unearned ESOP shares	(250)	(500)
Preferred stock - non-redeemable	7,975	7,975
-----		
Total stockholders' equity	3,414,644	3,478,516
-----		
TOTAL LIABILITIES AND EQUITY	\$ 7,896,505	7,895,852
=====		

See accompanying notes to consolidated financial statements.



**CenturyTel, Inc.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UnAUDITED)

	Three months ended March 31,	
	2004	2003
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 83,279	83,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126,992	126,765
Income from unconsolidated cellular entity	(2,059)	(1,569)
Deferred income taxes	26,673	9,502
Changes in current assets and current liabilities:		
Accounts receivable	22,506	36,266
Accounts payable	14,559	24,227
Accrued income and other taxes	19,921	53,199
Other current assets and other current liabilities, net	709	(8,882)
Retirement benefits	10,830	5,139
Increase in other noncurrent assets	(11,032)	(6,751)
Decrease in other noncurrent liabilities	(3,949)	(588)
Other, net	(4,989)	(1,926)
Net cash provided by operating activities	283,440	319,301
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(61,745)	(59,669)
Distribution from unconsolidated cellular entity	490	1,103
Other, net	(511)	(422)
Net cash used in investing activities	(61,766)	(58,988)
FINANCING ACTIVITIES		
Payments of debt	(7,029)	(242,474)
Proceeds from issuance of common stock	2,118	4,031
Repurchase of common stock	(139,256)	-
Cash dividends	(8,253)	(7,961)
Other, net	858	1,168
Net cash used in financing activities	(151,562)	(245,236)
Net increase in cash and cash equivalents	70,112	15,077
Cash and cash equivalents at beginning of period	203,181	3,661
Cash and cash equivalents at end of period	\$ 273,293	18,738
Supplemental cash flow information:		
Income taxes paid	\$ 22,957	147
Interest paid (net of capitalized interest of \$105 and \$35)	\$ 60,515	71,235

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2004	2003
	(Dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	\$ 144,364	142,956
Issuance of common stock through dividend reinvestment, incentive and benefit plans	72	149
Repurchase of common stock	(4,942)	-
Balance at end of period	139,494	143,105
PAID-IN CAPITAL		
Balance at beginning of period	576,515	537,804
Issuance of common stock through dividend reinvestment, incentive and benefit plans	2,046	3,882
Repurchase of common stock	(134,314)	-
Amortization of unearned compensation and other	753	503
Balance at end of period	445,000	542,189
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance at beginning of period	-	(36,703)
Change in other comprehensive loss, net of tax	(2,763)	(10,186)
Balance at end of period	(2,763)	(46,889)
RETAINED EARNINGS		
Balance at beginning of period	2,750,162	2,437,472
Net income	83,279	83,919
Cash dividends declared		
Common stock - \$.0575 and \$.055 per share, respectively	(8,153)	(7,861)
Preferred stock	(100)	(100)
Balance at end of period	2,825,188	2,513,430
UNEARNED ESOP SHARES		
Balance at beginning of period	(500)	(1,500)
Release of ESOP shares	250	250
Balance at end of period	(250)	(1,250)
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning and end of period	7,975	7,975
TOTAL STOCKHOLDERS' EQUITY	\$ 3,414,644	3,158,560

See accompanying notes to consolidated financial statements.



CenturyTel, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2004

(UNAUDITED)

(1) Basis of Financial Reporting

The consolidated financial statements of CenturyTel, Inc. and its subsidiaries (the "Company") include the accounts of CenturyTel, Inc. ("CenturyTel") 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 the Company's annual report on Form 10-K for the year ended December 31, 2003. Certain 2003 amounts have been reclassified to be consistent with the Company's 2004 presentation. See Note 6 for additional information.

The unaudited financial information for the three months ended March 31, 2004 and 2003 has not been audited by independent certified public accountants; however, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the three-month periods have been included therein. The results of operations for the first three months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

(2) Goodwill and Other Intangible Assets

The following information relates to the Company's goodwill and other intangible assets as of March 31, 2004 and December 31, 2003:

	March 31, 2004	Dec. 31, 2003
----- (Dollars in thousands) -----		
Goodwill	\$ 3,426,714	3,425,001
Intangible asset subject to amortization - customer base		
Gross carrying amount	\$ 22,700	22,700
Accumulated amortization	\$ (2,620)	(2,242)
----- Net carrying amount	\$ 20,080	20,458
=====		
Intangible asset not subject to amortization - franchise costs	\$ 35,300	35,300
-----		

Total amortization expense related to the customer base asset for the first quarter of 2004 was \$378,000 and is expected to be \$1.5 million annually for each of the next five years.

### (3) Postretirement Benefits

The Company sponsors health care plans that provide postretirement benefits to all qualified retired employees.

Net periodic postretirement benefit cost for the three months ended March 31, 2004 and 2003 included the following components:

	Three months ended March 31,	
	2004	2003
(Dollars in thousands)		
Service cost	\$ 1,654	1,659
Interest cost	4,572	4,893
Expected return on plan assets	(616)	(636)
Amortization of unrecognized actuarial loss	1,123	465
Amortization of unrecognized prior service cost	(938)	(657)
Net periodic postretirement benefit cost	\$ 5,795	5,724

The Company contributed \$5.0 million to its postretirement plan in the first quarter of 2004 and expects to contribute approximately \$13 million for the full year.

### (4) Retirement Plans

CenturyTel and certain subsidiaries sponsor defined benefit pension plans for substantially all employees. CenturyTel also sponsors an Outside Directors' Retirement Plan (a frozen plan that accrues no additional benefits) and a Supplemental Executive Retirement Plan to provide directors and officers, respectively, with supplemental retirement, death and disability benefits.

Net periodic pension expense for the three months ended March 31, 2004 and 2003 included the following components:

	Three months ended March 31,	
	2004	2003
(Dollars in thousands)		
Service cost	\$ 4,467	1,492
Interest cost	7,339	2,745
Expected return on plan assets	(7,076)	(2,564)
Settlements	1,093	-
Recognized net losses	2,494	838
Net amortization and deferral	359	46
Net periodic pension expense	\$ 8,676	2,557

Currently, the Company does not expect to make any contributions to its pension plans for 2004.

### (5) Stock-based Compensation

The Company accounts for employee stock compensation plans using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Options have been granted at a price either equal to or exceeding the then-current market price. Accordingly, the Company has not recognized compensation cost in connection with issuing stock options.

If compensation cost for CenturyTel's options had been determined consistent with SFAS 123, the Company's net income and earnings per share on a pro forma basis for the three months ended March 31, 2004 and 2003 would have been as follows:

	Three months ended March 31,	
	2004	2003
(Dollars in thousands, except per share amounts)		

Net income, as reported	\$ 83,279	83,919
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax	\$ (4,290)	(3,534)
Pro forma net income	\$ 78,989	80,385
=====		
Basic earnings per share		
As reported	\$ .58	.59
Pro forma	\$ .55	.56
Diluted earnings per share		
As reported	\$ .58	.58
Pro forma	\$ .55	.56
-----		

## (6) Business Segments

The Company is an integrated communications company engaged primarily in providing an array of communications services to its customers, including local exchange, long distance, Internet access and data services. The Company strives to maintain its customer relationships by, among other things, bundling its service offerings to provide its customers with a complete offering of integrated communications services. As a result of the Company's increased focus on integrated bundle offerings and the varied discount structures associated with such offerings, the Company has determined that its results of operations would be more appropriately reported as a single reportable segment under the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." Therefore, the results of operations for 2004 reflect the presentation of a single reportable segment.

The Company's operating revenues for its products and services include the following components:

	Three months ended March 31,	
	2004	2003
	(Dollars in thousands)	
Local service	\$ 178,058	177,013
Network access	240,957	246,330
Long distance	44,589	42,560
Data	65,628	58,136
Fiber transport and CLEC	17,432	5,895
Other	47,040	48,080
Total operating revenues	\$ 593,704	578,014
=====		

Local service revenues are derived from the provision of local exchange telephone services in the Company's service areas.

Network access revenues primarily relate to (i) services provided by the Company to long distance carriers, wireless carriers and other carriers and customers in connection with the use of the Company's facilities to originate and terminate their interstate and intrastate voice and data transmissions and (ii) the receipt of universal support funds which allows the Company to recover a portion of its costs under federal and state cost recovery mechanisms.

Long distance revenues relate to the provision of retail long distance services to its customers.

Data revenues include revenues primarily related to the provision of Internet access services (both dial-up and digital subscriber line ("DSL") services) and the provision of special circuits for other carriers.

Fiber transport and CLEC revenues include revenues from the Company's fiber transport, competitive local exchange carrier and security monitoring businesses.

Other revenues include revenues related to (i) leasing, selling, installing, maintaining and repairing customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for long distance carriers and (iii) participating in the publication of local directories.

Results of operations for 2003 have been conformed to the Company's 2004 presentation of a single reportable segment. In connection with this change, the Company has, among other things, (i) eliminated certain 2003 revenues arising out of previously-reported intersegment transactions (which reduced operating expenses by a like amount and therefore had no impact on operating income), (ii) reclassified certain 2003 revenues to conform to the new revenue components and

(iii) reclassified depreciation expense related to certain service subsidiaries of the Company from operating expenses to depreciation expense. Previously with multiple segment presentation, the Company allocated such costs to its regulated telephone operations as an operating expense.

## **(7) Commitments and Contingencies**

AT&T filed a petition with the FCC in December 2003 seeking forbearance from enforcing certain provisions of the Telecommunications Act of 1996 that allow LECs to file access tariffs on a streamlined basis and, if certain criteria are met, deem those tariffs lawful. Certain of the Company's telephone subsidiaries file interstate tariffs directly with the FCC using this streamlined filing approach. As a result of recent court rulings, 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. The Company has not recognized any revenues in excess of the authorized rate of return applicable to those carriers who historically have requested refunds pending resolution of the "deemed lawful" tariff issue. As of March 31, 2004, the amount of earnings in excess of the authorized rate of return for the combined 2001 and 2002 monitoring period aggregated approximately \$40 million. The ability to request refunds for this monitoring period lapses on September 30, 2005. The combined 2003 and 2004 monitoring period continues until the end of 2004 and the ability to request refunds for this monitoring period lapses on September 30, 2007. The Company will continue to monitor the status of the AT&T petition with the FCC. Although it is possible the Company could benefit favorably upon resolution of this issue, there is no assurance that a favorable outcome will occur.

The Company is involved in certain legal proceedings discussed in Part I, Item 3, of the Company's Annual Report on Form 10-K for the year ended December 31, 2003. From time to time, the Company is involved in other proceedings incidental to its business, including administrative hearings of state public utility commissions relating primarily to rate making and competition, actions relating to employee claims, grievance hearings before labor regulatory agencies, and miscellaneous third party tort actions.

## **Item 2. CenturyTel, Inc.**

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

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 the Company's annual report on Form 10-K for the year ended December 31, 2003. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results of operations which might be expected for the entire year.

CenturyTel, Inc. and its subsidiaries (the "Company") is an integrated communications company engaged primarily in providing local exchange, long distance, Internet access and data services to customers in 22 states. The Company derives its revenues from providing (i) local exchange telephone services, (ii) network access services, (iii) long distance services, (iv) data services, which includes both dial-up and DSL Internet services, as well as special access circuits and local private line services, (v) fiber transport, competitive local exchange and security monitoring services and (vi) other related services. For additional information on the Company's revenue sources, see footnote 6 to the Company's financial statements included in Item 1 of Part I of this quarterly report.

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 the control of the Company. 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; the Company's ability to effectively manage its growth, including integrating newly-acquired businesses into the Company's operations, hiring adequate numbers of qualified staff, and successfully upgrading its billing and other information systems; possible changes in the demand for, or pricing of, the Company's products and services; the Company's ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the Company's ability to collect its receivables from financially troubled communications companies; other risks referenced from time to time in this report or other of the Company's 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 1 to the Company's Form 10-K for the year ended December 31, 2003. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

### **RESULTS OF OPERATIONS**

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

Net income was \$83.3 million and \$83.9 million for the first quarter of 2004 and 2003, respectively. Diluted earnings per share for both the first quarter of 2004 and the first quarter of 2003 was \$.58.

	Three months ended March 31,	
	2004	2003
	(Dollars, except per share amounts, and shares in thousands)	
Operating income	\$ 183,557	184,773
Interest expense	(52,543)	(55,592)
Income from unconsolidated cellular entity	2,059	1,569
Other income and expense	2,304	(932)
Income tax expense	(52,098)	(45,899)
Net income	\$ 83,279	83,919
Basic earnings per share	\$ .58	.59
Diluted earnings per share	\$ .58	.58
Average basic shares outstanding	142,585	142,901
Average diluted shares outstanding	143,347	143,797

Operating income decreased \$1.2 million (.7%) as a \$15.7 million (2.7%) increase in operating revenues was more than offset by a \$16.9 million (4.3%) increase in operating expenses.

As previously disclosed, the Company anticipates its diluted earnings per share for 2004 will be lower than 2003 as a result of (i) lower intrastate toll usage, (ii) lower cost study adjustments, (iii) lower Universal Service Fund revenues, (iv) declines in access lines, (v) incremental amortization and operating expenses related to the development of its new billing and customer care system, and (vi) an increase in its effective income tax rate. See below for additional information.

#### Operating Revenues

	Three months ended March 31,	
	2004	2003
	(Dollars in thousands)	
Local service	\$ 178,058	177,013
Network access	240,957	246,330
Long distance	44,589	42,560
Data	65,628	58,136
Fiber transport and CLEC	17,432	5,895
Other	47,040	48,080
	\$ 593,704	578,014

The \$1.0 million (0.6%) increase in local service revenues is primarily due a \$3.2 million increase due to the provision of custom calling features to more customers, which was partially offset by a \$704,000 reduction in rates in a certain jurisdiction and a \$730,000 decrease due to a decline in the number of access lines.

Access lines declined 9,700 (0.4%) during the first quarter of 2004 compared to a decline of 7,400 (0.3%) in the first quarter of 2003. The Company believes the decline in the number of access lines during 2004 and 2003 is primarily due to disconnecting service for non-payment and the displacement of traditional wireline telephone services by other competitive services, including the Company's DSL product offering. Based on current conditions, the Company expects access lines to decline between 1 and 2% for 2004.

Network access revenues decreased \$5.4 million (2.2%) in the first quarter of 2004 primarily due to a \$4.1 million decrease as a result of lower intrastate revenues due to a reduction in intrastate minutes (partially due to the displacement of minutes by wireless and electronic mail services). The Company believes that intrastate minutes will continue to decline in 2004, although the magnitude of such decrease cannot be precisely estimated. The decline in network access revenues was also impacted by a \$2.9 million decrease in revenues from the federal Universal Service Fund due to an increase in the nationwide average cost per loop factor used by the Federal Communications Commission to allocate funds among all recipients. Such decreases were partially offset by a \$1.1 million increase in the partial recovery of increased operating costs through revenue sharing arrangements with other telephone companies.

The \$2.0 million (4.8%) increase in long distance revenues was due to growth in the Company's nonregulated long distance operations. A \$5.3 million revenue increase due to an increase in the number of long distance lines and increased minutes of use was partially offset by a \$3.3 million decrease caused by lower average rates charged by the Company. The number of long distance lines operated by the Company as of March 31, 2004 and 2003 was 971,900 and 848,800, respectively. Effective in the first quarter of 2004, the Company changed its methodology of reporting long distance units from a customer-based count to a line-based count. Prior periods have been restated to conform to the 2004 presentation.

Data revenues increased \$7.5 million (12.9%) due primarily to a \$5.1 million increase in Internet revenues due to growth in the number of customers, principally due to the expansion of the Company's DSL product offering, and a \$2.2 million increase in special access revenues due to an increase in the number of special circuits provided to other carriers.

Fiber transport and CLEC revenues increased \$11.5 million (195.7%), substantially all of which is attributable to the Company's acquisitions of fiber transport assets (which are operated under the name LightCore) in June and December 2003.

Other revenues decreased \$1.0 million (2.2%) during the first quarter of 2004 primarily due to a \$3.0 million decrease in directory revenues due to the expiration of the Company's rights to share in the revenues of yellow-page books published in certain markets acquired from Verizon Communications, Inc. in 2002. Such decrease was partially offset by a \$882,000 increase in revenues related to selling, leasing, installing, maintaining and repairing customer premise telecommunications equipment.

## Operating Expenses

	Three months ended March 31,	
	2004	2003
	(Dollars in thousands)	
Cost of services and products (exclusive of depreciation and amortization)	\$ 181,549	177,860
Selling, general and administrative	101,606	88,616
Depreciation and amortization	126,992	126,765
	\$ 410,147	393,241

Cost of services and products increased \$3.7 million (2.1%) primarily due to (i) a \$5.0 million increase in expenses associated with operating the Company's fiber transport assets acquired in June and December 2003; (ii) a \$3.2 million increase in salaries and benefits; (iii) a \$2.7 million increase in customer service and retention related expenses; and (iv) a \$2.2 million increase in expenses associated with the Company's Internet operations due to an increase in the number of customers. Such increases were substantially offset by a \$5.3 million decrease in access expenses (which included a one-time credit of \$3.1 million recorded in the first quarter of 2004) and a \$4.5 million decrease associated with the Company's nonregulated long distance operations primarily due to a decrease in the average cost per minute of use and a decrease in circuit costs.

Selling, general and administrative expenses increased \$13.0 million (14.7%) primarily due to (i) a nonrecurring \$5.0 million reduction in the provision for uncollectible receivables recorded in the first quarter of 2003 due to the partial recovery of amounts previously written off related to the bankruptcy of MCI (formerly WorldCom); (ii) a \$5.0 million increase in salaries and benefits; (iii) a \$2.1 million increase in expenses associated with the Company's LightCore operations; and (iv) a \$1.6 million increase in marketing expenses. Such increases were partially offset by a \$1.9 million decrease in the provision for uncollectible receivables.

## Interest Expense

Interest expense decreased \$3.0 million (5.5%) in the first quarter of 2004 compared to the first quarter of 2003. A \$5.5 million reduction due to decreased average debt outstanding was partially offset by a \$2.7 million increase due to higher average interest rates.

## Other Income and Expense

Other income and expense contributed \$2.3 million of income for the first quarter of 2004, compared to \$932,000 of expense for the first quarter of 2003. Such increase was primarily due to a \$1.1 million increase in interest income due to higher cash balances and a \$1.0 million reduction in minority interest expense associated with the Company's purchase of additional equity in certain majority-owned subsidiaries.

## Income Tax Expense

The effective income tax rate from continuing operations was 38.5% and 35.4% for the three months ended March 31, 2004 and 2003, respectively. The increase in the effective income tax rate in 2004 is due to an increase in the Company's effective state income tax rate.

## LIQUIDITY AND CAPITAL RESOURCES

Excluding cash used for acquisitions, the Company relies on cash provided by operations to fund its operating and capital expenditures. The Company's operations have historically provided a stable source of cash flow which has helped the Company continue its long-term program of capital improvements.

Net cash provided by operating activities was \$283.4 million during the first three months of 2004 compared to \$319.3 million during the first three months of 2003. The Company's accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of these periods. For additional information relating to the operations of the Company, see Results of Operations.

Net cash used in investing activities was \$61.8 million and \$59.0 million for the three months ended March 31, 2004 and 2003, respectively. Payments for property, plant and equipment were \$2.1 million more in the first quarter of 2004 than in the comparable period during 2003. Budgeted capital expenditures for 2004 total \$400 million.

Net cash used in financing activities was \$151.6 million during the first three months of 2004 compared to \$245.2 million during the first three months of 2003. Net payments of debt were \$235.4 million less during the first quarter of 2004 compared to the first quarter of 2003. The Company repurchased 4.9 million shares of common stock for \$139.3 million in the first quarter of 2004 in accordance with its \$400 million stock repurchase program approved in February 2004. See Part II, Item 2, of this quarterly report for additional information.

In late 2003, the Company repaid all of its credit facility indebtedness, and had only \$7.0 million of debt payments due in the first quarter of 2004. At March 31, 2004, the Company had \$172.3 million of debt obligations due within the next twelve months. The Company prepaid its \$100 million, 8.25%, Series B senior notes, due 2024, in early May 2004. The Company will reflect \$4.6 million of expense (which includes a \$3.6 prepayment premium and a \$1.0 million write off of related deferred debt costs) in its second quarter 2004 results of operations associated with this prepayment.

The following table contains certain information concerning the Company's material contractual obligations as of March 31, 2004.

Total contractual obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
(Dollars in thousands)					
Long-term debt, including current maturities and capital lease obligations	\$ 3,189,250	172,258	424,139 (1)	808,807 (2)	1,784,046 (3)

(1) Includes \$165 million aggregate principal amount of the Company's convertible debentures, Series K, due 2032, which can be put to the Company at various dates beginning in 2006.

(2) Includes \$500 million aggregate principal amount of the Company's senior notes, Series J, due 2007, which the Company is committed to remarket in 2005.

(3) Includes \$100 million of Series B senior notes that were prepaid in early May 2004, as mentioned above.

As of March 31, 2004, the Company had \$533 million of undrawn committed bank lines of credit and the Company's telephone subsidiaries had available for use \$123.0 million of commitments for long-term financing from the Rural Utilities Service and the Rural Telephone Bank. The Company has a commercial paper program that authorizes it to have outstanding up to \$1.5 billion in commercial paper at any one time. At March 31, 2004, the Company had no commercial paper outstanding under such program. At March 31, 2004, the Company held over \$273 million of cash and cash equivalents.

## OTHER MATTERS

### Accounting for the Effects of Regulation

The Company currently accounts for its 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 the ongoing applicability of SFAS 71 to the Company's regulated telephone operations is being monitored due to the changing regulatory, competitive and legislative environments, the Company believes 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 the Company's telephone operations not being subject to SFAS 71 in the near 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 and when the Company's regulated operations no longer qualify for the application of SFAS 71, the Company does not expect to record an

impairment charge related to the carrying value of the property, plant and equipment of its regulated telephone operations. Additionally, upon the discontinuance of SFAS 71, the Company would be required to revise the lives of its property, plant and equipment to reflect the estimated useful lives of the assets. The Company does not expect such revisions in asset lives, or the elimination of other regulatory assets and liabilities, to have a material unfavorable impact on the Company's results of operations. The Company is in the process of determining the existence of a regulatory liability associated with Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations", including whether or not such regulatory liability can be quantified with reasonable accuracy.

### **Development of Billing System**

The Company is in the process of developing an integrated billing and customer care system which will provide the Company with, in addition to standard billing functionality currently being provided by its legacy system, custom built hardware and software technology for more effective customer care, billing and provisioning systems. The costs to develop such system have been accounted for in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"). The capitalized costs of the system aggregated \$174.7 million (before accumulated amortization) at March 31, 2004. The Company began amortizing its billing system costs in early 2003 (over a 20-year period) based on the total number of customers that the Company has migrated to the new system.

The system remains in the development stage and has required substantially more time and money to develop than originally anticipated. The Company currently expects to complete all phases of the new system no later than mid-2005 at an aggregate capitalized cost in accordance with SOP 98-1 of approximately \$200-215 million (exclusive of previously-disclosed write-offs). In addition, the Company expects to incur additional costs related to completion of the project, including (i) approximately \$15 million of customer service related and data conversion costs (the majority of which are expected to be incurred in 2004) that will be expensed as incurred and (ii) \$10 million of capitalized hardware costs (which will be amortized over a three-year period). The estimates above do not include any amounts for maintenance or on-going support of either the old or new system, and are based on assumptions regarding various future events, several of which are beyond the Company's control. There is no assurance that the system will be completed in accordance with this schedule or budget, or that the system will function as anticipated. If the system does not function as anticipated, the Company may have to write off part or all of its development costs and further explore its other billing and customer care system alternatives.

### **Pension and Medical Costs**

During the past several years, the Company's employee benefit expenses, including defined benefit pension expenses and pre- and post-retirement medical expenses, have increased due to rising medical costs, the decline of equity markets in recent years and record low interest rates. As a result of continued increases in medical costs, the Company discontinued its practice of subsidizing post-retirement medical benefits for persons hired on or after January 1, 2003. In addition, the Company announced changes, effective January 1, 2004, that would decrease its subsidization of benefits provided under its postretirement medical plan. The amount of the Company's cost savings will be dependent upon several factors, including the age and years of service of the Company's retirees. Pension and medical costs are anticipated to increase between \$4-6 million in 2004 compared to 2003 levels.

### **Change in Regulations**

In February 2004, the Federal Communications Commission adopted an order, which is effective on a prospective basis, that permits rate-of-return carriers to convert acquired access lines governed by price-cap regulation back to rate-of-return regulation.

### **Item 3. CenturyTel, Inc.**

## **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk from changes in interest rates on its long-term debt obligations. The Company has estimated its 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 March 31, 2004, the fair value of the Company's long-term debt was estimated to be \$3.5 billion based on the overall weighted average rate of the Company's long-term debt of 6.4% and an overall weighted maturity of 10 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 the Company's long-term debt resulting from a hypothetical increase of 64 basis points in interest rates (ten percent of the Company's overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a \$145.6 million decrease in fair value of the Company's long-term debt at March 31, 2004. As of March 31, 2004, after giving effect to interest rate swaps currently in place, approximately 84% of the Company's long-term debt obligations were fixed rate.

The Company seeks 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, the Company uses derivative instruments to (i) lock-in or swap its 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. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Management periodically reviews the Company's exposure to interest rate fluctuations and implements strategies to manage the exposure.

At March 31, 2004, the Company had outstanding four fair value interest rate hedges associated with the full \$500 million aggregate principal amount of its 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 the Company's 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. At March 31, 2004, the Company realized a rate under these hedges of 4.9%. Interest expense was reduced by \$3.8 million during the first quarter of 2004 as a result of these hedges. The aggregate fair market value of these hedges was \$3.1 million at March 31, 2004 and is reflected both as an asset and as an increase in the Company's underlying long-term debt on the March 31, 2004 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 \$15.6 million decrease in the fair value of these hedges at March 31, 2004, and would also increase the Company's interest expense.

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 March 31, 2004.

#### **Item 4.**

### **CONTROLS AND PROCEDURES**

The Company maintains disclosure controls and procedures designed to provide reasonable assurances that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is timely recorded, processed, summarized and reported as required. The Company's Chief Executive Officer, Glen F. Post, III, and the Company's Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the Company's disclosure controls and procedures as of March 31, 2004. Based on the evaluation, Messrs. Post and Ewing concluded that the Company's 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 the Company's 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.

## PART II. OTHER INFORMATION

### CenturyTel, Inc.

#### Item 1. Legal Proceedings

AT&T filed a petition with the FCC in December 2003 seeking forbearance from enforcing certain provisions of the Telecommunications Act of 1996 that allow LECs to file access tariffs on a streamlined basis and, if certain criteria are met, deem those tariffs lawful. Certain of the Company's telephone subsidiaries file interstate tariffs directly with the FCC using this streamlined filing approach. As a result of recent court rulings, 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. The Company has not recognized any revenues in excess of the authorized rate of return applicable to those carriers who historically have requested refunds pending resolution of the "deemed lawful" tariff issue. As of March 31, 2004, the amount of earnings in excess of the authorized rate of return for the combined 2001 and 2002 monitoring period aggregated approximately \$40 million. The ability to request refunds for this monitoring period lapses on September 30, 2005. The combined 2003 and 2004 monitoring period continues until the end of 2004 and the ability to request refunds for this monitoring period lapses on September 30, 2007. The Company will continue to monitor the status of the AT&T petition with the FCC. Although it is possible the Company could benefit favorably upon resolution of this issue, there is no assurance that a favorable outcome will occur.

For additional information on the Company's legal proceedings, see footnote 8 to the Company's financial statements included in Item 1 of Part I of this quarterly report.

#### Item 2. Changes in Securities, Use of Proceeds and Issuer

##### Purchases of Equity Securities

On February 3, 2004, the Company announced that its board of directors approved a repurchase program that will allow the Company to repurchase up to an aggregate of \$400 million of either its common stock or equity units prior to December 31, 2005. The following table reflects the Company's repurchases of its common stock during the first quarter of 2004, all of which were effected in open-market transactions in accordance with the above-described 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 (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - January 31, 2004	-	\$ -	-	\$ 400,000,000
February 1 - February 29, 2004	2,140,900	\$ 28.16	2,140,900	\$ 339,716,187
March 1 - March 31, 2004	2,801,100	\$ 28.15	2,801,100	\$ 260,867,253
Total	4,942,000	\$ 28.15	4,942,000	\$ 260,867,253

In late March 2004, the Company repurchased an additional 644,000 shares of common stock at an average price of \$27.38 that were not settled until early April and are therefore not reflected in the table above or the Company's financial statements included elsewhere herein.

The Company did not repurchase any of its equity units during the first quarter of 2004.

As part of its repurchase program, the Company recently entered into a purchase plan with a broker in accordance with Rule 10b5-1 issued under the Securities Exchange Act of 1934. This plan authorizes the broker to effect repurchases under the repurchase program on the Company's behalf during the Company's self-imposed trading "blackout periods" prior to its quarterly earnings announcements, provided that the terms and conditions in the plan are met. Unless terminated earlier, the 10b5-1 plan will lapse December 31, 2004, subject to extension by the parties.

#### Item 5. Other Information

The Company's proxy statement dated March 24, 2004 inadvertently included incorrect data on the amount of long-term incentive plan payouts for 2003 in the Summary Compensation Table appearing on page 16. The actual amount of these 2003 payouts was \$200,406 to Glen F. Post, III and \$60,323 to each of R. Stewart Ewing, Jr., Harvey P. Perry and David D. Cole.

#### Item 6. Exhibits and Reports on Form 8-K

- 10.1(a) Amendments to Registrant's Employee Stock Ownership Plan and Trust, dated as of January 14, 2004.
- 10.1(b) Amendments to Registrant's Dollars & Sense Plan and Trust, dated as of January 14, 2004.
- 10.2(f)(v) Form of Restricted Stock Agreement pursuant to the Registrant's amended and restated 2002 management incentive compensation plan and dated as of February 25, 2004, entered into by Registrant and its executive officers.
- 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 item was reported in the Form 8-K filed January 29, 2004:

**Item 12. Results of Operations and Financial Condition -**

News release announcing fourth quarter 2003 operating results.

The following item was reported in the Form 8-K filed February 4, 2004:

**Item 5. Press release announcing the Company's Stock 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: May 7, 2004*

*/s/ Neil A. Sweasy*

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

**AMENDMENTS TO THE  
CENTURYTEL, INC. EMPLOYEE STOCK  
OWNERSHIP PLAN AND TRUST**

CENTURYTEL, INC., represented herein by its Executive Vice-President and Chief Financial Officer, R. Stewart Ewing, Jr., as Plan Sponsor and Employer, does hereby execute the following amendments to the CenturyTel, Inc. Employee Stock Ownership Plan and Trust:

1. The first paragraph of Section 1.17 is hereby amended to insert the following sentences as the second and third sentences thereof:

"The Employer does not make a top-paid group election for determining who is a Highly Compensated Employee. The Employer may make a top-paid group election by an amendment to this Plan."

2. Amend and restate Section 17.6 in its entirety to read as follows:

"17.6 Investment Diversification.

(a) Diversification of Company Stock. Each Participant in the Plan who is 100% vested in his or her Accounts under the Plan shall be permitted to direct the investment of a percentage of the total number of shares of Company Stock acquired by or contributed to the Plan and allocated to his or her ESOP Account, Stock Bonus Account, and PAYSOP Account as of the end of the Plan Year preceding the date of the Participant's election, determined under the following table:

Age	% of Shares
---	-----
50	50%
55	75%
60	100%

The number of shares so determined as being available for diversification shall be reduced by the number of shares of Company Stock previously diversified under this subsection (a) and under this Section 17.6 prior to its amendment and restatement.

The election under this subsection (a) may be made at any time during the Plan Year with respect to the number of shares as of the end of the previous Plan Year determined above as being available for diversification.

If a Participant elects to diversify pursuant to this subparagraph (a), the Committee shall facilitate such diversification by making available to the Participant at least three (3) investment options which are not Company Stock, and which are consistent with the requirements of regulations promulgated by the Secretary of the Treasury. These investment options may be provided either in this Plan or in another qualified plan sponsored by the Employer. The number and type of investment options available, and the determination regarding the inclusion of the investment options in this Plan or another qualified plan, shall be at the sole discretion of the Committee.

This Section 17.6(a) shall be effective as of July 1, 2004.

(b) Limited Election for 2003. Any Participant who:

- (i) is retirement-eligible for purposes of the Company's retiree medical program,
- (ii) signs a Statement of Intention to retire which is postmarked, or received by the Company, on or before December 5, 2003, and
- (iii) whose actual date of retirement or termination of employment occurs after the date of the Statement of Intention to retire and on or before December 31, 2003, shall be permitted to direct that 100% of the shares of Company Stock in his or her Accounts be sold by the Trustee.

An election under this subsection (b) may be made at any time on or after the date on which the Participant signs a Statement of Intention to retire, and on or prior to December 31, 2003. The Trustee shall comply with the election by selling the shares (or by transferring cash into the appropriate Account of the Participant) within five (5) business days after the Trustee's receipt of the properly completed election form, and depositing the sale proceeds or transferred cash into a money market cash account in the Plan pending distribution of the Participant's Accounts after his or her retirement or termination of employment.

**THUS DONE AND SIGNED this 14th day of January, 2004.**

**CENTURYTEL, INC.**

BY: /s/ R. Stewart Ewing, Jr.

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*R. Stewart Ewing, Jr.  
Executive Vice-President and  
Chief Financial Officer*

**THUS DONE AND SIGNED this 14th day of January, 2004.**

**REGIONS MORGAN KEEGAN TRUST**

*BY: /s/ Kevin Rodgers*

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**AMENDMENTS TO THE  
CENTURYTEL, INC. DOLLARS & SENSE  
PLAN AND TRUST**

CENTURYTEL, INC., represented herein by its Executive Vice-President and Chief Financial Officer, R. Stewart Ewing, Jr., as Plan Sponsor and Employer, does hereby execute the following amendments to the CenturyTel, Inc. Dollars & Sense Plan and Trust:

1. Section 1.37(2) is hereby amended to insert the following sentences as the second and third sentences thereof:

"The Employer does not make a top-paid group election for determining who is a Highly Compensated Employee. The Employer may make a top-paid group election by an amendment to this Plan."

2. Section 1.16 is hereby restated to read as follows:

"1.16 Effective Dates. The general effective date of this amendment and restatement shall be September 1, 2000; provided, however, that amendments to certain Sections of the Plan shall be effective as stated in each such Section, and the amendments to the Sections listed below shall have effective dates as listed below:

SECTION # -----	EFFECTIVE DATE -----
1.11	Plan Years beginning after December 31, 1996.
1.27	Plan Years beginning after December 31, 1996.
1.40	Plan Years beginning after December 31, 1996.
3.6; 3.7	Plan Years beginning after December 31, 1996.
5.4 (d)	Limitation Years beginning after December 31, 1994.
7.7 (b)(vi)	Calendar Years commencing after December 31, 1998.
7.8	Plan Years beginning after August 5, 1997.
14.4	Judgments, orders and decrees issued, and settlement agreements entered into, on or after August 5, 1997."

**THUS DONE AND SIGNED this 14th day of January, 2004.**

**CENTURYTEL, INC.**

*BY: /s/ R. Stewart Ewing, Jr.*

*R. Stewart Ewing, Jr.  
Executive Vice-President and  
Chief Financial Officer*

**THUS DONE AND SIGNED this 14th day of January, 2004.**

**T. ROWE PRICE TRUST COMPANY**

BY:

**FORM OF RESTRICTED STOCK AGREEMENT  
UNDER THE**

**2002 MANAGEMENT INCENTIVE COMPENSATION PLAN**

(February 25, 2004 Grants to Section 16 Officers)

This RESTRICTED STOCK AGREEMENT (this "Agreement") is made as of February 25, 2004, by and between CenturyTel, Inc. ("CenturyTel") and \_\_\_\_\_ ("Award Recipient").

WHEREAS, CenturyTel maintains the Amended and Restated 2002 Management Incentive Compensation Plan (the "Plan"), under which the Compensation Committee of the Board of Directors of CenturyTel, acting directly or indirectly through its Incentive Awards Subcommittee (collectively, the "Committee"), may, among other things, grant restricted shares of CenturyTel's common stock, \$1.00 par value per share (the "Common Stock"), to key employees of CenturyTel or its subsidiaries (collectively, the "Company") as the Committee may determine, subject to terms, conditions, or restrictions as it may deem appropriate; and

WHEREAS, pursuant to the Plan the Committee has awarded to the Award Recipient restricted shares of Common Stock on the terms and conditions specified below;

NOW, THEREFORE, the parties agree as follows:

1.

**AWARD OF SHARES**

Upon the terms and conditions of the Plan and this Agreement, the Committee as of the date of this Agreement hereby awards to the Award Recipient \_\_\_\_\_ restricted shares of Common Stock, together with associated preference share purchase rights under CenturyTel's rights agreement dated as of August 27, 1996, as amended (collectively, the "Restricted Stock").

2.

**AWARD RESTRICTIONS ON  
RESTRICTED STOCK**

2.1 In addition to the conditions and restrictions provided in the Plan, neither the shares of Restricted Stock nor the right to vote the Restricted Stock, to receive dividends thereon or to enjoy any other rights or interests thereunder or hereunder may be sold, assigned, donated, transferred, exchanged, pledged, hypothecated or otherwise encumbered prior to the end of the Restricted Period (as defined below). Subject to the restrictions on transfer provided in this Section 2.1, the Award Recipient shall be entitled to all rights of a shareholder of CenturyTel with respect to the Restricted Stock, including the right to vote the shares and receive all dividends and other distributions declared thereon.

2.2 The Restricted Period with respect to the shares of Restricted Stock is a period that begins on the date hereof and ends on the earliest of:

(a) February 25, 2009;

(b) the date on which the Committee has determined that the applicable performance goals described in Section 3 below have been met with respect to all or a portion of the shares of Restricted Stock;

(c) the date on which the employment of the Award Recipient terminates as a result of death, disability or, if permitted by the Committee in accordance with Section 4 below, retirement or termination by the Company; or

(d) the occurrence of a Change of Control of CenturyTel, as described in Section 9.13 of the Plan.

3.

**PERFORMANCE GOALS FOR ACCELERATED  
VESTING OF RESTRICTED STOCK**

3.1 Subject to the other conditions of this Section 3, shares of Restricted Stock will vest and the Restricted Period with respect to such shares will end if the Company's EBITDA (as defined below) equals or exceeds the following targets for the following periods:

(a) If for fiscal year 2004, the Company's EBITDA equals or exceeds the 2004 EBITDA Target (as defined below), then one-third of the shares of Restricted Stock shall vest.

(b) If for fiscal year 2005, the Company's EBITDA equals or exceeds the 2005 EBITDA Target (as defined below), then two-thirds of the shares of Restricted Stock shall vest (less any shares previously vested).

(c) If for fiscal year 2006, the Company's EBITDA equals or exceeds the 2006 EBITDA Target (as defined below), then all of the shares of Restricted Stock shall vest.

3.2 Shares of Restricted Stock will vest and the Restricted Period will end with respect to such shares under Section 3.1(a), (b) or (c) only at such time as the Company's independent auditors have issued their audit report on the Company's financial statements for the applicable fiscal year and the Committee has certified in writing (including through the adoption of resolutions set forth in duly recorded minutes) that the Company has attained the target level of EBITDA that results in the acceleration of vesting thereunder. In no event will Section 3.1 or any other provision hereof be construed as entitling the Award Recipient to a greater number of shares of Common Stock than the number set forth in Section 1 above.

3.3 For purposes hereof "EBITDA" shall mean, with respect to any specified fiscal year, the Company's consolidated earnings before interest, taxes, depreciation and amortization, all as determined by reference to the Company's audited financial statements in accordance with generally accepted accounting principles, consistently applied; provided, however, that, for purposes of this Agreement, in determining EBITDA the Committee shall make all adjustments necessary to exclude the effect of (i) any acquisitions, dispositions or other extraordinary, unusual or non-recurring transactions, events or items that were not known on the date of this Agreement or reflected in the calculations used to establish the 2004, 2005 or 2006 EBITDA Targets and (ii) any change in accounting standards or practices made in accordance with any statement, interpretation, pronouncement, release or directive made by any regulatory agency or self-regulatory organization, including the Financial Accounting Standards Board. For purposes hereof, the terms "2004 EBITDA Target," "2005 EBITDA Target" and "2006 EBITDA Target" shall have the meanings ascribed in Appendix A to this Agreement.

4.

## **TERMINATION OF EMPLOYMENT**

If the Award Recipient's employment terminates as the result of death or disability within the meaning of Section 22(e)(3) of the Internal Revenue Code ("Disability"), all unvested shares of Restricted Stock granted hereunder shall immediately vest and the Restricted Period with respect to such shares shall end. Unless the Committee determines otherwise in the case of retirement of the Award Recipient or termination by the Company of the Award Recipient's employment, termination of employment for any other reason, except termination upon a Change of Control (as provided in Section 9.13 of the Plan), shall automatically result in the termination and forfeiture of all unvested Restricted Stock.

5.

## **FORFEITURE OF AWARD**

5.1 If, at any time during the Award Recipient's employment by the Company or within 18 months after termination of employment, the Award Recipient engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including but not limited to: (a) conduct relating to the Award Recipient's employment for which either criminal or civil penalties against the Award Recipient may be sought,

(b) conduct or activity that results in termination of the Award Recipient's employment for cause, (c) violation of the Company's policies, including, without limitation, the Company's insider trading policy and corporate compliance program, (d) accepting employment with, acquiring a 5% or more equity or participation interest in, serving as a consultant, advisor, director or agent of, directly or indirectly soliciting or recruiting any employee of the Company who was employed at any time during the Award Recipient's tenure with the Company, or otherwise assisting in any other capacity or manner any company or enterprise that is directly or indirectly in competition with or acting against the interests of the Company or any of its lines of business (a "competitor"), except for (A) any isolated, sporadic accommodation or assistance provided to a competitor, at its request, by the Award Recipient during the Award Recipient's tenure with the Company, but only if provided in the good faith and reasonable belief that such action would benefit the Company by promoting good business relations with the competitor and would not harm the Company's interests in any substantial manner or (B) any other service or assistance that is provided at the request or with the written permission of the Company, (e) disclosing or misusing any confidential information or material concerning the Company, (f) engaging in, promoting, assisting or otherwise participating in a hostile takeover attempt of the Company or any other transaction or proxy contest that could reasonably be expected to result in a Change of Control (as defined in the Plan) not approved by the CenturyTel Board of Directors or (g) making any statement or disclosing any information to any customers, suppliers, lessors, lessees, licensors, licensees, regulators, employees or others with whom the Company engages in business that is defamatory or derogatory with respect to the business, operations, technology, management, or other employees of the Company, or taking any other action that could reasonably be expected to



injure the Company in its business relationships with any of the foregoing parties or result in any other detrimental effect on the Company, then the award of Restricted Stock granted hereunder shall automatically terminate and be forfeited effective on the date on which the Award Recipient engages in such activity and (i) all shares of Common Stock acquired by the Award Recipient pursuant to this Agreement (or other securities into which such shares have been converted or exchanged) shall be returned to the Company or, if no longer held by the Award Recipient, the Award Recipient shall pay in cash to the Company, without interest, all amounts received by the Award Recipient upon the sale of such stock or securities, and (ii) all unvested shares of Restricted Stock shall be forfeited.

5.2 If the Award Recipient owes any amount to the Company under Section 5.1 above, the Award Recipient acknowledges that the Company may, to the fullest extent permitted by applicable law, deduct such amount from any amounts the Company owes the Award Recipient from time to time for any reason (including without limitation amounts owed to the Award Recipient as salary, wages or other compensation, fringe benefits, or vacation pay). Whether or not the Company elects to make any such set-off in whole or in part, if the Company does not recover by means of set-off the full amount the Award Recipient owes it, the Award Recipient hereby agrees to pay immediately the unpaid balance to the Company.

5.3 The Award Recipient may be released from the Award Recipient's obligations under Sections 5.1 and 5.2 above only if the Committee determines in its sole discretion that such action is in the best interests of the Company.

6.

### **STOCK CERTIFICATES**

6.1 The stock certificates evidencing the Restricted Stock shall be retained by CenturyTel until the lapse of restrictions under the terms hereof. CenturyTel shall place a legend, in the form specified in the Plan, on the stock certificates restricting the transferability of the shares of Restricted Stock.

6.2 Upon the lapse of restrictions on shares of Restricted Stock, CenturyTel shall cause a stock certificate without a restrictive legend to be issued with respect to the vested Restricted Stock in the name of the Award Recipient or his or her nominee within 30 days. Upon receipt of such stock certificate, the Award Recipient is free to hold or dispose of the shares represented by such certificate, subject to applicable securities laws.

7.

### **DIVIDENDS**

Any dividends paid on shares of Restricted Stock shall be paid to the Award Recipient currently.

8.

### **WITHHOLDING TAXES**

At the time that all or any portion of the Restricted Stock vests, the Award Recipient must deliver to CenturyTel the amount of income tax withholding required by law. In accordance with the terms of the Plan, the Award Recipient may satisfy the tax withholding obligation by delivering currently owned shares of Common Stock or by electing to have CenturyTel withhold from the shares the Award Recipient otherwise would receive hereunder shares of Common Stock having a value equal to the minimum amount required to be withheld (as determined under the Plan).

9.

### **ADDITIONAL CONDITIONS**

Anything in this Agreement to the contrary notwithstanding, if at any time CenturyTel further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of the shares of Common Stock issuable pursuant hereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such shares of Common Stock shall not be issued, in whole or in part, or the restrictions thereon removed, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to CenturyTel. CenturyTel agrees to use commercially reasonable efforts to issue all shares of Common Stock issuable hereunder on the terms provided herein.

10.

#### **NO CONTRACT OF EMPLOYMENT INTENDED**

Nothing in this Agreement shall confer upon the Award Recipient any right to continue in the employment of the Company, or to interfere in any way with the right of the Company to terminate the Award Recipient's employment relationship with the Company at any time.

11.

#### **BINDING EFFECT**

This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, legal representatives and successors. Without limiting the generality of the foregoing, whenever the term "Award Recipient" is used in any provision of this Agreement under circumstances where the provision appropriately applies to the heirs, executors, administrators or legal representatives to whom this award may be transferred by will or by the laws of descent and distribution, the term "Award Recipient" shall be deemed to include such person or persons.

12.

#### **INCONSISTENT PROVISIONS**

The shares of Restricted Stock granted hereby are subject to the provisions of the Plan as fully as if all such provisions were set forth in their entirety in this Agreement. If any provision of this Agreement conflicts with a provision of the Plan, the Plan provision shall control. The Award Recipient acknowledges that a copy of the Plan was distributed or made available to the Award Recipient and that the Award Recipient was advised to review such Plan prior to entering into this Agreement. The Award Recipient waives the right to claim that the provisions of the Plan are not binding upon the Award Recipient and the Award Recipient's heirs, executors, administrators, legal representatives and successors.

13.

#### **ATTORNEYS' FEES AND EXPENSES**

Should any party hereto retain counsel for the purpose of enforcing, or preventing the breach of, any provision hereof, including, but not limited to, the institution of any action or proceeding in court to enforce any provision hereof, to enjoin a breach of any provision of this Agreement, to obtain specific performance of any provision of this Agreement, to obtain monetary or liquidated damages for failure to perform any provision of this Agreement, or for a declaration of such parties' rights or obligations hereunder, or for any other judicial remedy, then the prevailing party shall be entitled to be reimbursed by the losing party for all costs and expenses incurred thereby, including, but not limited to, attorneys' fees (including costs of appeal).

14.

#### **GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with the laws of the State of Louisiana.

15.

#### **SEVERABILITY**

If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall at any time or to any extent be invalid, illegal or unenforceable in any respect as written, the Award Recipient and CenturyTel intend for any court construing this Agreement to modify or limit such provision so as to render it valid and enforceable to the fullest extent allowed by law. Any such provision that is not susceptible of such reformation shall be ignored so as to not affect any other term or provision hereof, and the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid, illegal or unenforceable, shall not be affected thereby and each term and provision of this Agreement shall be valid and enforced to the fullest extent permitted by law.

16.

## ENTIRE AGREEMENT; MODIFICATION

The Plan and this Agreement contain the entire agreement between the parties with respect to the subject matter contained herein and may not be modified, except as provided in the Plan, as it may be amended from time to time in the manner provided therein, or in this Agreement, as it may be amended from time to time by a written document signed by each of the parties hereto. Any oral or written agreements, representations, warranties, written inducements, or other communications with respect to the subject matter contained herein made prior to the execution of the Agreement shall be void and ineffective for all purposes.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered on the day and year first above written.

**CENTURYTEL, INC.**

By:

Name:

Title:

{Insert name} Award Recipient

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EBITDA TARGETS

2004 EBITDA Target.....	[Intentionally omitted]
2005 EBITDA Target.....	[Intentionally omitted]
2006 EBITDA Target.....	[Intentionally omitted]

**Exhibit 11**

**CenturyTel, Inc.**

**COMPUTATIONS OF EARNINGS PER SHARE  
(UNAUDITED)**

	Three months ended March 31,	
	2004	2003
	(Dollars, except per share amounts, and shares in thousands)	
Income (Numerator):		
Net income	\$ 83,279	83,919
Dividends applicable to preferred stock	(100)	(100)
Net income applicable to common stock	83,179	83,819
Dividends applicable to preferred stock	100	100
Net income as adjusted for purposes of computing diluted earnings per share	\$ 83,279	83,919
Shares (Denominator):		
Weighted average number of shares:		
Outstanding during period	142,624	143,034
Employee Stock Ownership Plan shares not committed to be released	(39)	(133)
Number of shares for computing basic earnings per share	142,585	142,901
Incremental common shares attributable to dilutive securities:		
Shares issuable under convertible securities	435	435
Shares issuable under stock option plan	327	461
Number of shares as adjusted for purposes of computing diluted earnings per share	143,347	143,797
Basic earnings per share	\$ .58	.59
Diluted earnings per share	\$ .58	.58

## CERTIFICATIONS

I, Glen F. Post, III, Chairman of the Board and Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenturyTel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee or registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ Glen F. Post, III  
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Glen F. Post, III  
Chairman of the Board and  
Chief Executive Officer

## CERTIFICATIONS

I, R. Stewart Ewing, Jr., Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CenturyTel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods present in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee or registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

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

**CenturyTel, Inc.**

May 7, 2004

Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, D.C. 20549

Re: CenturyTel, Inc.

Certification of Contents of Form 10-Q for the quarter ending March 31, 2004 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Ladies and Gentlemen:

The undersigned, acting in their capacities as the Chief Executive Officer and the Chief Financial Officer of CenturyTel, Inc. (the "Company"), certify that the Form 10-Q for the quarter ended March 31, 2004 of the Company fully complies with the requirements of Section 13(a) or 15 (d) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the period covered by such report.

This certification is being furnished as an exhibit to the Form 10-Q solely to comply with the requirements of Section 906 of the Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, and should not be deemed to be filed with the Securities and Exchange Commission, either as a part of the Form 10-Q or otherwise.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Very truly yours,

*/s/ Glen F. Post, III*

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*Glen F. Post, III  
Chairman of the Board and  
Chief Executive Officer*

*/s/ R. Stewart Ewing, Jr.*

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*R. Stewart Ewing, Jr.  
Executive Vice President and  
Chief Financial Officer*