

# CENTURYTEL INC

## FORM 8-K

(Unscheduled Material Events)

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CIK	0000018926
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

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

**FORM 8-K**

**CURRENT REPORT**

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

Date of Report (Date of earliest  
event reported):

August 31, 2002

**CenturyTel, Inc.**

(Exact name of registrant as specified in its charter)

Louisiana  
(State or other  
jurisdiction of  
incorporation)

1-7784  
(Commission File  
Number)

72-0651161  
(IRS Employer  
Identification No.)

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

71203  
(Zip Code)

Registrant's telephone number, including area code

(318) 388-9000

## **Item 5. OTHER EVENTS AND FD DISCLOSURE.**

The information set forth below supplements and updates information previously reported by CenturyTel, Inc. (the "Company") concerning the disposition of its wireless operations and its acquisition of telephone properties during the third quarter of 2002.

### **Wireless Disposition**

On August 1, 2002, the Company completed the sale of substantially all of its wireless operations to an affiliate of ALLTEL Corporation ("Alltel"). The Company agreed on March 19, 2002 to sell its wireless operations to Alltel for \$1.65 billion in cash. Due to a cross-ownership restriction that precluded the sale of one minority-owned market, the Company received approximately \$1.593 billion in connection with the transaction (which the Company expects to be \$1.268 billion after-tax). Alltel has agreed to purchase this minority interest from the Company for approximately \$68 million if, among other things, the Federal Communications Commission waives the cross-ownership restriction prior to February 1, 2003. No assurance can be given that this sale will occur. See the Company's Current Report on Form 8-K dated August 1, 2002 and filed August 13, 2002 for additional information concerning this transaction.

The Company used a portion of the proceeds received from the sale of its wireless operations to finance the \$1.177 billion acquisition of access lines in the state of Missouri from Verizon Communications, Inc. ("Verizon") on August 31, 2002, as discussed further below.

### **Verizon Acquisitions**

On July 1, 2002, an affiliate of the Company purchased from affiliates of Verizon assets comprising all of Verizon's local exchange telephone operations in the state of Alabama for approximately \$1.020 billion cash. See the Company's Current Report on Form 8-K dated July 1, 2002 and filed July 15, 2002 for additional information concerning this transaction.

On August 31, 2002, an affiliate of the Company purchased from affiliates of Verizon assets comprising all of Verizon's local exchange telephone operations in the state of Missouri for approximately \$1.177 billion cash. The assets purchased include (i) all telephone access lines (which numbered approximately 354,000 at the time of purchase) and related property and equipment comprising Verizon's local exchange operations in 98 exchanges in predominantly rural markets throughout Missouri, several of which are adjacent to properties that the Company has owned and operated since 2000, (ii) Verizon's assets used to provide digital subscriber line ("DSL") and other high speed data services within the purchased exchanges and (iii) approximately 1,400 route miles of fiber optic cable within the purchased exchanges. The acquired assets do not include Verizon's cellular, PCS, long distance, dial-up Internet, or directory publishing operations, or rights under various Verizon contracts, including those relating to customer premise equipment. The Company did not assume any liabilities of Verizon other than (i) those associated with contracts, facilities and certain other assets transferred in connection with the purchase and (ii) certain employee-related liabilities, including liabilities for post-retirement health benefits.

## **Item 7. Financial Statements and Exhibits**

(a) Financial statements of properties acquired

### **Verizon's Alabama Operations**

1. Report of Independent Auditors.
2. Statements of Selected Assets, Selected Liabilities and Parent Funding as of June 30, 2002 and December 31, 2001.
3. Statements of Income for the six months ended June 30, 2002 and 2001 and the year ended December 31, 2001.
4. Statements of Parent Funding for the six months ended June 30, 2002 and the year ended December 31, 2001.
5. Statements of Cash Flows for the six months ended June 30, 2002 and 2001 and the year ended December 31, 2001.
6. Notes to Financial Statements.

### **Verizon's Missouri Operations**

7. Report of Independent Auditors.
8. Statements of Selected Assets, Selected Liabilities and Parent Funding as of June 30, 2002 and December 31, 2001.
9. Statements of Income for the six months ended June 30, 2002 and 2001 and the year ended December 31, 2001.
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11. Statements of Cash Flows for the six months ended June 30, 2002 and 2001 and the year ended December 31, 2001.

12. Notes to Financial Statements.

(b) Unaudited Pro Forma Consolidated Condensed Financial Information

1. Introduction.

2. Pro Forma Consolidated Condensed Statement of Income for the year ended December 31, 2001.

3. Pro Forma Consolidated Condensed Statement of Income for the six months ended June 30, 2002.

4. Pro Forma Consolidated Condensed Balance Sheet as of June 30, 2002.

5. Notes to Unaudited Pro Forma Consolidated Condensed Financial Information.

(c) Exhibits

- 2.1(a) Stock Purchase Agreement, dated March 19, 2002, between CenturyTel, Inc. and Alltel Communications, Inc. (incorporated by reference to Registrant's Current Report on Form 8-K filed March 22, 2002).
- 2.1(b) Amendment No. 1 to Stock Purchase Agreement, dated July 31, 2002, between CenturyTel, Inc. and Alltel Communications, Inc., (incorporated by reference to Registrant's Current Report on Form 8-K and Form 8-K/A filed August 13, 2002).
- 2.1(c) Asset Purchase Agreement, dated as of October 22, 2001, between GTE Midwest Incorporated (d/b/a Verizon Midwest) and CenturyTel of Missouri, LLC (incorporated by reference to Exhibit 2(a) of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.)
- 2.1(d) Asset Purchase Agreement, dated as of October 22, 2001, between Verizon South, Inc., Contel of the South, Inc. (d/b/a Verizon Mid-States) and CenturyTel of Alabama, LLC (incorporated by reference to Exhibit 2(b) of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
- 99.1 Press release, dated September 3, 2002, announcing the Company's purchase of telephone properties in Missouri.

In connection with the preparation of the special purpose financial statements presented below, Verizon made numerous assumptions and allocations where specific data was not available pertaining to the acquired assets. Because of the significant amount of allocations and estimates used to prepare these special purpose financial statements and because the Company will operate these assets under a different operating and management structure, they may not reflect the financial position and results of operations of the acquired properties after such properties are acquired by the Company.

## **FINANCIAL STATEMENTS**

### **Verizon's Alabama Operations**

For the Six Months ended June 30, 2002 and 2001 and Year ended December 31, 2001

## **Contents**

### **Report of Independent Auditors**

### **Financial Statements**

Statements of Selected Assets, Selected Liabilities and Parent Funding  
Statements of Income  
Statements of Parent Funding  
Statements of Cash Flows  
Notes to Financial Statements

### **Report of Independent Auditors**

The Board of Directors and Shareowners  
Verizon South Inc.  
and  
Contel of the South, Inc.

We have audited the accompanying special-purpose statement of selected assets, selected liabilities and parent funding of Verizon's Alabama Operations (the Exchanges), a combination of carved-out components of Verizon South Inc. and Contel of the South, Inc. (together, the Companies) as of December 31, 2001, and the related statements of income, parent funding and cash flows for the year then ended. These financial statements are the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 2, the accompanying special-purpose financial statements were prepared for inclusion in CenturyTel, Inc.'s (CenturyTel) Form 8-K for purposes of complying with the rules and regulations of the Securities and Exchange Commission as required by Rule 3-05 of Regulation S-X in connection with an asset purchase agreement between CenturyTel of Alabama L.L.C., a wholly owned subsidiary of CenturyTel and the Companies. The financial statements include allocations of certain indirectly attributable amounts on bases determined by management of the Companies.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the selected assets, selected liabilities and parent funding of Verizon's Alabama Operations as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

April 24, 2002, except for Note 1,  
as to which the date is July 1, 2002

### Verizon's Alabama Operations

#### Statements of Selected Assets, Selected Liabilities and Parent Funding (Dollars in Thousands)

	June 30, 2002	December 31, 2001
	(Unaudited)	(Audited)
Selected Assets		
Current assets:		
Accounts receivable, net of allowance of \$4,729 and \$5,590, respectively	\$ 34,449	\$ 40,574
Materials and supplies	896	876
Prepaid expenses	2,116	5,397
Deferred activation charges - current	4,210	4,385
Total current assets	41,671	51,232
Property, plant and equipment, net	249,841	243,235
Prepaid pension asset	35,014	33,273
Deferred activation charges - noncurrent	8,657	8,428
Other assets	-	34
Total selected assets	\$ 335,183	\$ 336,202
Selected Liabilities and Parent Funding		
Current liabilities:		
Accounts payable	\$ 4,362	\$ 6,533
Advance billings and customer deposits	6,631	7,076
Accrued payroll-related costs	4,713	7,772
Deferred activation revenues - current	4,210	4,385
Other current liabilities	14,069	12,208
Total current liabilities	33,985	37,974
Employee benefit obligations	28,788	28,384

Deferred activation revenues - noncurrent	8,657	8,428
Other liabilities	245	649
	-----	-----
Total selected liabilities	71,675	75,435
Parent funding	263,508	260,767
	-----	-----
Total selected liabilities and parent funding	\$ 335,183	\$ 336,202
	=====	=====

See accompanying notes.

# Verizon's Alabama Operations

## Statements of Income (Dollars in Thousands)

	Six Months ended June 30		Year ended
	2002	2001	December 31
	-----		-----
	(Unaudited)		(Audited)
Operating Revenues			
Local services	\$ 71,798	\$ 70,902	\$ 143,612
Network access services	43,576	47,468	90,952
Long-distance services	2,570	3,457	6,623
Other services	7,044	8,335	15,054
	-----		-----
Total operating revenues	124,988	130,162	256,241
Operating Expenses			
Cost of services	29,461	35,706	70,874
Selling, general and administrative	16,829	18,731	37,816
Depreciation and amortization	18,028	17,976	36,542
	-----		-----
Total operating expenses	64,318	72,413	145,232
	-----		-----
Operating income	60,670	457,749	111,009
Interest expense, net	5,020	4,446	9,504
Other (income) expense	(19)	(54)	837
	-----		-----
Income before income taxes	55,669	53,357	100,668
Income taxes	21,773	21,149	39,892
	-----		-----
Net income	\$ 33,896	\$ 32,208	\$ 60,776
	=====		=====

See accompanying notes.

## Verizon's Alabama Operations

### Statements of Parent Funding (Dollars in Thousands)

For the Six Months ended June 30, 2002  
and the Year ended December 31, 2001

Balance at December 31, 2000	\$	235,211
Net income (audited)		60,776
Net transfers to GTE Corporation (audited)		(35,220)
		-----
Balance at December 31, 2001 (audited)		260,767
Net income (unaudited)		33,896
Net transfers to GTE Corporation (unaudited)		(31,155)
		-----
Balance at June 30, 2002 (unaudited)	\$	263,508
		=====

See accompanying notes.



# Verizon's Alabama Operations

## Statements of Cash Flows (Dollars in Thousands)

	Six Months ended June 30		Year ended
	2002	2001	December 31
	-----		-----
	(Unaudited)		(Audited)
Operating Activities			
Net income	\$ 33,896	\$ 32,208	\$ 60,776
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,029	17,976	36,542
Provision for uncollectible accounts	3,655	2,916	5,774
Employee benefit obligations	(1,337)	(1,139)	(2,045)
Changes in current assets and current liabilities:			
Accounts receivable	2,470	(4,535)	(11,579)
Other current assets	3,261	1,958	(1,442)
Current liabilities	(5,675)	(4,978)	4,921
Other, net	1,491	4,158	(992)
	-----	-----	-----
Net cash provided by operating activities	55,790	48,564	91,955
Investing Activities			
Capital expenditures	(24,635)	(26,346)	(56,735)
	-----	-----	-----
Cash used in investing activities	(24,635)	(26,346)	(56,735)
Financing Activities			
Net transfers to GTE Corporation	(31,155)	(22,218)	(35,220)
	-----	-----	-----
Cash used in financing activities	(31,155)	(22,218)	(35,220)
	-----	-----	-----
Net change in cash during the period	-	-	-
Cash at beginning of period	-	-	-
	-----	-----	-----
Cash at end of period	\$ -	\$ -	\$ -
	=====	=====	=====

See accompanying notes.

## **Verizon's Alabama Operations**

### **Notes to Financial Statements**

#### **1. Description of Business**

The selected local telephone exchanges (the Exchanges) included in these special-purpose financial statements serve approximately 304,000 switched access lines in the state of Alabama. The Exchanges represent approximately 8% and 65%, respectively, of the switched access lines in service for Verizon South Inc. and Contel of the South, Inc. (together, the Companies) and, on a combined basis, 13% of the Companies' total access lines. The Companies are wholly owned subsidiaries of GTE Corporation (GTE), which is a wholly owned subsidiary of Verizon Communications Inc. (Verizon).

The Companies provide two basic types of telecommunications services:

Exchange telecommunication service is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services and Centrex services. The Companies also provide toll services within a LATA (intraLATA long distance).

Exchange access service links a customer's premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.

The communications services provided by the Companies are subject to regulation by the state regulatory commission of Alabama with respect to intrastate rates and services and certain other matters. The Federal Communications Commission (FCC) regulates rates that the Companies charge long-distance carriers and end-user subscribers for interstate access rates.

On October 22, 2001, the Companies entered into an asset purchase agreement with CenturyTel of Alabama L.L.C., a wholly owned subsidiary of CenturyTel, Inc. (CenturyTel), to sell all in-franchise switched access lines in the state of Alabama to CenturyTel. The transaction closed on July 1, 2002.

## 2. Basis of Presentation

Historically, financial statements have not been prepared for the Exchanges, as they have no separate legal status or existence. The accompanying special-purpose financial statements have been prepared to present the statement of selected assets, selected liabilities and parent funding and statements of income and cash flows of the Exchanges for inclusion in CenturyTel's Form 8-K for purposes of complying with the rules and regulations of the Securities and Exchange Commission as required by Rule 3-05 of Regulation S-X for the transaction between CenturyTel and the Companies. The accompanying special-purpose financial statements have been prepared in accordance with accounting principles generally accepted in the United States using exchange-specific information where available (most revenue and property, plant and equipment (PP&E) related accounts) and allocations where data is not maintained on an exchange-specific basis within the Companies' books and records (most operating expenses, assets other than PP&E, and liabilities). Because of the significant amount of allocations and estimates used to prepare these financial statements, they may not reflect the financial position or results of operations of the Exchanges after the sale to CenturyTel.

The unaudited interim financial information presented herein has been prepared according to accounting principles generally accepted in the United States. In management's opinion, the information presented herein reflects all adjustments (consisting only of normal recurring accruals) necessary to present fairly the interim selected assets, selected liabilities and parent funding, and results of operations and cash flows of Verizon's Alabama Operations. The results for the interim periods are not necessarily indicative of the results for the full year.

The accompanying special-purpose financial statements include only those assets, liabilities and related operations of the Exchanges as historically incurred by the Companies and exclude all other assets, liabilities and operations of the Companies, specifically, affiliate accounts, cash, debt, accrued interest, and tax-related balance sheet accounts. These special-purpose financial statements also include the assets, liabilities and expenses related to employees who support the Exchanges, some of which are expected to remain employees of the Companies following the sale of the Exchanges.

Receivables related to end-user billings and operating revenues were identified by exchange using applicable billing system data. Receivables related to carrier and other miscellaneous billings were allocated to the Exchanges in proportion to carrier revenues.

Accounts payable were allocated to the Exchanges based on operating expenses and capital expenditures. Customer advances and deposits were allocated to the Exchanges based on total revenue. Accrued payroll costs were allocated to the Exchanges based on employee head count. Other current liabilities and other liabilities were allocated to the Exchanges based on access line count.

The Exchanges' operating expenses include both amounts incurred within their operating territories that relate directly to their exchanges (the Direct Expenses) and amounts incurred in centralized Verizon service centers that support multiple Verizon companies (the Indirect Expenses). The Direct Expenses generally correspond with locally performed functions, which are likely to transfer to the buyer of the Exchanges. The Indirect Expenses correspond to substantial back-office support and overhead functions, which are not likely to transfer to the buyer, but that the buyer will need to replace in some form in order to operate the Exchanges. The Indirect Expenses have been allocated to the Companies and further to specific exchanges within the Companies (including the Exchanges) based on estimates of usage or benefits received from such services. The level of allocated Indirect Expenses may not be representative of the buyer's ongoing expenses for these functions. Depreciation and amortization were calculated by using the related property, plant and equipment data.

Management believes the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related income or expense of the Exchanges.

## 3. Summary of Significant Accounting Policies and Other Disclosures

The notes to the financial statements that follow contain limited disclosure data where it can be reasonably estimated for the Exchanges.

### **Revenue Recognition**

Service revenues are recognized based on usage of local exchange networks and facilities and contract fees. The Exchanges recognize product and other service revenues when services are provided in accordance with contract terms and when products are delivered and accepted by the customers.

The Companies adopted the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, effective January 1, 2000, as required by the SEC. As a result of the adoption of SAB No. 101, the Companies defer nonrecurring service activation revenues and costs and amortize them over the expected term of the customer relationship. The deferred costs are equal to the activation fee revenue and any excess cost is expensed immediately. The deferred costs represent direct costs associated with certain nonrecurring fees, such as service activation and installation fees.

### **Maintenance and Repairs**

The cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, is charged to cost of services as these costs are incurred.

## Materials and Supplies

Included in materials and supplies are new and reusable materials, which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

## Long-Lived Assets

The Companies assess the impairment of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. A determination of impairment, if any, is made based on estimates of future cash flows. (See Recent Accounting Pronouncements - Impairment or Disposal of Long-Lived Assets below.)

## Plant and Depreciation

Property, plant and equipment are recorded at cost. Depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over remaining economic asset lives. This method requires the periodic review and revision of depreciation rates. The asset lives used are as follows:

	Average Lives ----- (In Years)
Buildings	30-35
Central office equipment	5-10
Outside communications plant	15-50
Furniture, vehicles and other equipment	3-15

When depreciable telephone plant is replaced or retired in the normal course of business, the carrying amount of such plant is deducted from the respective accounts and accumulated depreciation is charged.

Interest associated with the acquisition or construction of plant assets is capitalized. Capitalized interest is reported as a cost of plant and a reduction in interest expense. The Companies capitalized \$1,756,000 of interest costs for the year ended December 31, 2001.

## Computer Software Costs

The Companies capitalize the cost of internal-use software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, interest associated with the development of internal-use software is capitalized. Capitalized computer software costs are amortized using the straight-line method over a period of three to seven years.

## Income Taxes

Verizon and its domestic subsidiaries, including the Companies, file a consolidated federal income tax return. The Companies participate in a tax-sharing agreement with Verizon and remit tax payments to Verizon based on their respective tax liability on a separate company basis.

The Exchanges are not taxable entities. The Exchanges' operating results are included within the Companies for income tax purposes. Although the Exchanges contribute significant plant-related temporary differences (including investment tax credits) to the Companies' deferred tax balances, the Companies do not allocate income tax expense, income tax payables or deferred income taxes to the Exchanges. Deferred tax assets or liabilities are included in parent funding within these special-purpose financial statements. The provision for income taxes included in the accompanying statement of income for the year ended December 31, 2001 was calculated based on the income before income taxes of the Exchanges and the Companies' effective tax rates adjusted for permanent differences not attributable to the Exchanges. The primary difference between the effective income tax rate and the statutory federal income tax rate is state income taxes, net of federal tax benefits.

## Advertising Costs

The Companies expense advertising costs as they are incurred. The Companies incurred \$6.6 million in advertising costs in 2001. Based on the number of access lines, the allocated advertising costs for the Exchanges were approximately \$0.9 million for 2001.

## Employee Benefit Plans

The Companies participate in the Verizon benefit plans. Under these plans, pension and postretirement healthcare and life insurance benefits

earned during the year, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive the benefits.

### **Comprehensive Income**

The Companies had no other comprehensive income components for the year ended December 31, 2001 or for the six months ended June 30, 2002 and 2001; therefore, the Companies' and the Exchanges' comprehensive income is the same as net income.

### **Derivative Instruments**

Effective January 1, 2001, the Companies adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS No. 133 requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on the Companies' balance sheets. Changes in the fair values of derivatives not qualifying as hedges under SFAS No. 133 and any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income, and recognized in earnings when the hedged item is recognized in earnings. The Companies had no derivative instruments as of December 31, 2001 or June 30, 2002 and 2001.

### **Recent Accounting Pronouncements**

#### **Business Combinations**

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, which applies to business combinations occurring after June 30, 2001. SFAS No. 141 requires that the purchase method of accounting be used and includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in the combination.

#### **Goodwill and Other Intangible Assets**

Effective January 1, 2002, the Companies adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No. 121. The goodwill impairment test under SFAS No. 142 requires a two-step approach, which is performed at the reporting unit level, as defined in SFAS No. 142. Step one identifies potential impairments by comparing the fair value of the reporting unit to its carrying amount. Step two, which is only performed if there is a potential impairment, compares the carrying amount of the reporting unit's goodwill to its implied value, as defined in SFAS No. 142. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for an amount equal to that excess. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The adoption of SFAS No. 142 did not impact the results of operations or statement of selected assets, selected liabilities and parent funding because the Companies had no goodwill or other intangible assets as of January 1, 2002.

#### **Impairment or Disposal of Long-Lived Assets**

Effective January 1, 2002, the Companies adopted SFAS No. 144. This standard supersedes SFAS No. 121 and the provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, with regard to reporting the effects of a disposal of a segment of a business. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale and addresses several SFAS No. 121 implementation issues. The adoption of SFAS No. 144 did not have a material effect on the results of operations or financial position.

#### **Asset Retirement Obligations**

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This standard provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as a part of the book value of the long-lived asset. That cost is then depreciated over the remaining life of the underlying long-lived asset. The Companies are required to adopt SFAS No. 143, effective January 1, 2003. The Companies are currently evaluating the impact this new standard will have on their future results of operations or financial position.

### **4. Property, Plant and Equipment**

The Companies maintain continuing property records, which identify specific property, plant and equipment (PP&E) balances, depreciation reserves and annual capital expenditure amounts for the Exchanges. The PP&E balance in the accompanying statement is based on these

exchange-specific amounts and does not include any allocations of common assets utilized in providing the centralized services described in Note 2.

PP&E of the Exchanges is summarized as follows at December 31, 2001 (dollars in thousands):

Land	\$	1,489
Buildings		38,690
Central office equipment		257,317
Outside communications plant		436,675
Furniture, vehicles and other work equipment		12,131
Other		12,183
Construction-in-progress		908
		-----
		759,393
Less accumulated depreciation		(516,158)
		-----
Property, plant and equipment, net	\$	243,235
		=====

## 5. Employee Benefit Plans

The Companies participate in Verizon's benefit plans. Verizon maintains noncontributory defined benefit pension plans for substantially all employees. The postretirement healthcare and life insurance plans for the Companies' retirees and their dependents are both contributory and noncontributory and include a limit on the Companies' share of cost for recent and future retirees. The Companies also sponsor defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis.

The structure of Verizon's benefit plans does not provide for the separate determination of certain disclosures for the Companies or the Exchanges.

### Pension Plans

The Companies participate in noncontributory defined benefit pension plans sponsored by Verizon covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. Verizon's funding policy, subject to the minimum funding requirements of employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to accumulate funds sufficient to meet the plans' benefit obligation to employees upon their retirement. The Verizon plans are currently funded at levels in excess of projected benefit obligations. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The Exchanges' net periodic benefit credit was \$3.8 million for 2001. The net periodic benefit credit for the Exchanges was based on an allocation of the Companies' net periodic benefit credit. The allocations were based on the relative number of active employees of the Exchanges and retired employees of the Companies who were previously involved in the operations of the Exchanges to the Companies' total active and retired employee participants of the plans.

The prepaid pension asset shown on the accompanying financial statements represents an allocation of the Companies' net prepaid pension cost. The allocation was based on the relative number of active employees of the Exchanges and retired employees of the Companies who were previously directly involved in the operations of the Exchanges to the Companies' total active and retired employee participants of the plans.

The significant weighted-average assumptions used by Verizon for the pension measurements were as follows at December 31, 2001:

Discount rate	7.25%
Rate of compensation increase	5.00
Long-term rate of return on plan assets	9.25

### Postretirement Benefits Other than Pensions

Substantially all of the Companies' employees are covered under postretirement healthcare and life insurance benefit plans sponsored by Verizon. The determination of benefit cost for postretirement health plans is generally based on comprehensive hospital, medical and surgical benefit plan provisions. The Companies intend to fund amounts for postretirement benefits as deemed appropriate.

The Exchanges' postretirement benefit cost was \$2.2 million for 2001. The postretirement cost for the Exchanges was based on an allocation of the Companies' net postretirement benefit cost. The allocation was based on the relative number of active employees of the Exchanges and retired employees of the Companies who were previously involved in the operations of the Exchanges to the Companies' total active and retired employee participants of the plans.

The employee benefit obligations shown in the accompanying financial statements represent an allocation of the Companies' actuarially determined postretirement healthcare and life insurance benefit liabilities. The allocation was based on the relative number of active employees

of the Exchanges and retired employees of the Companies who were previously involved in the operations of the Exchanges to the Companies' total active and retired employee participants of the plans.

The weighted-average assumptions used by Verizon in the actuarial computations for healthcare and life benefits were as follows at December 31, 2001:

Discount rate	7.25%
Long-term rate of return on plan assets	8.00
Medical cost trend rate at end of year	10.00
Ultimate (year 2005)	5.00

## Savings Plans and Employee Stock Ownership Plans

Substantially all of the Companies' employees are eligible to participate in savings plans maintained by Verizon. Verizon maintains a leveraged employee stock ownership plan (ESOP) for its management employees of the former GTE subsidiaries. Under this plan, a certain percentage of eligible employee contributions is matched with shares of Verizon's common stock. Verizon recognizes leveraged ESOP cost based on the modified shares allocated method for this leveraged ESOP that held shares before December 31, 1989. The Companies recognize savings plans costs based on their matching obligation attributed to their participating management employees. In addition to the ESOP, Verizon also maintains a savings plan for nonmanagement employees. Matching contributions attributable to the Exchanges' employees were included as general and administrative expenses in these special-purpose financial statements. The Exchanges' total savings plans costs, based on an allocation of the Exchanges' employees to the Companies' total employees, were approximately \$726,000 in 2001.

## 6. Parent Funding and Interest Expense

For purposes of these statements, all funding requirements have been summarized as "parent funding" without regard to whether the funding represents debt or equity. No specific debt instruments can be directly associated with the Exchanges, nor are separate equity accounts maintained. As such, interest expense, net of interest income, of the Companies for the year ended December 31, 2001 and the six months ended June 30, 2002 and 2001 was allocated to the Exchanges and shown in the accompanying statements of income based on the relative percentage of the Exchanges' parent funding to the total debt and equity for the Companies.

## 7. Transactions with Affiliates

Historically, extensive transactions have occurred between the Exchanges and GTE Communications Systems Corporation (GTE Communications Systems), Verizon Information Services Inc., Verizon Data Services Inc., Verizon Services (including Verizon Services Corp., Verizon Services Group, and Verizon Corporate Services Group Inc.), GTE Funding and various other affiliates. These transactions have included construction and maintenance services, data processing and management services, and financing and directories agreements.

The Companies' transactions with affiliates are summarized as follows (the respective information is not separately available for the Exchanges):

	Year ended December 31, 2001	
	Contel of the South	Verizon South
	(Dollars in Thousands)	
Operating revenues:		
Verizon Information Services Inc.	\$ 10	\$ 1,100
Other revenue from affiliates	21,284	66,400
	21,294	67,500
Operating expenses:		
GTE Communications Systems	11,186	15,100
Verizon Information Services Inc.	143	4,200
Verizon Data Services Inc.	4,538	61,200
Verizon Services	9,501	122,100
Other	-	200
	25,368	202,800
Other income:		
Equity loss from Ventures III	-	(9,300)
Interest expense (income), net:		
Interest expense (income) to GTE, net	3,178	(300)
Plant, property and equipment:		
Purchases from GTE Communications Systems	55	44,700
Transfer of advanced data assets from Ventures III	-	4,000

GTE Communications Systems (100% owned by Verizon) provides construction and maintenance equipment, supplies and electronic repair services to the Companies. Such purchases and services are recorded at the lower of cost, including a return realized by GTE Communications Systems, or fair market value.

The Companies have an agreement to provide subscriber lists, billing and collection and other services to Verizon Information Services Inc. (Directories) (100% owned by Verizon). Directories bills the Exchanges for printing and other costs associated with regulatory requirements included in the telephone directories, including the cost of any Extended Area Service sections in the directories. Directories also bills the Exchanges for any advertising it places in the telephone directories. The amounts charged to the Companies for these transactions are based on fair market value.

Verizon Data Services Inc. provides data processing services, software application development and maintenance, which generally benefit Verizon's operating telephone subsidiaries, including the Companies. The amounts charged to the Companies for these affiliated transactions are based on proportional cost allocation methodologies.

The Companies have contractual arrangements with Verizon Services Inc. for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network-related services, which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services, which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, and treasury. Cost may be directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

The Companies recognized interest expense/income in connection with contractual arrangements with GTE Funding to provide short-term financing and cash management services to them.

In 2000, Verizon South Inc. transferred certain advanced data assets to an affiliated company, Verizon Ventures III Inc. (Ventures III), in exchange for common stock of Ventures III. This transfer was done to satisfy a condition of the FCC's approval of the Bell Atlantic-GTE merger, which required the provision of advanced data services through a separate affiliate. Throughout 2001, Verizon South Inc. continued to invest in Ventures III through the transfer of additional assets. As a result of the transfers, Verizon South Inc. has an ownership interest in Ventures III, which is accounted for under the equity method of accounting. Verizon South Inc.'s ownership interest in Ventures III was 1.11% at December 31, 2001.

The accompanying financial statements reflect equity losses associated with the investment in Ventures III of \$837,000 in 2001 and an investment in Ventures III, included in other assets, of \$20,000 at December 31, 2001.

Other operating revenues and expenses include miscellaneous items of income and expense resulting from transactions with other affiliates of the Companies. These transactions include the provision of local and network access services, billing and collection services, rental of facilities and equipment, and sales and purchases of materials and supplies. The Companies also earn fees from an affiliate for usage of its directory listings.

The affiliated receivables and payables associated with these transactions have been included in parent funding.

## 8. Regulatory Matters

The state regulatory commission in Alabama regulates the Companies' intrastate business. The Companies are also subject to regulation by the Federal Communications Commission for their interstate business operations. The Companies' Alabama price cap plan started in January 1996. The plan does not have an expiration date but is reviewed every five years. There are three service categories: basic, nonbasic and interconnection. Basic services are capped for five years from the September 1995 order date. At the end of the cap, prices can be increased by GDP-PI less a 1% productivity factor less any service penalties (up to 0.75% maximum penalty). Nonbasic services can be increased beginning January 1997 and prices can be increased a maximum of 10% in the aggregate for a given year. Individual prices can be changed more than 10% as long as the aggregate change is 10% or less. The Companies' intrastate access charges are capped at a composite rate of \$0.064 per minute. Tariff filings for incumbent local exchange carriers are presumptively valid. Earnings are not regulated.

## 9. Commitments and Contingencies

The Companies have noncancelable operating leases covering certain buildings, office space and equipment. The Companies' rental expense was \$33,523,000 in 2001. Minimum rental commitments under these noncancelable leases are approximately \$4.3 million, \$3.9 million, \$3.7 million, \$3.4 million, and \$3.0 million for the years 2002 through 2006, respectively, and \$9.6 million thereafter. Based on the number of access lines, the allocated rent expense of the Exchanges was approximately \$4.4 million for 2001.

Various legal actions and regulatory proceedings are pending to which the Companies are a party and there are claims which, if asserted, may



lead to other legal actions. Management does not believe the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on the financial position of the Companies or the Exchanges.

## 10. Segment Reporting

The Exchanges do not have separate reportable segments of their own. The Exchanges are part of the Companies, which have one reportable segment - the provision of domestic wire line telecommunications services. Specifically, the Companies provide local telephone services including voice and data transport, enhanced and custom calling features, network access, directory assistance and private lines. In addition, the Companies provide customer premises equipment distribution, billing and collection, and pay telephone services.

## 11. Financial Instruments

Financial instruments that subject the Companies to concentrations of credit risk consist primarily of short-term investments and trade receivables. Concentrations of credit risk with respect to trade receivables other than those from AT&T Corp. (AT&T) are limited due to the large number of customers. The Companies' revenues generated from services provided to AT&T (primarily network access and billing and collection) were 6.9% of total revenues for 2001.

While the Companies may be exposed to credit losses due to the nonperformance of their counterparties, the Companies consider this risk remote and do not expect the settlement of these transactions to have a material effect on their results of operations or financial position.

### **FINANCIAL STATEMENTS** **Verizon's Missouri Operations**

For the Six Months ended June 30, 2002 and 2001 and Year ended December 31, 2001

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#### **Report of Independent Auditors**

The Board of Directors and Shareowner  
GTE Midwest Incorporated

We have audited the accompanying special-purpose statement of selected assets, selected liabilities and parent funding of Verizon's Missouri Operations (the Exchanges), a carved-out component of GTE Midwest Incorporated (the Company), as of December 31, 2001, and the related statements of income, parent funding and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 2, the accompanying special-purpose financial statements were prepared for inclusion in CenturyTel, Inc.'s (CenturyTel) Form 8-K for purposes of complying with the rules and regulations of the Securities and Exchange Commission as required by Rule 3-05 of Regulation S-X in connection with an asset purchase agreement between CenturyTel of Missouri L.L.C., a wholly owned subsidiary of CenturyTel and the Company. The statements include allocations of certain indirectly attributable amounts on bases determined by management of the Company.

In our opinion, the special-purpose financial statements referred to above present fairly, in all material respects, the selected assets, selected liabilities and parent funding of Verizon's Missouri Operations as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

April 24, 2002, except for Note 1,  
as to which the date is August 31, 2002

## Verizon's Missouri Operations

### Statements of Selected Assets, Selected Liabilities and Parent Funding (Dollars in Thousands)

	June 30, 2002	December 31, 2001
	----- (Unaudited)	----- (Audited)
Selected Assets		
Current assets:		
Accounts receivable, net of allowance of \$5,047 and \$4,710, respectively	\$ 44,430	\$ 48,267
Materials and supplies	711	577
Prepaid expenses	2,680	6,500
Deferred activation charges - current	3,624	3,820
	-----	-----
Total current assets	51,445	59,164
Property, plant and equipment, net	389,845	390,409
Prepaid pension asset	85,807	80,794
Deferred activation charges - noncurrent	7,060	7,238
	-----	-----
Total selected assets	\$ 534,157	\$ 537,605
	=====	=====
Selected Liabilities and Parent Funding		
Current liabilities:		
Accounts payable	\$ 18	\$ 895
Advance billings and customer deposits	5,781	5,323
Accrued payroll-related costs	9,375	15,306
Deferred activation revenues - current	3,624	3,820
Other current liabilities	13,530	9,276
	-----	-----
Total current liabilities	32,328	34,620
Employee benefit obligations	27,751	28,201
Deferred activation revenues - noncurrent	7,061	7,238
Other liabilities	278	849
	-----	-----
Total selected liabilities	67,418	70,908
Parent funding	466,739	466,697
	-----	-----
Total selected liabilities and parent funding	\$ 534,157	\$ 537,605
	=====	=====

See accompanying notes.

# Verizon's Missouri Operations

## Statements of Income (Dollars in Thousands)

	Six Months ended June 30		Year ended
	2002	2001	December 31
	-----		-----
	(Unaudited)		(Audited)
Operating Revenues			
Local services	\$ 55,715	\$ 53,551	\$ 106,072
Network access services	67,063	80,098	149,463
Long-distance services	7,807	8,541	17,926
Other services	10,741	11,059	22,425
	-----		-----
Total operating revenues	141,326	153,249	295,886
	-----		-----
Operating Expenses			
Cost of services	39,675	33,445	85,609
Selling, general and administrative	20,826	20,165	38,809
Depreciation and amortization	24,231	23,149	44,956
	-----		-----
Total operating expenses	84,732	76,759	169,374
	-----		-----
Operating income	56,594	76,490	126,512
Interest expense, net	3,380	8,074	11,884
Other (income) expense	(18)	(107)	1,645
	-----		-----
Income before income taxes	53,232	68,523	112,983
Income taxes	20,547	26,559	47,420
	-----		-----
Net income	\$ 32,685	\$ 41,964	\$ 65,563
	=====		=====

See accompanying notes.

## Verizon's Missouri Operations

### Statements of Parent Funding (Dollars in Thousands)

For the Six Months ended June 30, 2002  
and the Year ended December 31, 2001

Balance at December 31, 2000	\$ 440,818
Net income (audited)	65,563
Net transfers to GTE Corporation (audited)	(39,684)
	-----
Balance at December 31, 2001 (audited)	466,697
Net income (unaudited)	32,685
Net transfers to GTE Corporation (unaudited)	(32,643)
	=====
Balance at March 31, 2002 (unaudited)	\$ 466,739
	=====

See accompanying notes.

# Verizon's Missouri Operations

## Statements of Cash Flows (Dollars in Thousands)

	Six Months ended June 30		Year ended
	2002	2001	December 31
	-----		-----
	(Unaudited)		(Audited)
Operating Activities			
Net income	\$ 32,685	\$ 41,964	\$ 65,563
Adjustments to reconcile net income to			
net cash provided by operating activities:			
Depreciation and amortization	24,231	23,149	44,956
Provision for uncollectible accounts	2,447	1,627	1,627
Employee benefit obligations	(5,463)	(2,671)	(7,440)
Changes in current assets and current			
liabilities:			
Accounts receivable	1,390	745	(6,633)
Other current assets	3,686	9,095	5,815
Current liabilities	(6,350)	(1,206)	(7,277)
Other, net	3,684	(5,554)	(3,464)
	-----	-----	-----
Cash provided by operating activities	56,310	67,149	93,147
Investing Activities			
Capital expenditures	(23,667)	(25,495)	(53,463)
	-----	-----	-----
Cash used in investing activities	(23,667)	(25,495)	(53,463)
Financing Activities			
Net transfers to GTE Corporation	(32,643)	(41,654)	(39,684)
	-----	-----	-----
Cash used in financing activities	(32,643)	(41,654)	(39,684)
	-----	-----	-----
Net change in cash during the period	-	-	-
Cash at beginning of period	-	-	-
	-----	-----	-----
Cash at end of period	\$ -	\$ -	\$ -
	=====	=====	=====

See accompanying notes.

## Verizon's Missouri Operations

### Notes to Financial Statements

#### 1. Description of Business

The selected local telephone exchanges (the Exchanges) included in these special-purpose financial statements serve approximately 371,000 switched access lines in the state of Missouri. The exchanges represent substantially all of the switched access lines in service for GTE Midwest Incorporated (Company or GTE Midwest). The Company is a wholly owned subsidiary of GTE Corporation (GTE), which is a wholly owned subsidiary of Verizon Communications Inc. (Verizon).

The Company provides two basic types of telecommunications services:

Exchange telecommunication service is the transmission of telecommunications among customers located within a local calling area within a LATA. Examples of exchange telecommunications services include switched local residential and business services, local private line voice and data services, and Centrex services. The Company also provides toll services within a LATA (intraLATA long distance).

Exchange access service links a customer's premises and the transmission facilities of other telecommunications carriers, generally interLATA carriers. Examples of exchange access services include switched access and special access services.

The communications services provided by the Company are subject to regulation by the Missouri Public Service Commission with respect to intrastate rates and services and certain other matters. The Federal Communications Commission (FCC) regulates rates that the Company charges long-distance carriers and end-user subscribers for interstate access rates.

On October 22, 2001, the Company entered into an asset purchase agreement with CenturyTel of Missouri L.L.C., a wholly owned subsidiary of CenturyTel, Inc. (CenturyTel), to sell all in-franchise switched access lines in the state of Missouri to CenturyTel. The transaction closed on August 31, 2002.

#### 2. Basis of Presentation

Historically, financial statements have not been prepared for the Exchanges, as they have no separate legal status or existence. The accompanying special-purpose financial statements have been prepared to present the statement of selected assets, selected liabilities and parent funding and statements of income and cash flows of the Exchanges for inclusion in CenturyTel's Form 8-K for purposes of complying with the rules and regulations of the Securities and Exchange Commission as required by Rule 3-05 of Regulation S-X for the transaction between CenturyTel and the Company. The accompanying special-purpose financial statements have been prepared in accordance with accounting principles generally accepted in the United States using exchange-specific information where available (most revenue and property, plant and equipment (PP&E) related accounts) and allocations where data is not maintained on an exchange-specific basis within the Company's books and records (most operating expenses, assets other than PP&E, and liabilities). Because of the significant amount of allocations and estimates used to prepare these financial statements, they may not reflect the financial position or results of operations of the Exchanges after the sale to CenturyTel.

The unaudited interim financial information presented herein has been prepared according to accounting principles generally accepted in the United States. In management's opinion, the information presented herein reflects all adjustments (consisting only of normal recurring accruals) necessary to present fairly the interim selected assets, selected liabilities and parent funding, and results of operations and cash flows of Verizon's Missouri Operations. The results for the interim periods are not necessarily indicative of the results for the full year.

The accompanying special-purpose financial statements include only those assets, liabilities and related operations of the Exchanges as historically incurred by the Company and exclude all other assets, liabilities and operations of GTE Midwest and Verizon and its other subsidiaries, specifically cash, debt, accrued interest, and tax-related balance sheet accounts. These special-purpose financial statements also include assets, liabilities and expenses related to employees who support the Exchanges, some of whom are expected to remain employees of the Company following the sale of the Exchanges.

Accounts receivable and operating revenues are based on the applicable billing system information. Other current assets and the current liabilities of the Exchanges reflect the respective balances of the Company, excluding amounts owed from/to affiliates.

The Exchanges' operating expenses include both amounts incurred within their operating territories that relate directly to their exchanges (the Direct Expenses) and amounts incurred in centralized Verizon service centers that support multiple Verizon companies (the Indirect Expenses). The Direct Expenses generally correspond with locally performed functions, which are likely to transfer to the buyer of the Exchanges. The Indirect Expenses correspond to substantial back-office support and overhead functions, which are not likely to transfer to the buyer, but that the buyer will need to replace in some form in order to operate the Exchanges. The Indirect Expenses have been allocated to GTE Midwest and further to specific exchanges within GTE Midwest (including the Exchanges) based on estimates of usage or benefits received from such services. The level of allocated Indirect Expenses may not be representative of the buyer's ongoing expenses for these functions. Depreciation and amortization were calculated using the related property, plant and equipment data.

Management believes the allocations used to determine selected amounts in the financial statements are appropriate methods to reasonably reflect the related income or expense of the Exchanges.

3. Summary of Significant Accounting Policies and Other Disclosures

The notes to the financial statements that follow contain limited disclosure data where it can be reasonably estimated for the Exchanges.

Revenue Recognition

Service revenues are recognized based on usage of local exchange networks and facilities and contract fees. The Exchanges recognize product and other service revenues when services are provided in accordance with contract terms and when products are delivered and accepted by the customers.

The Company adopted the provisions of the Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101, Revenue Recognition in Financial Statements, effective January 1, 2000, as required by the SEC. As a result of the adoption of SAB No. 101, the Company defers nonrecurring service activation revenues and costs and amortize them over the expected term of the customer relationship. The deferred costs are equal to the activation fee revenue and any excess cost is expensed immediately. The deferred costs represent direct costs associated with certain nonrecurring fees, such as service activation and installation fees.

Maintenance and Repairs

The cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial betterments, is charged to cost of services as these costs are incurred.

Materials and Supplies

Included in materials and supplies are new and reusable materials, which are stated principally at average original cost, except that specific costs are used in the case of large individual items.

Long-Lived Assets

The Company assesses the impairment of long-lived assets under Statement of Financial Accounting Standards (SFAS) No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, whenever events or changes in circumstances indicate that the carrying value may not be recoverable. A determination of impairment, if any, is made based on estimates of future cash flows. (See Recent Accounting Pronouncements - Impairment or Disposal of Long-Lived Assets below.)

Plant and Depreciation

Property, plant and equipment are recorded at cost. Depreciation expense is principally based on the composite group remaining life method and straight-line composite rates. This method provides for the recognition of the cost of the remaining net investment in telephone plant, less anticipated net salvage value, over remaining economic asset lives. This method requires the periodic review and revision of depreciation rates. The asset lives used are as follows:

	Average Lives ----- ( In Years )
Buildings	30-35
Central office equipment	5-10
Outside communications plant	15-50
Furniture, vehicles and other equipment	3-15

When depreciable telephone plant is replaced or retired in the normal course of business, the carrying amount of such plant is deducted from the respective accounts and accumulated depreciation is charged.

Interest associated with the acquisition or construction of plant assets is capitalized. Capitalized interest is reported as a cost of plant and a reduction in interest expense. During 2001, the Company capitalized \$206,000 of interest costs.

Computer Software Costs

The Company capitalizes the cost of internal-use software which has a useful life in excess of one year in accordance with Statement of Position (SOP) No. 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use. Subsequent additions, modifications or upgrades to internal-use software are capitalized only to the extent that they allow the software to perform a task it previously did not perform. Software maintenance and training costs are expensed in the period in which they are incurred. Also, interest associated with

the development of internal-use software is capitalized. Capitalized computer software costs are amortized using the straight-line method over a period of three to seven years.

## **Income Taxes**

Verizon and its domestic subsidiaries, including the Company, file a consolidated federal income tax return. The Company participates in a tax-sharing agreement with Verizon and remits tax payments to Verizon based on its respective tax liability on a separate company basis.

The Exchanges are not taxable entities. The Exchanges' operating results are included within the Company for income tax purposes. Although the Exchanges contribute significant plant-related temporary differences (including investment tax credits) to the Company's deferred tax balances, the Company does not allocate income tax expense, income tax payables or deferred income taxes to the Exchanges. Deferred tax assets and liabilities are included in parent funding within these special-purpose financial statements. The provision for income taxes included in the accompanying statement of income for the year ended December 31, 2001 was calculated based on the income before income taxes of the Exchanges and the Company's 2001 effective tax rate adjusted for permanent differences not attributable to the Exchanges. The primary difference between the effective income tax rate and the statutory federal income tax rate is state income taxes, net of federal tax benefits.

## **Advertising Costs**

The Company expenses advertising costs as they are incurred. In 2001, the Company incurred \$1,303,000 in advertising costs.

## **Employee Benefit Plans**

The Company participates in the Verizon benefit plans. Under these plans, pension and postretirement healthcare and life insurance benefits earned during the year, as well as interest on projected benefit obligations, are accrued currently. Prior service costs and credits resulting from changes in plan benefits are amortized over the average remaining service period of the employees expected to receive the benefits.

## **Comprehensive Income**

The Company had no other comprehensive income components for the year ended December 31, 2001 or the six months ended June 30, 2002 and 2001; therefore, the Company's and the Exchange's comprehensive income is the same as net income.

## **Derivative Instruments**

Effective January 1, 2001, the Company adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities. SFAS No. 133 requires that all derivatives, including derivatives embedded in other financial instruments, be measured at fair value and recognized as either assets or liabilities on the Company's balance sheet. Changes in the fair values of derivatives not qualifying as hedges under SFAS No. 133 and any ineffective portion of hedges are recognized in earnings in the current period. Changes in the fair values of derivative instruments used effectively as fair value hedges are recognized in earnings, along with changes in the fair value of the hedged item. Changes in the fair value of the effective portions of cash flow hedges are reported in other comprehensive income, and recognized in earnings when the hedged item is recognized in earnings. The Company had no derivative instruments as of December 31, 2001 or June 30, 2002 and 2001.

## **Recent Accounting Pronouncements**

### **Business Combinations**

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, Business Combinations, which applies to business combinations occurring after June 30, 2001. SFAS No. 141 requires that the purchase method of accounting be used and includes guidance on the initial recognition and measurement of goodwill and other intangible assets acquired in the combination.

### **Goodwill and Other Intangible Assets**

Effective January 1, 2002, the Company adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 no longer permits the amortization of goodwill and indefinite-lived intangible assets. Instead, these assets must be reviewed annually (or more frequently under certain conditions) for impairment in accordance with this statement. This impairment test uses a fair value approach rather than the undiscounted cash flows approach previously required by SFAS No.

121. The goodwill impairment test under SFAS No. 142 requires a two-step approach, which is performed at the reporting unit level, as defined in SFAS No.

142. Step one identifies potential impairments by comparing the fair value of the reporting unit to its carrying amount. Step two, which is only performed if there is a potential impairment, compares the carrying amount of the reporting unit's goodwill to its implied value, as defined in SFAS No. 142. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized for an amount equal to that excess. Intangible assets that do not have indefinite lives will continue to be amortized over their useful lives and reviewed for impairment in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The



adoption of SFAS No. 142 did not impact the results of operations or statement of selected assets, selected liabilities and parent funding because the Company had no goodwill or other intangible assets as of January 1, 2002.

### Impairment or Disposal of Long-Lived Assets

Effective January 1, 2002, the Company adopted SFAS No. 144. This standard supersedes SFAS No. 121 and the provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, with regard to reporting the effects of a disposal of a segment of a business. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale and addresses several SFAS No. 121 implementation issues. The adoption of SFAS No. 144 did not have a material effect on the results of operations or financial position.

### Asset Retirement Obligations

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. This standard provides the accounting for the cost of legal obligations associated with the retirement of long-lived assets. SFAS No. 143 requires that companies recognize the fair value of a liability for asset retirement obligations in the period in which the obligations are incurred and capitalize that amount as a part of the book value of the long-lived asset. That cost is then depreciated over the remaining life of the underlying long-lived asset. The Company is required to adopt SFAS No. 143 effective January 1, 2003. The Company is currently evaluating the impact this new standard will have on its future results of operations or financial position.

### 4. Property, Plant and Equipment

The Company maintains continuing property records, which identify specific property, plant and equipment (PP&E) balances, depreciation reserves and annual capital expenditure amounts for the Exchanges. The PP&E balance in the accompanying statement is based on these exchange-specific amounts and does not include any allocations of common assets utilized in providing the centralized services described in Note 2.

PP&E of the Exchanges is summarized as follows at December 31, 2001 (dollars in thousands):

Land	\$	3,280
Buildings		69,247
Central office equipment		336,084
Outside communications plant		524,915
Furniture, vehicles and other work equipment		25,624
Other		33,898
Construction-in-progress		475
		-----
		993,523
		=====
Less accumulated depreciation		(603,114)
		-----
Property, plant and equipment, net	\$	390,409
		=====

### 5. Employee Benefit Plans

The Company participates in Verizon's benefit plans. Verizon maintains noncontributory defined benefit pension plans for substantially all employees. The postretirement healthcare and life insurance plans for the Company's retirees and their dependents are both contributory and noncontributory and include a limit on the Company's share of cost for recent and future retirees. The Company also sponsors defined contribution savings plans to provide opportunities for eligible employees to save for retirement on a tax-deferred basis.

The structure of Verizon's benefit plans does not provide for the separate determination of certain disclosures for the Company or the Exchanges.

### Pension Plans

The Company participates in noncontributory defined benefit pension plans sponsored by Verizon covering substantially all employees. The benefits to be paid under these plans are generally based on years of credited service and average final earnings. Verizon's funding policy, subject to the minimum funding requirements of employee benefit and tax laws, is to contribute such amounts as are determined on an actuarial basis to accumulate funds sufficient to meet the plans' benefit obligation to employees upon their retirement. The Verizon plans are currently funded at levels in excess of projected benefit obligations. The assets of the plans consist primarily of corporate equities, government securities and corporate debt securities.

The Exchanges' net periodic benefit credit was \$11.1 million for 2001.

The prepaid pension asset shown on the accompanying financial statements represents the net prepaid pension cost of active employees of the

Exchanges and retired employees of the Company who were previously directly involved in the operations of the Exchanges to the Company's total active and retired employee participants of the plans.

The significant weighted-average assumptions used by Verizon to determine the pension credit and asset were as follows at December 31, 2001:

Discount rate	7.25%
Rate of compensation increase	5.00
Long-term rate of return on plan assets	9.25

### Postretirement Benefits Other Than Pensions

Substantially all of the Company's employees are covered under postretirement healthcare and life insurance benefit plans sponsored by Verizon. The determination of benefit cost for postretirement health plans is generally based on comprehensive hospital, medical and surgical benefit plan provisions. The Company intends to fund amounts for postretirement benefits as deemed appropriate.

The Exchange's postretirement benefit cost was \$4.1 million for 2001. The postretirement cost for the Exchanges was based on an allocation of the Company's net postretirement cost. The allocation was based on the relative number of active employees of the Exchanges and retired employees of the Company who were previously involved in the operations of the Exchanges to the Company's total active and retired employee participants of the plans.

The employee benefit obligations shown in the accompanying financial statements represents an allocation of the Company's actuarially determined postretirement healthcare and life insurance benefit liabilities. The allocation was based on the relative number of active employees of the Exchanges and retired employees of the Company who were previously involved in the operations of the Exchanges to the Company's total active and retired employee participants of the plans.

The weighted-average assumptions used by Verizon in the actuarial computations for healthcare and life benefits were as follows at December 31, 2001:

Discount rate	7.25%
Long-term rate of return on plan assets	8.00
Medical cost trend rate at end of year	10.00
Ultimate (year 2005)	5.00

### Savings Plans and Employee Stock Ownership Plans

Substantially all of the Company's employees are eligible to participate in savings plans maintained by Verizon. Verizon maintains a leveraged employee stock ownership plan (ESOP) for its management employees of the former GTE Companies. Under this plan, a certain percentage of eligible employee contributions is matched with shares of Verizon's common stock. Verizon recognizes leveraged ESOP cost based on the modified shares allocated method for this leveraged ESOP that held shares before December 31, 1989. The Company recognizes savings plans costs based on its matching obligation attributed to its participating management employees. In addition to the ESOP, Verizon also maintains a savings plan for nonmanagement employees. The Company's total savings plans costs were \$1.4 million in 2001.

### 6. Parent Funding and Interest Expense

For purposes of these statements, all funding requirements have been summarized as "parent funding" without regard to whether the funding represents debt or equity. No specific debt instruments can be directly associated with the Exchanges, nor are separate equity accounts maintained. All net interest expense of the Company for the year ended December 31, 2001 and the six months ended June 30, 2002 and 2001 was allocated to the Exchanges and shown in the accompanying statements of income.

### 7. Transactions with Affiliates

Historically, extensive transactions have occurred between the Company and GTE Communications Systems Corporation (GTE Communications Systems), Verizon Information Services Inc., Verizon Data Services Inc., Verizon Services (including Verizon Services Corp., Verizon Services Group, and Verizon Corporate Services Group Inc.), GTE Funding Incorporated (GTE Funding) and other affiliates.

Transactions with affiliates included in the accompanying financial statements are summarized as follows:

	Year ended December 31, 2001
	-----
	(Dollars in Thousands)
Operating revenues:	
Verizon Information Services Inc.	\$ 73
Other revenue from affiliates	21,190

	-----	21,263
Operating expenses:		
GTE Communications Systems		3,651
Verizon Information Services Inc.		764
Verizon Data Services Inc.		13,139
Verizon Services		26,091
	-----	43,645
Other expense:		
Equity loss from Ventures III		(1,645)
Interest expense, net:		
Interest expense to GTE, net		18,884
Plant, property and equipment:		
Purchases from GTE Communications Systems		8,083

The Company has an agreement to provide subscriber lists, billing and collection and other services to Verizon Information Services Inc. (Directories) (100% owned by Verizon) at fair market value. Directories bills the Company for printing and other costs associated with regulatory requirements included in the telephone directories, including the cost of any Extended Area Service sections in the directories. Directories also bills the Company for any advertising it places in the telephone directories. The amounts charged to the Company for these transactions are based on fair market value.

GTE Communications Systems (100% owned by Verizon) provides construction and maintenance equipment, supplies and electronic repair services to the Company. Such purchases and services are recorded at the lower of cost, including a return realized by GTE Communications Systems, or fair market value.

Verizon Data Services Inc. provides data processing services, software application development and maintenance, which generally benefit Verizon's operating telephone subsidiaries, including the Exchanges. The amounts charged to the Company for these affiliated transactions are based on proportional cost allocation methodologies.

The Company has contractual arrangements with Verizon Services for the provision of various centralized services. These services are divided into two broad categories. The first category is comprised of network-related services, which generally benefit only Verizon's operating telephone subsidiaries. These services include marketing, sales, legal, accounting, finance, data processing, materials management, procurement, labor relations, and staff support for various network operations. The second category is comprised of overhead and support services, which generally benefit all subsidiaries of Verizon. Such services include corporate governance, corporate finance, external affairs, legal, media relations, employee communications, corporate advertising, human resources, and treasury. Cost may be directly assigned to one subsidiary or allocated to more than one subsidiary based on functional reviews of the work performed.

The Company recognized net interest expense in connection with contractual arrangements with GTE Funding affiliates to provide short-term financing and cash management services to it.

In 2000, the Company transferred certain advanced data assets to an affiliated company, Verizon Ventures III Inc. (Ventures III), in exchange for common stock of Ventures III. This transfer was done to satisfy a condition of the FCC's approval of the Bell Atlantic-GTE merger, which required the provision of advanced data services through a separate affiliate. Throughout 2001, the Company continued to invest in Ventures III through the transfer of additional assets. As a result of the transfers, the Company has an ownership interest in Ventures III, which is accounted for under the equity method of accounting. The Company recorded equity losses associated with its investment in Ventures III of \$1,645,000 in 2001. Its investment in Ventures III was \$0 at December 31, 2001. The Company's ownership interest in Ventures III was 0.21% at December 31, 2001.

Other operating revenues include miscellaneous items of income resulting from transactions with other affiliates of the Company. These transactions include the provision of local and network access services, billing and collection services, rental of facilities and equipment, and sales and purchases of materials and supplies. The Company also earns fees from an affiliate for usage of its directory listings.

The affiliated receivables and payables associated with these transactions have been included in parent funding.

## 8. Regulatory Matters

The Missouri Public Service Commission regulates the Company's intrastate business. The Company is also subject to regulation by the Federal Communications Commission for its interstate business operations.

The Company's Missouri statutory price cap plan started in February 1999. Under the plan, the Company can rebalance rates in the first four years of the plan by increasing local rates by \$1.50 and reducing switched access by an equivalent amount. Toll rates must be reduced by 10% in the first year. Nonbasic service rates may increase 8% annually. Earnings are not regulated.

## 9. Commitments and Contingencies

The Company has noncancelable operating leases covering certain buildings, office space and equipment. The Company's rental expense was \$12,339,000 in 2001. Minimum rental commitments under these noncancelable leases are approximately \$410,000, \$364,000, \$356,000, \$111,000 and \$5,000 for the years 2002 through 2006, respectively, and \$52,000 thereafter.

Various legal actions and regulatory proceedings are pending to which the Company is a party and there are claims which, if asserted, may lead to other legal actions. Management does not expect that the ultimate resolution of pending regulatory and legal matters in future periods will have a material effect on the financial position of the Company or the Exchanges, but could have a material effect on the results of operations.

#### 10. Segment Reporting

The Exchanges do not have separate reportable segments of their own. The Exchanges are part of the Company, which has one reportable segment - the provision of domestic wireline telecommunications services. Specifically, the Company provides local telephone services including voice and data transport, enhanced and custom calling features, network access, directory assistance and private lines. In addition, the Company provides customer premises equipment distribution, billing and collection, and pay telephone services.

#### 11. Financial Instruments

Financial instruments that subject the Company to concentrations of credit risk consist primarily of short-term investments and trade receivables.

Concentrations of credit risk with respect to trade receivables other than those from AT&T Corp. (AT&T) are limited due to the large number of customers. The Company's revenues generated from services provided to AT&T (primarily network access and billing and collection) were 10.6% of total operating revenues for 2001.

While the Company may be exposed to credit losses due to the nonperformance of its counterparties, the Company considers this risk remote and does not expect the settlement of these transactions to have a material effect on its results of operations or financial position.

## Background

On July 1, 2002, an affiliate of CenturyTel, Inc. (the "Company") acquired approximately 300,000 telephone access lines and related property and equipment comprising Verizon's local exchange operations in 90 exchanges in predominantly rural markets throughout Alabama for approximately \$1.020 billion cash. On August 31, 2002, an affiliate of the Company acquired approximately 354,000 telephone access lines and related property and equipment comprising Verizon's local exchange operations in 98 exchanges in predominantly rural markets throughout Missouri for approximately \$1.177 billion cash. The acquired assets include Verizon's assets used to provide digital subscriber line ("DSL") and other high speed data services within the purchased exchanges in both states and an aggregate of approximately 2,800 route miles of fiber optic cable within the purchased exchanges in both states. In addition to the continued provision of traditional local exchange telephone services, the Company intends to provide long distance, Internet access (including DSL access service), and other communications services in certain of the acquired service areas. For a discussion of the Company's financing of these acquisitions, see "- Pro Forma Information" below.

On August 1, 2002, the Company sold substantially all of its wireless operations to an affiliate of ALLTEL Corporation ("Alltel") for approximately \$1.593 billion in cash. In connection with this transaction, the Company divested its (i) interests in its majority-owned and operated cellular systems, which at June 30, 2002 served approximately 783,000 customers and had access to approximately 7.8 million pops (as defined in the Company's most recent 10-K Report), (ii) minority cellular equity interests representing approximately 1.8 million pops at June 30, 2002, and (iii) licenses to provide personal communications services covering 1.3 million pops in Wisconsin and Iowa.

The results of operations of the properties acquired will be included in the Company's consolidated financial statements from and after their respective dates of acquisition. The results of operations of the properties sold will be included in the Company's consolidated financial statements as discontinued operations through August 1, 2002.

## Pro Forma Information

The following unaudited pro forma consolidated condensed balance sheet as of June 30, 2002 and the unaudited pro forma consolidated condensed statements of income for the year ended December 31, 2001 and the six months ended June 30, 2002 are based on the historical consolidated results of operations and financial condition of CenturyTel, Inc. and its subsidiaries, and reflect the Company's wireless operations as discontinued operations. No interest expense was allocated to discontinued operations and corporate overhead costs previously absorbed by the wireless operations are reflected as an expense within continuing operations.

In addition, the unaudited pro forma consolidated condensed balance sheet as of June 30, 2002 and the unaudited pro forma consolidated condensed statements of income for the year ended December 31, 2001 and six months ended June 30, 2002 also reflect (i) the effects of acquiring the Verizon properties for an aggregate of \$2.197 billion cash, (ii) the effects of divesting the Company's wireless operations for cash proceeds that approximated \$1.593 billion pre-tax (which are anticipated to be approximately \$1.268 billion after-tax) and (iii) steps the Company has taken through the date of this Current Report on Form 8-K to finance the Verizon acquisitions, as described further below.

The pro forma financial information reflects that the Company financed the aggregate purchase price for the Verizon assets of \$2.197 billion with (i) \$1.268 billion of after-tax proceeds from the August 1, 2002 sale of its wireless business and (ii) \$929 million of net indebtedness incurred, consisting of (a) all of the \$494 million of net proceeds from the sale of senior notes due 2012 (which bear interest at 7.875%) in August 2002, (b) all of the \$161 million of net proceeds from the third quarter 2002 sale of convertible senior debentures due 2032 (which bear interest at 4.75% and which may be converted into shares of CenturyTel common stock at a conversion price of \$40.455 per share), and (c) \$274 million of a total of \$483.4 million of net proceeds from the sale of equity units (which was reflected entirely as long-term debt upon issuance) in May 2002 (the remaining portion of which was utilized to repay outstanding indebtedness). Because this \$274 million of net proceeds was held as cash as of June 30, 2002, the pro forma adjustments to the June 30, 2002 balance sheet described in note (C) below reflect a \$274 million reduction in cash, as opposed to an increase in long-term debt.

In accordance with Statement of Financial Accounting Standards No. 142, "Accounting for Goodwill and Other Intangible Assets", effective January 1, 2002, goodwill is no longer subject to amortization; therefore, the accompanying 2001 pro forma statement of income does not reflect amortization of the estimated goodwill associated with the acquisition of the Verizon properties.

Pro forma adjustments, and the assumptions on which they are based, are described in the accompanying notes to the unaudited pro forma consolidated condensed financial information. For purposes of the pro forma information, adjustments for estimated transaction costs have been excluded.

The pro forma financial information related to the Verizon acquisitions has been prepared using the purchase method of accounting and is based on the assumptions that the purchase of all of the Verizon properties took place as of June 30, 2002 for purposes of the pro forma balance sheet and as of January 1, 2001 for purposes of the pro forma statements of income. In accordance with the purchase method of accounting, the actual consolidated financial statements of the Company will reflect the Verizon acquisitions only from and after their respective dates of acquisition. The Company has not finalized the allocation of the purchase price related to the Verizon acquisitions. See note (C) for additional information.

The pro forma financial information related to the sale of the wireless operations has been prepared based on the assumptions that the sale of those operations took place as of June 30, 2002 for purposes of the pro forma balance sheet and as of January 1, 2001 for purposes of the pro forma statements of income. The actual consolidated financial statements of the Company will reflect the operations of the wireless properties (as discontinued operations) until August 1, 2002.

The unaudited pro forma consolidated condensed financial data included below does not give effect to any potential revenue enhancements, cost reductions, or other operating efficiencies that could result from the Verizon acquisitions, including, but not limited to (i) offering long distance, Internet access and other communications services to an increased number of customers in the acquired markets or (ii) cost savings that may be associated with operating and administering the acquired properties with the Company's existing personnel and operating assets.

The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if such transactions had been consummated on the dates and in accordance with the assumptions described herein, nor is it necessarily indicative of future operating results or financial position. The historical Verizon financial information reflects the operating and management structure of Verizon and is not necessarily indicative of the results of operations that may be obtained with respect to the acquired properties under the Company's operating and management structure.

You are urged to read the financial information below, along with the Company's publicly available historical consolidated financial statements and accompanying notes and the special purpose financial statements of the Verizon operations acquired appearing elsewhere in this Current Report on Form 8-K.

**CENTURYTEL, INC.**

Pro Forma Consolidated Condensed Statement of Income Year ended December 31, 2001

(Unaudited)

	CenturyTel	Verizon	Pro forma adjustments	Pro forma consolidated
(Dollars in thousands, except per share amounts)				
OPERATING REVENUES				
Telephone	\$ 1,505,733	552,127	-	2,057,860
Other	173,771	-	-	173,771
Total operating revenues	1,679,504	552,127	-	2,231,631
OPERATING EXPENSES				
Cost of sales and operating expenses (exclusive of depreciation and amortization)	826,948	233,108	14,900	1,074,956
Corporate overhead costs allocable to discontinued operations	20,213	-	-	20,213
Depreciation and amortization	407,038	81,498	-	488,536
Total operating expenses	1,254,199	314,606	14,900	1,583,705
OPERATING INCOME	425,305	237,521	(14,900)	647,926
OTHER INCOME AND EXPENSE				
Nonrecurring gains and losses, net	33,043	-	-	33,043
Interest expense	(225,523)	(21,388)	(43,642)	(290,553)
Other income and expense	32	(2,482)	-	(2,450)
Total other income (expense)	(192,448)	(23,870)	(43,642)	(259,960)
Income from continuing operations before income tax expense	232,857	213,651	(58,542)	387,966
Income tax expense	88,711	87,312	(23,417)	152,606
Income from continuing operations	144,146	126,339	(35,125)	235,360
Discontinued operations, net of tax	198,885	-	(198,885)	-
Net income	\$ 343,031	126,339	(234,010)	235,360
=====				
BASIC EARNINGS PER SHARE				
From continuing operations	\$ 1.02			1.67
From continuing operations, as adjusted for goodwill amortization	\$ 1.35			2.00
From discontinued operations	\$ 1.41			-
From discontinued operations, as adjusted for goodwill amortization	\$ 1.48			-
Basic earnings per share	\$ 2.43 (1)			1.67
Basic earnings per share, as adjusted for goodwill amortization	\$ 2.83			2.00
DILUTED EARNINGS PER SHARE				
From continuing operations	\$ 1.01			1.64
From continuing operations, as adjusted for goodwill amortization	\$ 1.34			1.96
From discontinued operations	\$ 1.40			-
From discontinued operations, as adjusted for goodwill amortization	\$ 1.47			-
Diluted earnings per share	\$ 2.41 (1)			1.64
Diluted earnings per share, as adjusted for goodwill amortization	\$ 2.81			1.96
AVERAGE BASIC SHARES OUTSTANDING	140,743			140,743
=====				
AVERAGE DILUTED SHARES OUTSTANDING	142,307			146,386
=====				

(1) CenturyTel's basic earnings per share and diluted earnings per share for the year ended December 31, 2001 were \$1.72 and \$1.70, after eliminating the effect of nonrecurring net gains associated with our wireless operations.

See accompanying notes to unaudited pro forma consolidated condensed financial information.



# CENTURYTEL, INC.

## Pro Forma Consolidated Condensed Statement of Income Six months ended June 30, 2002

(Unaudited)

	CenturyTel	Verizon	Pro forma adjustments	Pro forma consolidated
	(Dollars in thousands, except per share amounts)			
OPERATING REVENUES				
Telephone	\$ 753,230	266,314	-	1,019,544
Other	108,390	-	-	108,390
Total operating revenues	861,620	266,314	-	1,127,934
OPERATING EXPENSES				
Cost of sales and operating expenses (exclusive of depreciation and amortization)	436,877	106,791	6,756	550,424
Corporate overhead costs allocable to discontinued operations	9,932	-	-	9,932
Depreciation and amortization	186,231	42,259	-	228,490
Total operating expenses	633,040	149,050	6,756	788,846
OPERATING INCOME	228,580	117,264	(6,756)	339,088
OTHER INCOME AND EXPENSE				
Interest expense	(104,805)	(8,400)	(21,549)	(134,754)
Nonrecurring gains and losses	3,709	-	-	3,709
Other income and expense	217	37	-	254
Total other income (expense)	(100,879)	(8,363)	(21,549)	(130,791)
Income from continuing operations before income tax expense	127,701	108,901	(28,305)	208,297
Income tax expense	44,636	42,320	(11,322)	75,634
Income from continuing operations	83,065	66,581	(16,983)	132,663
Discontinued operations, net of tax	66,465	-	(66,465)	-
Net income	\$ 149,530	66,581	(83,448)	132,663
BASIC EARNINGS PER SHARE				
From continuing operations	\$ .59			.94
From discontinued operations	\$ .47			-
Basic earnings per share	\$ 1.06			.94
DILUTED EARNINGS PER SHARE				
From continuing operations	\$ .58			.92
From discontinued operations	\$ .47			-
Diluted earnings per share	\$ 1.05			.92
AVERAGE BASIC SHARES OUTSTANDING	141,136			141,136
AVERAGE DILUTED SHARES OUTSTANDING	142,679			146,758

See accompanying notes to unaudited pro forma consolidated condensed financial information.

**CENTURYTEL, INC.**

Pro Forma Consolidated Condensed Balance Sheet June 30, 2002

(Unaudited)

	CenturyTel	Verizon	Pro forma adjustments	Pro forma consolidated
(Dollars in thousands)				
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 302,070	-	(274,000)	28,070
Accounts receivable	174,837	78,879	-	253,716
Materials and supplies	9,848	1,607	-	11,455
Other	9,063	12,630	-	21,693
Total current assets	495,818	93,116	(274,000)	314,934
NET PROPERTY, PLANT AND EQUIPMENT	2,725,096	639,686	-	3,364,782
INVESTMENTS AND OTHER ASSETS				
Goodwill	2,115,313	-	1,533,673	3,648,986
Other	439,555	136,538	(120,821)	455,272
Total investments and other assets	2,554,868	136,538	1,412,852	4,104,258
ASSETS HELD FOR SALE	861,526	-	(861,526)	-
TOTAL ASSETS	\$ 6,637,308	869,340	277,326	7,783,974
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Short-term debt and current maturities of long-term debt	\$ 432,397	-	-	432,397
Accounts payable	81,087	4,380	(4,380)	81,087
Accrued expenses and other liabilities	152,876	49,521	(49,521)	152,876
Advance billing and customer deposits	30,194	12,412	-	42,606
Total current liabilities	696,554	66,313	(53,901)	708,966
LONG-TERM DEBT	2,750,188	-	655,000	3,405,188
DEFERRED CREDITS AND OTHER LIABILITIES	560,797	72,780	-	633,577
LIABILITIES RELATED TO ASSETS HELD FOR SALE	171,680	-	(171,680)	-
PARENT FUNDING	-	730,247	(730,247)	-
STOCKHOLDERS' EQUITY				
Common stock	141,661	-	-	141,661
Paid-in capital	509,939	-	-	509,939
Retained earnings	1,800,514	-	578,154	2,378,668
Unearned ESOP shares	(2,000)	-	-	(2,000)
Preferred stock - non-redeemable	7,975	-	-	7,975
Total stockholders' equity	2,458,089	-	578,154	3,036,243
TOTAL LIABILITIES AND EQUITY	\$ 6,637,308	869,340	277,326	7,783,974

See accompanying notes to unaudited pro forma consolidated condensed financial information.

## **Notes to Unaudited Pro Forma Consolidated Condensed Financial Information**

### **(A) Purchase of Verizon assets.**

**Costs of acquisition.** The total cash purchase price of the Verizon assets was \$2.197 billion.

**Operations.** As explained further above, the pro forma adjustments do not consider the effect of possible revenue enhancements, cost reductions or other operating efficiencies that may occur in connection with combining the operations of the acquired properties with the Company's operations.

### **(B) Sale of Wireless Operations.**

**Presentation of wireless operations.** The wireless operations have been reflected as discontinued operations on the Company's statements of income and the assets and liabilities of the wireless operations have been reflected as held for sale on the Company's balance sheet.

**Proceeds from disposition.** The after-tax proceeds from the sale of the wireless operations has been assumed to be \$1.268 billion.

### **(C) June 30, 2002 Balance Sheet Pro Forma Adjustments.**

The pro forma adjustments applicable to the acquisition of the Verizon properties with respect to the unaudited pro forma consolidated condensed balance sheet as of June 30, 2002, as set forth below, reflect preliminary allocations of the aggregate purchase price to the acquired properties. Such preliminary allocations include the assumption that the fair value of property, plant and equipment will approximate the carrying value on the date of acquisition. The preliminary estimates of the fair value of the noncurrent assets and liabilities are subject to change upon completion of our valuation analysis.

The Company anticipates assigning a portion of the purchase price to identifiable intangible assets (including customer base) in accordance with Statement of Financial Accounting Standards No. 141 and amortizing such asset over its useful life. However, the Company is still in the relatively early stages of the valuation process. Thus, an estimate to allocate a portion of the purchase price to identifiable intangibles, the amortization of which will reduce net income, has not been included in the accompanying pro forma information. The Company believes the impact of the amortization of such identifiable intangible assets will not be material to its results of operations.

To the extent that final allocations of the purchase price cause our annual depreciation and amortization expense to differ from that presented in the accompanying pro forma information, annual earnings per share will be effected by \$.01 per share for every \$2.4 million difference in annual depreciation and amortization expense. Thus, for example, if the Company ultimately allocates an additional \$95.7 million of the aggregate purchase price to property, plant and equipment (representing a 15% increase in the amount that was preliminarily allocated to such assets), the annual depreciation and amortization expense would increase by approximately \$9.6 million (assuming a composite depreciation rate of 10%) and the annual earnings per share would decrease by approximately \$.04 per share from the amounts presented in the pro forma information.

As explained further above under "Introduction - Pro Forma Information," the pro forma financial information has been prepared (based on the June 30, 2002 Consolidated Balance Sheet) assuming that the aggregate purchase price of \$2.197 billion was financed on a long-term basis with (i) \$1.268 billion of after-tax proceeds from the August 1, 2002 sale of the Company's wireless business and (ii) \$929 million of net indebtedness incurred, consisting of (a) all of the \$494 million of net proceeds from the sale of senior notes in August 2002, (b) all of the \$161 million of net proceeds from the sale of convertible senior debentures in third quarter 2002, and (c) \$274 million of a total of \$483.4 million of net proceeds from the sale of equity units in May 2002 (the remaining portion of which was utilized to repay outstanding indebtedness). Because this \$274 million of net proceeds was held as cash as of June 30, 2002, the pro forma adjustments appearing in the table below reflect a \$274 million reduction in cash, as opposed to an increase in long-term debt. There is no adjustment to reduce long-term debt as a result of the discontinued operations because the Company has no outstanding indebtedness directly related to its wireless operations.

## June 30, 2002 Balance Sheet Pro Forma Adjustments

	Cash and cash equivalents	Goodwill	Investments and other assets	(Assets) liabilities held for sale	Accounts payable	Accrued expenses and other liabilities	Long- term debt	Parent funding	Retained earnings
	(Dollars in thousands)								
(1) (a) \$ 1,923,000							1,923,000		
(b) (2,197,000)	2,197,000								
(2)		(730,247)						(730,247)	
(3)		120,821	(120,821)						
(4)		(53,901)			(4,380)	(49,521)			
(5) (a) 1,593,000				(861,526)					903,154
(b) (325,000)				171,680					(325,000)
(c) (1,268,000)							(1,268,000)		
	\$ (274,000)	1,533,673	(120,821)	(689,846)	(4,380)	(49,521)	655,000	(730,247)	578,154

(1) Reflects (a) \$1.923 billion of net proceeds raised in the third quarter of 2002 from the sale of assets and debt securities in the manner discussed herein and (b) delivery of \$2.197 billion to purchase the assets from Verizon.

(2) Reflects the elimination of Verizon's parent debt and equity funding.

(3) Reflects the elimination of Verizon's excess pension assets. Verizon will retain these assets, together with all income generated by such assets. Verizon's historical financial statements reflect such assets and income.

(4) Reflects the elimination of Verizon's accounts payable and accrued expenses and other liabilities. These liabilities will be retained by Verizon.

(5) Reflects (a) gross proceeds received from the sale of the Company's wireless operations of \$1.593 billion, elimination of assets and liabilities held for sale and pre-tax gain from the sale of wireless interests, (b) taxes paid related to the gain on sale of wireless operations of \$325 million and (c) a \$1.268 billion reduction in the amount of debt that would otherwise be incurred absent the divestiture.

## (D) December 31, 2001 Income Statement Pro Forma Adjustments.

Set forth below are the pro forma adjustments applicable to the acquisition of the Verizon assets and to the divestiture of the wireless operations with respect to the unaudited pro forma consolidated condensed statement of income for the year ended December 31, 2001. These adjustments have been prepared assuming the weighted average interest rate of the \$929 million net indebtedness incurred (\$2.197 billion cash purchase price of the Verizon assets less after-tax proceeds from the sale of the wireless operations of \$1.268 billion) was 7.0%. This assumed 7.0% rate is based on the actual interest rates accruing on the debt securities issued by the Company in the second and third quarter of 2002, adjusted for the rates on borrowings under revolving credit facilities utilized for interim financing of the Verizon acquisitions.

## December 31, 2001 Income Statement Pro Forma Adjustments

	Cost of Sales and Operating Expenses	Interest expense	Income tax expense	Discontinued operations, net of tax
	(Dollars in thousands)			
Interest on net borrowings of \$929 million at an assumed rate of 7.0% (1)	\$	65,030		
Eliminate Verizon interest expense on parent funding (2)		(21,388)		
Eliminate pension credit related to excess pension assets which will remain with Verizon (3)	14,900			
Tax benefit relating to pro forma adjustments (assuming a 40% tax rate)			(23,417)	
Eliminate discontinued operations of wireless business				(198,885)

	\$	14,900	43,642	(23,417)	(198,885)
=====					

- (1) See footnote (C). Use of an assumed rate .125% higher or lower than 7.0% on net borrowings would have changed net income by approximately \$697,000.
- (2) See footnote (C), adjustment number (2).
- (3) See footnote (C), adjustment number (3).

(E) June 30, 2002 Income Statement Pro Forma Adjustments.

Set forth below are the pro forma adjustments applicable to the acquisition of the Verizon assets and to the divestiture of the wireless operations with respect to the unaudited pro forma consolidated condensed statement of income for the six months ended June 30, 2002. These adjustments have been prepared assuming the weighted average interest rate of the \$929 million net indebtedness incurred (\$2.197 billion cash purchase price of the Verizon assets less after-tax proceeds from the sale of the wireless operations of \$1.268 billion) was 7.0%. For further information on this assumed 7.0% rate, see footnote (D).

June 30, 2002 Income Statement Pro Forma Adjustments

	Cost of Sales and Operating Expenses	Interest expense	Income tax expense	Discontinued operations, net of tax
(Dollars in thousands)				
Interest on net borrowings of \$912 million at an assumed rate of 7.0% (1)	\$	32,515		
Interest expense incurred for the six months ended June 30, 2002 related to May 2002 debt issuance (2)		(2,566)		
Eliminate Verizon interest expense on parent funding (3)		(8,400)		
Eliminate pension credit related to excess pension assets which will remain with Verizon (4)	6,756			
Tax benefit relating to pro forma adjustments (assuming a 40% tax rate)			(11,322)	
Eliminate discontinued operations of wireless business				(66,465)
	\$ 6,756	21,549	(11,322)	(66,465)

(1) See footnote (C). Use of an assumed rate .125% higher or lower than 7.0% on net borrowings would have changed net income by approximately \$348,000.

(2) Because the \$32.5 million interest expense adjustment in the chart above reflects interest incurred on the Company's debt securities issued in May 2002, this entry is necessary to avoid double-counting the interest payable on such securities. The \$2.6 million adjustment amount represents the actual net interest expense incurred for the six months ended June 30, 2002 related to the issuance of \$500 million equity units in May 2002, net of a reduction in interest expense as a result of repaying part of the Company's revolving credit facility indebtedness using proceeds from the equity unit issuance.

(3) See footnote (C), adjustment number (2).

(4) See footnote (C), adjustment number (3).

(F) Convertible Debentures

In connection with the long-term financing of the Verizon acquisitions, the Company issued \$165 million of 4.75% convertible senior debentures in the third quarter of 2002. The debentures are convertible into the Company's common stock at a conversion price of \$40.455 per share upon the occurrence of certain events. The calculation of pro forma diluted earnings per share assumes the conversion of the convertible debentures. Average diluted shares outstanding have been increased by 4.079 million shares on the accompanying pro forma statements of income to reflect the assumed conversion of the debentures. Interest expense (net of tax) related to the debentures has been added back to net income in the amounts of \$4,703,000 and \$2,351,000 for the year ended December 31, 2001 and the six months ended June 30, 2002, respectively, in calculating diluted earnings per share.

(G) Reclassifications.

Certain reclassifications have been made to the historical financial information to conform to the presentation of the condensed pro forma information.

(H) Verizon Historical Results.

All amounts reflected above under the headings "Verizon" are based on special purpose financial statements of the Verizon acquired operations

appearing elsewhere in this report. In connection with the preparation of these special purpose financial statements, Verizon made numerous assumptions and allocations where specific data was not available pertaining to the acquired assets. Because of the significant amount of allocations and estimates used to prepare these special purpose financial statements and because the Company will operate these assets under a different operating and management structure, they may not reflect the financial position and results of operations of the acquired properties after such properties are acquired by the Company.

### **FORWARD-LOOKING STATEMENTS**

In addition to historical information, this Current Report on Form 8-K includes certain forward-looking statements and estimates 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 Company's ability to effectively integrate new businesses into its operations; possible changes in the demand for, or pricing of, the Company's products and services; the Company's ability to successfully introduce new offerings on a timely and cost-effective basis; and the effects of more general factors such as changes in overall market or economic conditions, in prevailing interest rates 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 Annual Report on Form 10-K for the year ended December 31, 2001. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

### **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.**

*Dated:     October 8, 2002*

*By: /s/ Neil A. Sweasy*

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*Neil A. Sweasy*

*Vice President and Controller*

## EXHIBIT 99.1

### **FOR IMMEDIATE RELEASE: FOR MORE INFORMATION CONTACT:**

September 3, 2002 Media: Annmarie Sartor 318.388.9671 annmarie.sartor@centurytel.com Investors: Tony Davis 318.388.9525 tony.davis@centurytel.com

#### CenturyTel Completes Purchase of Verizon's Missouri Local Exchange Telephone Business

MONROE, La. . . . CenturyTel (NYSE symbol: CTL) completed the acquisition of approximately 354,000 telephone access lines in Missouri from Verizon Saturday, August 31.

CenturyTel agreed Oct. 22, 2001, to pay Verizon nearly \$2.16 billion in cash for its local telephone access lines in Alabama and Missouri. Together, these purchases comprise the largest acquisition in CenturyTel's history.

With the completion of this acquisition, CenturyTel serves more than 485,000 telephone access lines in Missouri. CenturyTel completed the purchase of approximately 300,000 access lines in Alabama from Verizon on July 1.

"The Alabama and Missouri transactions further solidify CenturyTel's position as a leading pure-play rural local exchange carrier," said Glen F. Post, III, chairman and CEO of CenturyTel. "These acquisitions also advance CenturyTel's strategy to cluster our markets geographically to achieve operational and network efficiencies."

CenturyTel, Inc. provides communications services including local exchange, long distance, Internet access and data services to more than three million customers in 22 states. The company, headquartered in Monroe, Louisiana, is publicly traded on the New York Stock Exchange under the symbol CTL. CenturyTel is the 8th largest local exchange telephone company, based on access lines, in the United States. Visit CenturyTel's corporate Web site at ([www.centurytel.com](http://www.centurytel.com))

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