

CENTURYTEL INC

FORM 10-Q (Quarterly Report)

Filed 11/9/2005 For Period Ending 9/30/2005

Address	P O BOX 4065 100 CENTURYTEL DR MONROE, Louisiana 71203
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CIK	0000018926
Industry	Communications Services
Sector	Services
Fiscal Year	12/31

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

or

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

Commission File Number: 1-7784

CenturyTel, Inc.

(Exact name of registrant as specified in its charter)

Louisiana
(State or other jurisdiction of
incorporation or organization)

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act)

☒ Yes ☐ No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

☐ Yes ☒ No

As of October 31, 2005, there were 130,993,497 shares of common stock outstanding.

CenturyTel, Inc.

TABLE OF CONTENTS

	Page No. -----
Part I. Financial Information:	
Item 1. Financial Statements	
Consolidated Statements of Income--Three Months and Nine Months Ended September 30, 2005 and 2004	3
Consolidated Statements of Comprehensive Income--Three Months and Nine Months Ended September 30, 2005 and 2004	4
Consolidated Balance Sheets--September 30, 2005 and December 31, 2004	5
Consolidated Statements of Cash Flows--Nine Months Ended September 30, 2005 and 2004	6
Consolidated Statements of Stockholders' Equity--Nine Months Ended September 30, 2005 and 2004	7
Notes to Consolidated Financial Statements	8-13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13-22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	22-23
Item 4. Controls and Procedures	24
Part II. Other Information:	
Item 1. Legal Proceedings	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 6. Exhibits and Reports on Form 8-K	25-26
Signature	27

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CenturyTel, Inc. CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(Dollars, except per share amounts, and shares in thousands)				
OPERATING REVENUES	\$ 657,085	603,879	1,858,780	1,801,138
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	222,724	191,000	609,590	562,775
Selling, general and administrative	99,593	108,153	289,053	302,426
Depreciation and amortization	133,526	113,857	396,153	371,600
Total operating expenses	455,843	413,010	1,294,796	1,236,801
OPERATING INCOME	201,242	190,869	563,984	564,337
OTHER INCOME (EXPENSE)				
Interest expense	(49,904)	(52,174)	(152,176)	(157,806)
Income from unconsolidated cellular entity	1,270	1,929	3,307	6,114
Other income (expense)	(4,214)	(822)	(1,459)	(2,329)
Total other income (expense)	(52,848)	(51,067)	(150,328)	(154,021)
INCOME BEFORE INCOME TAX EXPENSE	148,394	139,802	413,656	410,316
Income tax expense	56,983	53,610	157,511	157,561
NET INCOME	\$ 91,411	86,192	256,145	252,755
BASIC EARNINGS PER SHARE	\$.70	.64	1.95	1.82
DILUTED EARNINGS PER SHARE	\$.68	.63	1.91	1.79
DIVIDENDS PER COMMON SHARE	\$.06	.0575	.18	.1725
AVERAGE BASIC SHARES OUTSTANDING	130,150	134,885	130,877	138,512
AVERAGE DILUTED SHARES OUTSTANDING	135,916	139,816	136,143	143,403

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(Dollars in thousands)				
NET INCOME	\$ 91,411	86,192	256,145	252,755
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Minimum pension liability adjustment, net of (\$175), (\$208), (\$99) and \$1,008 tax	281	387	159	(1,871)
Unrealized gain (loss) on investments, net of (\$283), \$602, (\$405) and (\$341) tax	453	(1,117)	649	634
Derivative instruments:				
Net gain (loss) on derivatives hedging the variability of cash flows, net of \$2,606 tax	-	-	(4,181)	-
Reclassification adjustment for losses included in net income, net of (\$59) and (\$144) tax	94	-	231	-
COMPREHENSIVE INCOME	\$ 92,239	85,462	253,003	251,518

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UnAUDITED)

	September 30, 2005	December 31, 2004
	(Dollars in thousands)	
ASSETS		

CURRENT ASSETS		
Cash and cash equivalents	\$ 268,501	167,215
Accounts receivable, less allowance of \$22,613 and \$21,187	239,046	232,580
Materials and supplies, at average cost	5,903	5,361
Other	14,901	14,691

Total current assets	528,351	419,847

NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	7,699,418	7,431,017
Accumulated depreciation	(4,400,303)	(4,089,616)

Net property, plant and equipment	3,299,115	3,341,401

GOODWILL AND OTHER ASSETS		
Goodwill	3,432,623	3,433,864
Other	582,447	601,841

Total goodwill and other assets	4,015,070	4,035,705

TOTAL ASSETS	\$ 7,842,536	7,796,953
=====		
LIABILITIES AND EQUITY		

CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 334,576	249,617
Accounts payable	108,391	141,618
Accrued expenses and other liabilities		
Salaries and benefits	54,335	60,858
Income taxes	106,862	54,648
Other taxes	71,271	47,763
Interest	55,579	67,379
Other	21,719	18,875
Advance billings and customer deposits	54,834	50,860

Total current liabilities	807,567	691,618

LONG-TERM DEBT	2,500,270	2,762,019

DEFERRED CREDITS AND OTHER LIABILITIES	979,264	933,551

STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 350,000,000 shares, issued and outstanding 130,976,904 and 132,373,912 shares	130,977	132,374
Paid-in capital	140,303	222,205
Accumulated other comprehensive loss, net of tax	(11,476)	(8,334)
Retained earnings	3,287,781	3,055,545
Preferred stock - non-redeemable	7,850	7,975

Total stockholders' equity	3,555,435	3,409,765

TOTAL LIABILITIES AND EQUITY	\$ 7,842,536	7,796,953
=====		

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2005	2004
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 256,145	252,755
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	396,153	371,600
Income from unconsolidated cellular entity	(3,307)	(6,114)
Deferred income taxes	33,418	75,408
Changes in current assets and current liabilities:		
Accounts receivable	(2,267)	(7,248)
Accounts payable	(33,227)	31,742
Accrued income and other taxes	75,722	25,181
Other current assets and other current liabilities, net	(10,861)	(3,783)
Retirement benefits	13,989	23,000
Increase in other noncurrent assets	(4,207)	(26,555)
Increase (decrease) in other noncurrent liabilities	2,496	(4,696)
Other, net	9,315	4,504
Net cash provided by operating activities	733,369	735,794
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(281,958)	(253,597)
Acquisitions, net of cash acquired	(75,424)	(2,000)
Investment in debt security	-	(25,000)
Distributions from unconsolidated cellular entity	2,339	6,259
Other, net	2,931	(6,368)
Net cash used in investing activities	(352,112)	(280,706)
FINANCING ACTIVITIES		
Payments of debt	(516,093)	(168,411)
Net proceeds from issuance of debt	344,173	-
Proceeds from issuance of common stock	47,486	18,186
Repurchase of common stock	(530,700)	(318,381)
Settlement of equity units	398,164	-
Cash dividends	(23,909)	(24,159)
Other, net	908	3,471
Net cash used in financing activities	(279,971)	(489,294)
Net increase (decrease) in cash and cash equivalents	101,286	(34,206)
Cash and cash equivalents at beginning of period	167,215	203,181
Cash and cash equivalents at end of period	\$ 268,501	168,975
Supplemental cash flow information:		
Income taxes paid	\$ 88,951	95,836
Interest paid (net of capitalized interest of \$2,066 and \$490)	\$ 161,910	168,297

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2005	2004
	(Dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	\$ 132,374	144,364
Issuance of common stock through dividend reinvestment, incentive and benefit plans	2,124	976
Issuance of common stock upon settlement of equity units	12,881	-
Conversion of preferred stock into common stock	7	-
Repurchase of common stock	(16,409)	(10,893)
Balance at end of period	130,977	134,447
PAID-IN CAPITAL		
Balance at beginning of period	222,205	576,515
Issuance of common stock through dividend reinvestment, incentive and benefit plans	45,362	17,210
Issuance of common stock upon settlement of equity units	385,283	-
Conversion of preferred stock into common stock	118	-
Repurchase of common stock	(514,291)	(307,488)
Amortization of unearned compensation and other	1,626	1,565
Balance at end of period	140,303	287,802
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance at beginning of period	(8,334)	-
Change in other comprehensive loss, net of tax	(3,142)	(1,237)
Balance at end of period	(11,476)	(1,237)
RETAINED EARNINGS		
Balance at beginning of period	3,055,545	2,750,162
Net income	256,145	252,755
Cash dividends declared		
Common stock - \$.18 and \$.1725 per share, respectively	(23,611)	(23,860)
Preferred stock	(298)	(299)
Balance at end of period	3,287,781	2,978,758
UNEARNED ESOP SHARES		
Balance at beginning of period	-	(500)
Release of ESOP shares	-	500
Balance at end of period	-	-
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning of period	7,975	7,975
Conversion of preferred stock into common stock	(125)	-
Balance at end of period	7,850	7,975
TOTAL STOCKHOLDERS' EQUITY	\$ 3,555,435	3,407,745

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2005

(UNAUDITED)

(1) Basis of Financial Reporting

The consolidated financial statements of CenturyTel, Inc. and its subsidiaries (the "Company") include the accounts of CenturyTel, Inc. ("CenturyTel") and its majority-owned subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, in the opinion of management, the disclosures made are adequate to make the information presented not misleading. The consolidated financial statements and footnotes included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2004.

The financial information for the three months and nine months ended September 30, 2005 and 2004 has not been audited by independent certified public accountants; however, in the opinion of management, all adjustments necessary to present fairly the results of operations for the three-month and nine-month periods have been included therein. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

(2) Goodwill and Other Intangible Assets

The following information relates to the Company's goodwill and other intangible assets as of September 30, 2005 and December 31, 2004:

	Sept. 30, 2005	Dec. 31, 2004

	(Dollars in thousands)	
Goodwill	\$ 3,432,623	3,433,864

Intangible assets subject to amortization		
Customer base		
Gross carrying amount	\$ 28,214	22,700
Accumulated amortization	(5,065)	(3,756)

Net carrying amount	\$ 23,149	18,944
=====		
Contract rights		
Gross carrying amount	\$ 4,187	4,187
Accumulated amortization	(1,512)	(465)

Net carrying amount	\$ 2,675	3,722
=====		
Intangible assets not subject to amortization	\$ 38,402	35,300

As of September 30, 2005, the Company completed the annual impairment test of goodwill required under Statement of Financial Accounting Standards No. 142 and has determined that its goodwill is not impaired.

The increase in customer base and intangible assets not subject to amortization is due to the Company's acquisition of metro fiber assets on June 30, 2005. See Note 7 for additional information.

Total amortization expense related to the intangible assets subject to amortization for the first nine months of 2005 was \$2.4 million and is expected to be \$3.6 million in 2006, \$3.1 million in 2007 and \$2.2 million annually thereafter through 2009.

(3) Postretirement Benefits

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

Net periodic postretirement benefit cost for the three months and nine months ended September 30, 2005 and 2004 included the following components:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Service cost	\$ 1,572	1,316	4,717	4,624
Interest cost	4,180	3,639	12,539	12,783
Expected return on plan assets	(610)	(616)	(1,830)	(1,848)
Amortization of unrecognized actuarial loss	729	1,123	2,187	3,369
Amortization of unrecognized prior service cost	(469)	(938)	(1,407)	(2,814)
Net periodic postretirement benefit cost	\$ 5,402	4,524	16,206	16,114

The Company contributed \$13 million to its postretirement health care plan in the first nine months of 2005, and does not expect to contribute any additional amounts during the remainder of 2005.

(4) Retirement Plans

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

Net periodic pension expense for the three months and nine months ended September 30, 2005 and 2004 included the following components:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Service cost	\$ 3,833	3,702	11,512	11,872
Interest cost	5,992	5,800	18,004	18,995
Expected return on plan assets	(7,306)	(7,076)	(21,919)	(21,228)
Settlements	-	-	-	1,093
Recognized net losses	1,560	1,472	4,693	5,438
Net amortization and deferral	81	61	248	481
Net periodic pension expense	\$ 4,160	3,959	12,538	16,651

Through September 30, 2005, no contributions have been made to the Company's pension plans. The Company's minimum required contribution to its pension plans for 2005 is \$8.5 million.

(5) Long-term Debt

In May 2002, the Company issued and sold in an underwritten public offering \$500 million of equity units, each of which were priced at \$25 and consisted initially of a beneficial interest in a CenturyTel senior unsecured note (Series J, due 2007 and remarketable in 2005) with a principal amount of \$25 and a contract to purchase shares of CenturyTel common stock no later than May 2005. Each purchase contract generally required the holder to purchase between .6944 and .8741 of a share of CenturyTel common stock on May 16, 2005 in exchange for \$25, subject to certain adjustments and exceptions.

In February 2005, the Company remarketed substantially all of its \$500 million of outstanding Series J senior notes due 2007 (the notes described above), at an interest rate of 4.628%. The Company received no proceeds in connection with the remarketing as all net proceeds were placed into a trust to secure the equity unit holders' obligation to purchase common stock from the Company on May 16, 2005. In connection with the remarketing, the Company purchased and retired approximately \$400 million of the notes, resulting in approximately \$100 million remaining outstanding. The Company incurred a pre-tax charge of approximately \$6 million in the first quarter of 2005 related to purchasing and retiring the notes. Proceeds to purchase such notes came from the February 2005 issuance of \$350 million of 5% senior notes, Series M, due 2015 and cash on hand.

Between April 15, 2005 and May 4, 2005, the Company repurchased and cancelled an aggregate of approximately 4.1 million of its equity units in privately-negotiated transactions with six institutional holders at an average price of \$25.18 per unit. The remaining 15.9 million equity units outstanding on May 16, 2005 were settled in stock in accordance with the terms and conditions of the purchase contract that formed a part of such unit. Accordingly, on May 16, 2005, the Company received proceeds of approximately \$398.2 million and issued approximately 12.9 million common shares in the aggregate. See Note 6 for information on the Company's accelerated share repurchase program designed to mitigate the dilutive impact of issuing these 12.9 million shares.

(6) Accelerated Share Repurchase Program

In late May 2005, the Company entered into accelerated share repurchase agreements with three investment banks whereby the Company repurchased and retired approximately 12.9 million shares of its common stock for an aggregate of \$416.5 million (or an initial average price of \$32.34 per share). Such purchase was funded using the proceeds received from the settlement of the equity units mentioned in Note 5 and from cash on hand. As part of the accelerated share repurchase transaction, the Company simultaneously entered into forward contracts with the investment banks whereby the investment banks are expected to purchase an aggregate of 12.9 million shares of the Company's common stock during the term of the contracts. At the end of the repurchase period, the Company will, at its option, either issue shares of its common stock or pay cash to each investment bank if the investment bank's weighted average purchase price during the repurchase period is higher than the initial purchase price. If the investment bank's weighted average purchase price is lower than the initial purchase price, the investment bank will pay the Company either in shares of CenturyTel common stock or cash (at the Company's option).

Pursuant to Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock", the Company believes that the forward contract described above qualifies for equity classification and, accordingly, the fair value of the forward contract (which was zero at inception) was recorded in equity. Subsequent changes in the fair value of the forward contract have not and will not be recorded until settlement of the contract (but will be reflected in the calculation of diluted earnings per share, as indicated immediately below). The Company expects to settle the contract by year end 2005, at which time the settlement amount will be recorded as an adjustment to equity.

In connection with calculating its diluted earnings per share, the Company assumed the accelerated share repurchase market price adjustment will be settled through the Company's issuance of additional shares of common stock. Accordingly, the estimated shares issuable based on the fair value of the forward contract at September 30, 2005 was included in the weighted average shares outstanding for the computation of diluted earnings per share for the periods ended September 30, 2005.

(7) Acquisition

On June 30, 2005, the Company acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. for approximately \$75.4 million (which includes final post-closing adjustments). The assets acquired and liabilities assumed have been reflected in the Company's consolidated balance sheet as of September 30, 2005 based on a purchase price allocation determined by independent third parties. The vast majority of the purchase price was allocated to property, plant and equipment. The results of operations related to these purchased properties are reflected in the Company's consolidated results of operations beginning in the third quarter of 2005.

(8) Stock-based Compensation

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

If compensation cost for CenturyTel's options had been recognized in accordance with SFAS 123, the Company's net income and earnings per share on a pro forma basis for the three months and nine months ended September 30, 2005 and 2004 would have been as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(Dollars in thousands, except per share amounts)				
Net income, as reported	\$ 91,411	86,192	256,145	252,755
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax	\$ (1,740)	(2,090)	(7,643)	(7,717)
Pro forma net income	\$ 89,671	84,102	248,502	245,038
=====				
Basic earnings per share				
As reported	\$.70	.64	1.95	1.82
Pro forma	\$.69	.62	1.90	1.77
Diluted earnings per share				

As reported	\$.68	.63	1.91	1.79
Pro forma	\$.67	.61	1.85	1.73

See Note 10 for information concerning the requirement to recognize the fair value of stock options as an expense in future financial statements of the Company.

(9) Business Segments

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(Dollars in thousands)			
Local service	\$ 176,069	179,793	530,319	537,993
Network access	257,586	237,522	727,268	723,994
Long distance	49,788	49,743	141,746	140,059
Data	88,911	69,570	237,866	203,367
Fiber transport and CLEC	36,361	19,113	78,240	54,866
Other	48,370	48,138	143,341	140,859
Total operating revenues	\$ 657,085	603,879	1,858,780	1,801,138

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

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

Long distance revenues relate to the provision of retail long distance services to the Company's customers.

Data revenues include revenues primarily related to the provision of Internet access services (both dial-up and digital subscriber line ("DSL") services), special circuits and local private lines.

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

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

(10) Accounting Pronouncements

The Company has elected to account for employee stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, focusing primarily on accounting for transactions in which an entity obtains employee services in exchange for the issuance of stock options. SFAS 123(R) requires the Company to measure the cost of the employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. Under SFAS 123(R), such cost must be recognized as an expense over the period during which the employee is required to provide service in exchange for the award. Pursuant to an April 2005 ruling from the Securities and Exchange Commission, SFAS 123(R) will initially apply to the Company beginning in the first quarter of 2006. In accordance with SFAS 123(R), compensation cost will also be recognized over the applicable remaining vesting period for any awards that are not fully vested as of January 1, 2006.

On March 31, 2005, the Financial Accounting Standards Board issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" ("FIN 47"), an interpretation of SFAS No. 143, "Accounting for Asset Retirement Obligations". FIN 47 clarifies that the recognition and measurement provisions of SFAS No. 143 apply to asset retirement obligations in which the timing or method of settlement

may be conditional on a future event that may or may not be within control of the entity. FIN 47 is effective for fiscal years ending after December 15, 2005. The Company is currently assessing the impact of adopting FIN 47 to its consolidated results of operations.

(11) Commitments and Contingencies

The Telecommunications Act of 1996 allows local exchange carriers to file access tariffs on a streamlined basis and, if certain criteria are met, deems those tariffs lawful. Tariffs that have been "deemed lawful" in effect nullify an interexchange carrier's ability to seek refunds should the earnings from the tariffs ultimately result in earnings above the authorized rate of return prescribed by the FCC. Certain of the Company's telephone subsidiaries file interstate tariffs directly with the FCC using this streamlined filing approach. For those tariffs that have not yet been "deemed lawful", the Company initially records as a liability its earnings in excess of the authorized rate of return, and may thereafter recognize as revenue some or all of these amounts at the end of the settlement period or as its legal entitlement thereto becomes more certain. The Company recorded approximately \$35.9 million as revenue in the third quarter of 2005 as the settlement period related to the 2001/2002 monitoring period lapsed on September 30, 2005. The amount of the Company's earnings in excess of the authorized rate of return reflected as a liability on the balance sheet as of September 30, 2005 for the 2003/2004 monitoring period aggregated approximately \$32.9 million. The settlement period related to the 2003/2004 monitoring period lapses on September 30, 2007. The Company will continue to monitor the legal status of any proceedings that could impact its entitlement to these funds.

The Company is involved in certain legal proceedings discussed in Part I, Item 3, of the Company's Annual Report on Form 10-K for the year ended December 31, 2004. From time to time, the Company is involved in other proceedings incidental to its business, including administrative hearings of state public utility commissions relating primarily to rate making, actions relating to employee claims, occasional grievance hearings before labor regulatory agencies, and miscellaneous third party tort actions. The outcome of these other proceedings is not predictable. However, the Company believes that the ultimate resolution of these other proceedings, after considering available insurance coverage, will not have a material adverse effect on its financial position, results of operations or cash flows.

Item 2. CenturyTel, Inc.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in the Company's annual report on Form 10-K for the year ended December 31, 2004. The results of operations for the three months and nine months ended September 30, 2005 are not necessarily indicative of the results of operations which might be expected for the entire year.

CenturyTel, Inc. and its subsidiaries (the "Company") is an integrated communications company engaged primarily in providing local exchange, long distance, Internet access and broadband services to customers in 26 states. The Company derives its revenues from providing (i) local exchange telephone services, (ii) network access services, (iii) long distance services, (iv) data services, which includes both dial-up and DSL Internet services, as well as special access circuits and local private line services, (v) fiber transport, competitive local exchange and security monitoring services and (vi) other related services. For additional information on the Company's revenue sources, see Note 9 to the Company's financial statements included in Item 1 of Part I of this quarterly report.

In addition to historical information, this management's discussion and analysis includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond the control of the Company. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry; the Company's ability to effectively manage its growth, including integrating newly-acquired businesses into the Company's operations and hiring adequate numbers of qualified staff; possible changes in the demand for, or pricing of, the Company's products and services; the Company's ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the Company's ability to collect its receivables from financially troubled communications companies; the Company's ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the effects of adverse weather; other risks referenced from time to time in this report or other of the Company's filings with the Securities and Exchange Commission; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to the business are described in greater detail in Item 1 to the Company's Form 10-K for the year ended December 31, 2004. You should be aware that new factors may emerge from time to time and it is not possible for management to identify all such factors, nor can it predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

Net income was \$91.4 million and \$86.2 million for the third quarter of 2005 and 2004, respectively. Diluted earnings per share for the third quarter of 2005 and 2004 was \$.68 and \$.63, respectively.

	Three months ended September 30,	
	2005	2004
	(Dollars, except per share amounts, and shares in thousands)	
Operating income	\$ 201,242	190,869
Interest expense	(49,904)	(52,174)
Income from unconsolidated cellular entity	1,270	1,929
Other income (expense)	(4,214)	(822)
Income tax expense	(56,983)	(53,610)
Net income	\$ 91,411	86,192
Basic earnings per share	\$.70	.64
Diluted earnings per share	\$.68	.63
Average basic shares outstanding	130,150	134,885
Average diluted shares outstanding	135,916	139,816

Operating income increased \$10.4 million as a \$53.2 million (8.8%) increase in operating revenues was partially offset by a \$42.8 million (10.4%) increase in operating expenses. The third quarter of 2005 included the recognition of approximately \$35.9 million of revenue settlements as the 2001/2002 monitoring period lapsed on September 30, 2005. For additional information, see Note 11 to the Company's financial statements included in Item 1 of Part I of this quarterly report.

The Company's 2005 results of operations have been (and are expected to continue to be) adversely impacted as a result of (i) lower Universal Service Fund and intrastate access revenues, (ii) declines in access lines, (iii) incremental amortization and operating expenses related to its new billing and customer care system and (iv) expenses associated with rolling out the Company's new video and wireless service initiatives. See below for additional information.

Operating Revenues

	Three months ended September 30,	
	2005	2004
	(Dollars in thousands)	
Local service	\$ 176,069	179,793
Network access	257,586	237,522
Long distance	49,788	49,743
Data	88,911	69,570
Fiber transport and CLEC	36,361	19,113
Other	48,370	48,138
	\$ 657,085	603,879

The \$3.7 million (2.1%) decrease in local service revenues is primarily due to a \$4.0 million decrease due to a 3.7% decline in the average number of access lines and a \$1.9 million decline as a result of a decrease in minutes of use in extended area calling plans in certain areas. Such decreases were partially offset by a \$1.9 million increase due to the provision of custom calling features to more customers and a \$1.3 million increase due to the mandated implementation of extended area calling plans in certain areas.

Access lines declined 22,900 (1.0%) during the third quarter of 2005 compared to a decline of 14,000 (0.6%) in the third quarter of 2004. The Company believes the decline in the number of access lines during 2005 and 2004 is primarily due to the displacement of traditional wireline telephone services by other competitive services. Based on current conditions, the Company expects access lines to decline between 3.5 and 4.5% for 2005.

Network access revenues increased \$20.1 million (8.4%) in the third quarter of 2005 compared to the third quarter of 2004. The third quarter of 2005 included the recognition of approximately \$24.5 million of revenue settlements as the 2001/2002 monitoring period lapsed on September 30, 2005. See Note 11 to the accompanying financial statements for additional information. This nonrecurring revenue increase was partially offset by \$4.4 million of lower access revenues primarily due to (i) a \$3.2 million decrease in revenues from the federal Universal Service Fund primarily due to an increase in the nationwide average cost per loop factor used by the Federal Communications Commission to allocate funds among all recipients and (ii) a \$3.0 million decrease as a result of lower intrastate revenues due to a reduction in intrastate minutes of use (primarily due to the displacement of minutes by wireless, electronic mail and other optional calling services and the mandated implementation of extended area calling plans in certain areas).

Long distance revenues were \$49.8 million in third quarter 2005 compared to \$49.7 million in third quarter 2004. A \$5.1 million increase in revenues principally due to a 12.2% increase in minutes of use was substantially offset by a \$4.9 million decrease attributable to lower average rates charged by the Company.

Data revenues increased \$19.3 million (27.8%) due primarily to (i) the recognition of \$11.4 million of revenue settlements as the 2001/2002 monitoring period lapsed on September 30, 2005 (see Note 11 to the accompanying financial statements for additional information) and (ii) a \$6.3 million increase in Internet revenues primarily due to growth in the number of DSL customers, partially offset by a decrease in the number of dial-up customers.

Fiber transport and CLEC revenues increased \$17.2 million (90.2%), of which \$13.8 million was due to revenues generated from the June 30, 2005 acquisition of fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. ("KMC") and \$3.6 million was attributable to growth in the number of customers in the Company's incumbent fiber transport business.

Operating Expenses

	Three months ended September 30,	
	2005	2004
	(Dollars in thousands)	
Cost of services and products (exclusive of depreciation and amortization)	\$ 222,724	191,000
Selling, general and administrative	99,593	108,153
Depreciation and amortization	133,526	113,857
	\$ 455,843	413,010

Cost of services and products increased \$31.7 million (16.6%) primarily due to (i) a \$10.3 million increase due to expenses incurred by the properties acquired from KMC; (ii) a \$5.5 million increase in expenses associated with the Company's Internet operations due to an increase in the number of DSL customers; (iii) a \$5.9 million increase due to expenses incurred as a result of Hurricanes Katrina and Rita; (iv) a \$2.8 million increase in expenses associated with the Company's long distance operations; (v) a \$2.2 million increase in salaries and benefits; and (vi) a \$1.7 million increase in access expense.

Selling, general and administrative expenses decreased \$8.6 million (7.9%) due to (i) a \$6.6 million decrease in operating taxes (primarily due to an \$8.6 million one-time charge in the third quarter of 2004); (ii) a \$2.3 million decrease in bad debt expense and (iii) a \$1.1 million decrease in costs associated with the Company's Sarbanes-Oxley internal controls compliance effort. Such decreases were partially offset by a \$2.9 million increase in expenses incurred by the properties acquired from KMC.

Depreciation and amortization increased \$19.7 million (17.3%). The third quarter of 2004 included a one-time \$13.2 million reduction in depreciation expense to adjust certain over-depreciated assets. The remaining \$6.5 million increase was primarily due to (i) a \$4.4 million increase due to higher levels of plant in service, (ii) a \$1.5 million increase due to depreciation expense incurred by the properties acquired from KMC and (iii) a \$1.4 million increase associated with amortization of the Company's new billing system. Such increases were partially offset by a \$2.6 million reduction in depreciation expense due to certain assets becoming fully depreciated.

Interest Expense

Interest expense decreased \$2.3 million (4.4%) in the third quarter of 2005 compared to the third quarter of 2004. A \$2.1 million reduction due to decreased average debt outstanding was partially offset by a \$1.5 million increase due to higher average interest rates.

Income From Unconsolidated Cellular Entity

Income from unconsolidated cellular entity (which represents the Company's share of income from its 49% interest in a cellular partnership) was \$1.3 million and \$1.9 million in the third quarter of 2005 and 2004, respectively.

Other Income (Expense)

Other income (expense) was \$4.2 million of expense for the third quarter of 2005 compared to \$822,000 of expense for the third quarter of 2004. The third quarter of 2005 included a \$9.9 million pre-tax charge due to the impairment of a non-operating investment. The third quarter of 2005 also included a \$3.5 million gain from the sale of a non-operating investment. The third quarter of 2004 included a \$1.5 million charge due to the impairment of a non-operating investment. Interest income increased \$1.1 million in the third quarter of 2005 compared to the third quarter of 2004 primarily due to higher average cash balances.

Income Tax Expense

The effective income tax rate was 38.4% for the three months ended September 30, 2005 and 38.3% for the three months ended September 30, 2004.

RESULTS OF OPERATIONS

Nine months Ended September 30, 2005 Compared to Nine months Ended September 30, 2004

Net income was \$256.1 million and \$252.8 million for the first nine months of 2005 and 2004, respectively. Diluted earnings per share for the nine months ended September 30, 2005 was \$1.91 compared to \$1.79 during the first nine months of 2004.

	Nine months ended September 30,	
	2005	2004
	(Dollars, except per share amounts, and shares in thousands)	
Operating income	\$ 563,984	564,337
Interest expense	(152,176)	(157,806)
Income from unconsolidated cellular entity	3,307	6,114
Other income (expense)	(1,459)	(2,329)
Income tax expense	(157,511)	(157,561)
Net income	\$ 256,145	252,755
=====		
Basic earnings per share	\$ 1.95	1.82
=====		
Diluted earnings per share	\$ 1.91	1.79
=====		
Average basic shares outstanding	130,877	138,512
=====		
Average diluted shares outstanding	136,143	143,403
=====		

Operating income decreased \$353,000 as a \$57.6 million (3.2%) increase in operating revenues was offset by a \$58.0 million (4.7%) increase in operating expenses. The first nine months of 2005 included the recognition of approximately \$35.9 million of revenue settlements as the 2001/2002 monitoring period lapsed on September 30, 2005. See Note 11 to the accompanying financial statements for additional information.

The Company's 2005 results of operations have been (and are expected to continue to be) adversely impacted as a result of (i) lower Universal Service Fund and intrastate access revenues, (ii) declines in access lines, (iii) incremental amortization and operating expenses related to its new billing and customer care system and (iv) expenses associated with rolling out the Company's new video and wireless service initiatives. See below for additional information.

Operating Revenues

	Nine months ended September 30,	
	2005	2004
	(Dollars in thousands)	
Local service	\$ 530,319	537,993
Network access	727,268	723,994
Long distance	141,746	140,059
Data	237,866	203,367
Fiber transport and CLEC	78,240	54,866
Other	143,341	140,859
	\$ 1,858,780	1,801,138
=====		

The \$7.7 million (1.4%) decrease in local service revenues is primarily due to an \$11.2 million decrease due to a 3.1% decline in the average number of access lines and a \$5.8 million decline as a result of a decrease in minutes of use in extended area calling plans in certain areas. Such decreases were partially offset by a \$7.1 million increase due to the provision of custom calling features to more customers and a \$3.7 million increase due to the mandated implementation of extended area calling plans in certain areas.

Access lines declined 63,200 (2.7%) during the first nine months of 2005 compared to a decline of 39,600 (1.7%) in the first nine months of 2004. The Company believes the decline in the number of access lines during 2005 and 2004 is primarily due to the displacement of traditional wireline telephone services by other competitive services. Based on current conditions, the Company expects access lines to decline between 3.5 and 4.5% for 2005.

Network access revenues increased \$3.3 million (0.5%) in the first nine months of 2005 primarily due to the recognition in the third quarter of 2005 of approximately \$24.5 million of revenue settlements as the 2001/2002 monitoring period lapsed on September 30, 2005 (see Note 11 to the accompanying financial statements for additional information). Such increase was substantially offset by (i) a \$12.0 million decrease in intrastate access revenues due to a reduction in intrastate minutes of use (primarily due to the displacement of minutes by wireless, electronic mail and other optional calling services and the mandated implementation of extended area calling plans in certain areas) and (ii) a \$10.6 million decrease in revenues from the federal Universal Service Fund primarily due to an increase in the nationwide average cost per loop factor used by the FCC to allocate funds among all recipients.

The \$1.7 million (1.2%) increase in long distance revenues was primarily due to growth in the Company's retail long distance operations. A \$16.4 million revenue increase due primarily to a 12.3% increase in minutes of use was substantially offset by an \$11.2 million decrease caused by lower average rates charged by the Company and a \$3.8 million decrease in the accrual for unbilled toll revenue.

Data revenues increased \$34.5 million (17.0%) due primarily to (i) a \$17.6 million increase in Internet revenues primarily due to growth in the number of DSL customers, partially offset by a decrease in the number of dial-up customers; (ii) \$11.4 million of revenue settlements recorded as the 2001/2002 monitoring period lapsed on September 30, 2005 (see Note 11 to the accompanying financial statements for additional information); and (iii) a \$3.7 million increase in data revenues due to an increase in the number of high-capacity circuits provided.

Fiber transport and CLEC revenues increased \$23.4 million (42.6%), of which \$13.8 million was due to revenues generated from the June 30, 2005 acquisition of fiber assets from KMC and \$9.1 million was attributable to growth in the number of customers in the Company's incumbent fiber transport business.

Other revenues increased \$2.5 million (1.8%) during the first nine months of 2005 primarily due to a \$3.3 million increase in directory revenues.

Operating Expenses

	Nine months ended September 30,	
	2005	2004
	(Dollars in thousands)	
Cost of services and products (exclusive of depreciation and amortization)	\$ 609,590	562,775
Selling, general and administrative	289,053	302,426
Depreciation and amortization	396,153	371,600
	\$ 1,294,796	1,236,801

Cost of services and products increased \$46.8 million (8.3%) primarily due to (i) a \$13.7 million increase in expenses associated with the Company's Internet operations due to an increase in the number of DSL customers; (ii) a \$10.3 million increase due to expenses incurred by the properties acquired from KMC; (iii) a \$9.2 million increase in access expense (of which \$3.1 million was attributable to a one-time credit recorded in the first quarter of 2004); (iv) a \$7.2 million increase in costs associated with growth in the Company's fiber transport business; and (v) a \$5.9 million increase due to expenses incurred as a result of Hurricanes Katrina and Rita. Such increases were partially offset by a \$6.2 million decrease in expenses caused by the Company settling certain pole attachment disputes in the first quarter of 2005 for amounts less than those previously accrued.

Selling, general and administrative expenses decreased \$13.4 million (4.4%) primarily due to (i) a \$9.6 million decrease in operating taxes (primarily due to an \$8.6 million one-time charge in the third quarter of 2004); (ii) a \$6.8 million reduction in bad debt expense; and (iii) a \$2.6 million decrease in costs associated with the Company's Sarbanes-Oxley internal controls compliance effort. Such decreases were partially offset by a \$4.2 million increase in costs associated with growth in the Company's Internet business and \$2.9 million of expenses incurred by the properties acquired from KMC.

Depreciation and amortization increased \$24.6 million (6.6%) for the first nine months of 2005 compared to 2004. Included in the nine months ended September 30, 2004 was a one-time reduction in depreciation expense of approximately \$13.2 million to adjust certain over-depreciated accounts. The remaining \$11.4 million increase is primarily due to (i) a \$13.3 million increase due to higher levels of plant in service, (ii) a \$5.7 million increase associated with amortization of the Company's new billing system and (iii) a \$1.5 million increase due to depreciation expense incurred by the properties acquired from KMC. Such increases were offset by a \$9.4 million reduction in depreciation expense due to certain assets becoming fully depreciated and a \$3.0 million one-time adjustment recorded in the second quarter of 2004 related to the depreciation of fixed assets associated with the Company's new billing system.

Interest Expense

Interest expense decreased \$5.6 million (3.6%) in the first nine months of 2005 compared to the first nine months of 2004 as a \$12.1 million reduction due primarily to a decrease in average debt outstanding was partially offset by a \$7.3 million increase due to higher average interest rates.

Income From Unconsolidated Cellular Entity

Income from unconsolidated cellular entity (which represents the Company's share of income from its 49% interest in a cellular partnership) was \$3.3 million and \$6.1 million for the first nine months of 2005 and 2004, respectively.

Other Income (Expense)

Other income (expense) was \$1.5 million of expense for the first nine months of 2005, compared to \$2.3 million of expense for the first nine months of 2004. The first nine months of 2005 included a \$9.9 million pre-tax charge due to the impairment of a non-operating investment and a \$4.8 million debt extinguishment expense related to purchasing and retiring approximately \$400 million of Series J senior notes. The first nine months of 2005 was favorably impacted by (i) \$3.2 million of non-recurring interest income related to the settlement of various income tax audits; (ii) a \$3.5 million gain from the sale of a non-operating investment and (iii) \$2.2 million of higher interest income due to higher average cash balances. The first nine months of 2004 included a one-time \$3.6 million charge related to the prepayment of the Company's Series B senior notes and a \$1.5 million charge related to the impairment of a non-operating investment.

Income Tax Expense

The effective income tax rate was 38.1% and 38.4% for the nine months ended September 30, 2005 and 2004, respectively. Income tax expense for 2005 was reduced by approximately \$1.3 million in the first quarter of 2005 as a result of the settlement of various income tax audits.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities was \$733.4 million during the first nine months of 2005 compared to \$735.8 million during the first nine months of 2004. The Company's accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of these periods. For additional information relating to the operations of the Company, see Results of Operations.

Net cash used in investing activities was \$352.1 million and \$280.7 million for the nine months ended September 30, 2005 and 2004, respectively. Payments for property, plant and equipment were \$28.4 million more in the first nine months of 2005 than in the comparable period during 2004. Revised budgeted capital expenditures for 2005 total approximately \$425 million, reflecting additional budgeted expenditures related to growth in the Company's DSL business and the expansion of LightCore's operations. During 2005, the Company paid approximately \$75.4 million to acquire fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. See Note 7 to the accompanying financial statements for additional information.

Net cash used in financing activities was \$280.0 million during the first nine months of 2005 compared to \$489.3 million during the first nine months of 2004. In accordance with previously announced stock repurchase programs, the Company repurchased 16.4 million shares (for \$530.7 million) and 10.9 million shares (for \$318.4 million) in the first nine months of 2005 and 2004, respectively. The 2005 repurchases include 12.9 million shares repurchased (for an initial price of \$416.5 million) under accelerated share repurchase agreements (see below and Note 6 to the accompanying financial statements for additional information).

In the first quarter of 2005, the Company paid \$100 million to retire its Series E senior notes at their scheduled maturity with cash on hand.

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

On May 16, 2005, upon settlement of 15.9 million of its outstanding equity units, the Company received proceeds of approximately \$398.2 million and issued approximately 12.9 million common shares. In late May 2005, the Company entered into accelerated share repurchase agreements with investment banks whereby the Company repurchased and retired 12.9 million shares of common stock for an aggregate of \$416.5 million, the proceeds of which came from the settlement of the equity units mentioned above and cash on hand. Under these agreements, the investment banks are currently repurchasing CenturyTel shares in the open market. At the end of the repurchase period, the Company anticipates that it may receive from, or be required to pay, the investment banks a price adjustment in cash or stock based principally upon the actual cost of the shares to be repurchased by the investment banks. For additional information, see Note 6 to the accompanying financial statements and Item 2 of Part II of this quarterly report.

The following table contains certain information concerning the Company's material contractual obligations as of September 30, 2005.

		Payments due by period			
Total contractual obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
(Dollars in thousands)					
Long-term debt, including current maturities and capital lease obligations	\$2,834,846	334,576 (1)	459,708	65,846	1,974,716
Interest on long-term debt obligations	\$1,795,019	182,673	331,735	295,197	985,414

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

In March 2005, the Company secured a new five-year, \$750 million revolving credit facility to replace its \$533 million credit facility which was set to expire in July 2005. Up to \$150 million of the facility can be used for letters of credit, which reduces the amount available for other extensions of credit. As of September 30, 2005, the Company had no amounts outstanding under its new credit facility. The Company's telephone subsidiaries also had available for use \$118.2 million of commitments for long-term financing from the Rural Utilities Service. The

Company has a commercial paper program that authorizes it to have outstanding up to \$1.5 billion in commercial paper at any one time; however, borrowings are effectively limited to the amount available under its credit facility. At September 30, 2005, the Company had no commercial paper outstanding under such program. At September 30, 2005, the Company held over \$268 million of cash and cash equivalents.

OTHER MATTERS

Accounting for the Effects of Regulation

The Company currently accounts for its regulated telephone operations (except for the properties acquired from Verizon in 2002) in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). While the Company continuously monitors the ongoing applicability of SFAS 71 to its regulated telephone operations due to the changing regulatory, competitive and legislative environments, the Company believes that SFAS 71 still applies. However, it is possible that changes in regulation or legislation or anticipated changes in competition or in the demand for regulated services or products could result in the Company's telephone operations not being subject to SFAS 71 in the near future. In that event, implementation of Statement of Financial Accounting Standards No. 101 ("SFAS 101"), "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71," would require the write-off of previously established regulatory assets and liabilities. SFAS 101 further provides that the carrying amounts of property, plant and equipment are to be adjusted only to the extent the assets are impaired and that impairment shall be judged in the same manner as for nonregulated enterprises.

If the Company's regulated operations ceased to qualify for the application of SFAS 71, the Company does not expect to record an impairment charge related to the carrying value of the property, plant and equipment of its regulated telephone operations. Additionally, upon the discontinuance of SFAS 71, the Company would be required to revise the depreciable lives of its property, plant and equipment to reflect the estimated useful lives of the assets. The Company does not expect such revisions in asset lives, or the elimination of other regulatory assets and liabilities, to have a material unfavorable impact on the Company's results of operations. For regulatory purposes, the accounting and reporting of the Company's telephone subsidiaries would not be affected by the discontinued application of SFAS 71.

Recent Product Developments

During the first half of 2005, the Company began offering co-branded satellite television service across select markets, and began to commercially offer this service as part of its bundled product offerings in the fourth quarter of 2005. The Company expects to begin commercial reselling of wireless service in select markets in the fourth quarter of 2005. In addition, in October 2005, the Company began offering its facilities-based video service to a limited number of select Wisconsin markets.

Regulatory Developments

In the second quarter of 2005, the Louisiana Public Service Commission ("LPSC") adopted an order that transferred the existing \$42 million Louisiana Local Optional Service Fund ("LOS Fund") into a state universal service fund ("SUSF") effective August 31, 2005. The Company currently receives approximately \$21 million from the LOS Fund each year. The SUSF will expand the base of contributors to all telecommunications service providers operating in the state. In June 2005, two telecommunications service providers served the LPSC with an appeal of the SUSF. As such, there is no assurance that the SUSF will remain as adopted by the LPSC or that funding levels will remain at current levels.

In March 2005, Level 3 Communications, Inc. withdrew its petition requesting the FCC to forbear from imposing interstate or intrastate access charges on Internet-based calls that originate or terminate on the public switched telephone network. All other proposed rulemaking on Internet telephony discussed in the Company's annual report on Form 10-K for the year ended December 31, 2004 remains pending.

Other Anticipated Events

Based on recent FCC filings, the Company anticipates that increased national average loop costs will reduce its 2006 receipts from the federal Universal Service Fund, which is currently expected to lower 2006 diluted earnings per share by \$.06 to \$.08 from projected 2005 levels. The Company further expects that its aggregate revenue settlements in 2006 related to prior period adjustments will decline from 2005 levels, which is currently expected to reduce 2006 diluted earnings per share by \$.14 to \$.18 from projected 2005 levels. The change in accounting for stock options mandated under SFAS 123(R) is further expected to reduce 2006 diluted earnings per share by \$.05 to \$.06.

The Company anticipates that lower debt balances will reduce its 2006 interest expense from 2005 levels, which is currently expected to increase 2006 diluted earnings per share by \$.03 to \$.05 from projected 2005 amounts.

The disclosures presented under this heading assume that the Company will be operated in the ordinary course under its current business and compensation plans, and exclude the potential impact of any future acquisitions, divestitures, share repurchases or other unusual or unanticipated events. Please see the factors listed above at the beginning of MD&A that could cause the Company's actual results to differ materially from those described above.

Item 3.
CenturyTel, Inc.

**QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK**

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

At September 30, 2005, the fair value of the Company's long-term debt was estimated to be \$3.0 billion based on the overall weighted average rate of the Company's long-term debt of 6.7% and an overall weighted maturity of 10 years compared to terms and rates currently available in long-term financing markets. Market risk is estimated as the potential decrease in fair value of the Company's long-term debt resulting from a hypothetical increase of 67 basis points in interest rates (ten percent of the Company's overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a \$116.3 million decrease in fair value of the Company's long-term debt at September 30, 2005. As of September 30, 2005, after giving effect to interest rate swaps currently in place, approximately 82% of the Company's long-term debt obligations were fixed rate.

The Company seeks to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates. From time to time, the Company uses derivative instruments to (i) lock-in or swap its exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Management periodically reviews the Company's exposure to interest rate fluctuations and endeavors to implement strategies to manage the exposure.

At September 30, 2005, the Company had outstanding four fair value interest rate hedges associated with the full \$500 million aggregate principal amount of its Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. These hedges are "fixed to variable" interest rate swaps that effectively convert the Company's fixed rate interest payment obligations under these notes into obligations to pay variable rates that range from the six-month London InterBank Offered Rate ("LIBOR") plus 3.229% to the six-month LIBOR plus 3.67%, with settlement and rate reset dates occurring each six months through the expiration of the hedges in August 2012. At September 30, 2005, the Company realized a blended rate under these hedges of 8.0%. Interest expense was reduced by \$1.2 million during the first nine months of 2005 as a result of these hedges. The aggregate fair market value of these hedges was \$12.9 million at September 30, 2005 and is reflected both as a liability and as a decrease in the Company's underlying long-term debt on the September 30, 2005 balance sheet. With respect to each of these hedges, market risk is estimated as the potential change in the fair value of the hedge resulting from a hypothetical 10% increase in the forward rates used to determine the fair value. A hypothetical 10% increase in the forward rates would result in a \$14.2 million increase in the fair value of these hedges at September 30, 2005, and would also increase the Company's interest expense.

In late 2004 and early 2005, the Company entered into several cash flow hedges that effectively locked in the interest rate on a majority of certain anticipated debt transactions that ultimately were completed in February 2005. The Company locked in the interest rate on (i) \$100 million of 2.25-year debt (remarketed in February 2005) at 3.9%; (ii) \$75 million of 10-year debt (issued in February 2005) at 5.4%; and (iii) \$225 million of 10-year debt (issued in February 2005) at 5.5%. In February 2005, upon settlement of such hedges, the Company (i) received \$366,000 related to the 2.25-year debt remarketing, which is being amortized as a reduction of interest expense over the remaining term of the debt, and (ii) paid \$7.7 million related to the 10-year debt issuance, which is being amortized as an increase in interest expense over the 10-year term of the debt.

Certain shortcomings are inherent in the method of analysis presented in the computation of fair value of financial instruments. Actual values may differ from those presented if market conditions vary from assumptions used in the fair value calculations. The analysis above incorporates only those risk exposures that existed as of September 30, 2005.

Item 4.
CenturyTel, Inc.

CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to provide reasonable assurances that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is timely recorded, processed, summarized and reported as required. The Company's Chief Executive Officer, Glen F. Post, III, and the Company's Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the Company's disclosure controls and procedures as of September 30, 2005. Based on the evaluation, Messrs. Post and Ewing concluded that the Company's disclosure controls and procedures have been effective in providing reasonable assurance that they have been timely alerted of material information required to be filed in this quarterly report. Since the date of Messrs. Post's and Ewing's most recent evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events and contingencies, and there can be no assurance that any design will succeed in achieving its stated goals. Because of inherent limitations in any

control system, misstatements due to error or fraud could occur and not be detected.

PART II. OTHER INFORMATION

CenturyTel, Inc.

Item 1. Legal Proceedings

For information on the Company's legal proceedings, see Note 11 to the Company's financial statements included in Item 1 of Part I of this quarterly report.

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

In late May 2005, the Company repurchased approximately 12.9 million shares of its common stock under an accelerated share repurchase program with certain investment banks at an initial average share price of \$32.34, which is subject to a future price adjustment based principally upon the actual cost of the shares to be repurchased by the investment banks. See Note 6 to the Company's financial statements included in Item 1 of Part I of this quarterly report. As of October 31, 2005, the investment banks that sold 12.9 million shares to the Company in late May 2005 had repurchased approximately 83% of those shares at a weighted average price per share of approximately \$34.46.

In early February 2005, the Company's board of directors approved a repurchase program that allows the Company to repurchase up to an aggregate of \$200 million of either its common stock or equity units prior to December 31, 2005. Since the Company implemented its accelerated share repurchase program in May 2005, it has not purchased any securities under its \$200 million repurchase program, and the Company does not expect to resume purchasing shares under its \$200 million program until the investment banks complete their pending repurchases described above (which is currently expected to occur in mid-December 2005). As of the date of this quarterly report, the Company retains authority to purchase approximately \$86 million in shares under the \$200 million program.

Item 6. Exhibits and Reports on Form 8-K

A. Exhibits

10.1 CenturyTel, Inc. 2005 Management Incentive Compensation Plan*

10.2 Form of Non-Qualified Stock Option Agreement under the CenturyTel, Inc. 2005 Management Incentive Compensation Plan

10.3 Form of Restricted Stock Agreement under the CenturyTel, Inc. 2005 Management Incentive Compensation Plan

10.4 CenturyTel, Inc. 2005 Directors Stock Plan*

10.5 CenturyTel, Inc. 2005 Executive Officer Short-Term Incentive Program*

10.6 Form of Restricted Stock Agreement between Registrant and each of its outside directors dated as of May 13, 2005**

11 Computations of Earnings Per Share

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

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

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

* Incorporated herein by reference to Registrant's proxy statement filed with the Securities and Exchange Commission on April 5, 2005.

** Incorporated herein by reference to Exhibit 10.4 of Registrant's Current Report on Form 8-K dated May 13, 2005.

B. Reports on Form 8-K

The following item was reported in the Form 8-K filed July 5, 2005:

Item 8.01. Other Events - Acquisition of metro fiber networks from KMC Telecom Holdings, Inc.

The following items were reported in the Form 8-K filed July 28, 2005:

Items 2.02 Results of Operations and Financial Condition and Financial Statements and Exhibits- and 9.01 News release announcing second quarter 2005 operating results.

SIGNATURE

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

CenturyTel, Inc.

Date: November 9, 2005

/s/ Neil A. Sweasy

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

**FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT
UNDER THE CENTURYTEL, INC.**

2005 MANAGEMENT INCENTIVE COMPENSATION PLAN

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this ("Agreement") is entered into as of [_____] ___, 200___, by and between CenturyTel, Inc., a Louisiana corporation ("CenturyTel"), and _____ ("Optionee").

WHEREAS, CenturyTel maintains the 2005 Management Incentive Compensation Plan (the "Plan"), under which the Compensation Committee of the Board of Directors of CenturyTel (the "Committee") may, directly or indirectly, among other things, grant options to purchase shares of CenturyTel's common stock, \$1.00 par value per share (the "Common Stock"), to key employees of CenturyTel or its subsidiaries (collectively, the "Company"); and

WHEREAS, pursuant to the Plan the Committee has awarded to the Optionee an option to purchase shares of Common Stock on the terms and conditions specified below;

NOW, THEREFORE, in consideration of the premises, it is agreed as follows:

1.
GRANT OF OPTION

1.01 In consideration of future services, CenturyTel hereby grants to Optionee, effective [_____] ___, 200___, (the "Date of Grant"), the right, privilege and option to purchase _____ shares of Common Stock (the "Option") at an exercise price of \$_____ per share.

1.02 The Option is a non-qualified stock option and shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2.

TIME OF EXERCISE

2.01 Subject to the provisions of the Plan and the other provisions of this Agreement, the Optionee shall be entitled to exercise the Option as follows :

With respect to ___ of the shares covered by the Option.....

With respect to ___ of the shares covered by the Option, less any shares previously issued.....

With respect to all of the shares covered by the Option, less any shares previously issued.....

The Option shall expire and may not be exercised later than ten years after the Date of Grant.

2.02 Notwithstanding the foregoing, the Option shall become accelerated and immediately exercisable in full (a) if Optionee dies while he is employed by the Company, (b) if Optionee becomes disabled within the meaning of Section 22(e)(3) of the Code ("Disability") while he is employed by the Company, (c) if Optionee retires from employment with the Company on or after attaining the age of 55 ("Retirement") or (d) pursuant to the provisions of the Plan.

3.

CONDITIONS FOR EXERCISE OF OPTION

During Optionee's lifetime, the Option may be exercised only by him or by his legal representative. The Option must be exercised while Optionee is employed by the Company, or, to the extent exercisable at the time of termination of employment, within 190 days of the date on which he ceases to be an employee, except that (a) if he ceases to be an employee because of Retirement, the Option may be exercised within three years from the date on which he ceases to be an employee, (b) if an Optionee's employment is terminated for cause, the unexercised portion of the Option is immediately terminated, and (c) in the event of Optionee's Disability or death, the Option may be exercised by the Optionee or, in the case of death, by his estate or by the person to whom such right devolves from him by reason of his death within two years after the date of his Disability or death; provided,

however, that the Option and all option gain, as defined in Section 4.01, shall at all times be subject to the forfeiture provisions of Section 4 hereof; and provided further that no rights to purchase Common Stock under this Option may be exercised later than ten years after the Date of Grant.

4.

FORFEITURE OF OPTION AND OPTION GAIN

4.01 If, at any time during Optionee's employment by the Company or within 18 months after termination of employment, Optionee engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including but not limited to: (a) conduct relating to Optionee's employment for which either criminal or civil penalties against Optionee may be sought, (b) conduct or activity that results in termination of Optionee's employment for cause, (c) violation of Company policies, including, without limitation, the Company's insider trading policy and corporate compliance program, (d) accepting employment with, acquiring a 5% or more equity or participation interest in, serving as a consultant, advisor, director or agent of, directly or indirectly soliciting or recruiting any employee of the Company who was employed at any time during Optionee's tenure with the Company, or otherwise assisting in any other capacity or manner any company or enterprise that is directly or indirectly in competition with or acting against the interests of the Company or any of its lines of business (a "competitor"), except for (A) any isolated, sporadic accommodation or assistance provided to a competitor, at its request, by Optionee during Optionee's tenure with the Company, but only if provided in the good faith and reasonable belief that such action would benefit the Company by promoting good business relations with the competitor and would not harm the Company's interests in any substantial manner or (B) any other service or assistance that is provided at the request or with the written permission of the Company, (e) disclosing or misusing any confidential information or material concerning the Company, (f) engaging in, promoting, assisting or otherwise participating in a hostile takeover attempt of the Company or any other transaction or proxy contest that could reasonably be expected to result in a Change of Control (as defined in the Plan) not approved by CenturyTel's Board of Directors or (g) making any statement or disclosing any information to any customers, suppliers, lessors, lessees, licensors, licensees, regulators, employees or others with whom the Company engages in business that is defamatory or derogatory with respect to the business, operations, technology, management, or other employees of the Company, or taking any other action that could reasonably be expected to injure the Company in its business relationships with any of the foregoing parties or result in any other detrimental effect on the Company, then (i) the Option shall automatically terminate without any payment to Optionee effective the date on which Optionee engages in such activity, unless terminated sooner by operation of another term or condition of this Agreement or the Plan, and (ii) Optionee shall pay in cash to the Company, without interest, any option gain realized by Optionee from exercising all or a portion of the Option during the period beginning one year prior to termination of employment (or one year prior to the date Optionee first engages in such activity if no termination occurs) and ending on the date on which the Option terminates. For purposes hereof, "option gain" shall mean the difference between the closing market price of the Common Stock on the date of exercise minus the exercise price, multiplied by the number of shares purchased.

4.02 If Optionee owes any amount to the Company under Section 4.01 above, Optionee acknowledges that the Company may deduct such amount from any amounts the Company owes Optionee from time to time for any reason (including without limitation amounts owed to Optionee as salary, wages, reimbursements or other compensation, fringe benefits, retirement benefits or vacation pay). Whether or not the Company elects to make any such set-off in whole or in part, if the Company does not recover by means of set-off the full amount Optionee owes it, Optionee hereby agrees to pay immediately the unpaid balance to the Company.

4.03 Optionee may be released from Optionee's obligations under Sections 4.01 and 4.02 above only if the Committee determines in its sole discretion that such action is in the best interests of the Company.

5.

PREFERENCE SHARE PURCHASE RIGHTS

Upon exercise of an Option at a time when preference share purchase rights to purchase shares of Series BB Participating Cumulative Preference Stock or other securities or property of the Company (the "Rights" and each a "Right") remain outstanding pursuant to that certain Rights Agreement dated as of August 27, 1996 between CenturyTel and the Rights Agent named therein, as amended by Amendment No. 1 to Rights Agreement dated May 25, 1999 and Amendment No. 2 to Rights Agreement dated June 30, 2000, and as may be further amended (the "Rights Agreement"), or any successor rights agreement, then Optionee shall receive Rights in conjunction with Optionee's receipt of shares of Common Stock on the terms and conditions of the Rights Agreement.

6.

ADDITIONAL CONDITIONS

Anything in this Agreement to the contrary notwithstanding, if at any time CenturyTel further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of the shares of Common Stock issuable pursuant to the exercise of an Option is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the issuance of shares of Common Stock

pursuant thereto, or the removal of any restrictions imposed on such shares, such shares of Common Stock shall not be issued, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to CenturyTel. CenturyTel agrees to use commercially reasonable efforts to issue all shares of Common Stock issuable hereunder on the terms provided herein.

7.

ATTORNEYS' FEES AND EXPENSES

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

8.

NO CONTRACT OF EMPLOYMENT INTENDED

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

9.

WITHHOLDING TAXES

The Company may make such provisions as it may deem appropriate for the withholding of any federal, state and local taxes that it determines are required to be withheld on any exercise of the Option. In accordance with and subject to the terms of the Plan, Optionee may satisfy the tax withholding obligation in whole or in part by delivering currently owned shares of Common Stock or electing to have CenturyTel withhold from the shares Optionee otherwise would receive hereunder shares of Common Stock having a value equal to the minimum amount required to be withheld (as determined under the Plan).

10.

BINDING EFFECT

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

11.

INCONSISTENT PROVISIONS

Optionee agrees that the Option granted hereby is subject to the terms, conditions, restrictions and other provisions of the Plan as fully as if all such provisions were set forth in their entirety in this Agreement. If any provision of this Agreement conflicts with a provision of the Plan, the Plan provision shall control. Optionee acknowledges that a copy of the Plan and a prospectus summarizing the Plan was distributed or made available to Optionee and that Optionee was advised to review such materials prior to entering into this Agreement. Optionee waives the right to claim that the provisions of the Plan are not binding upon Optionee and Optionee's heirs, executors, administrators, legal representatives and successors.

12.

ADJUSTMENTS TO OPTIONS

The parties acknowledge that (i) appropriate adjustments shall be made to the number and class of shares of Common Stock subject to the Option and to the exercise price in certain situations described in Section 4.5 of the Plan and (ii) adjustments to the rights of the Optionee might be made in the event of a Change of Control, as defined in Section 11.12 of the Plan.

13.

TERMINATION OF OPTION

The Committee, in its sole discretion, may terminate the Option. However, no termination may adversely affect the rights of Optionee to the extent that the Option is currently exercisable on the date of such termination.

14.

GOVERNING LAW

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

15.

SEVERABILITY

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

16.

ENTIRE AGREEMENT; MODIFICATION

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

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed as of the day and year first above written.

CENTURYTEL, INC.

By:

Glen F. Post, III Chairman and Chief Executive Officer

{insert name} Optionee

**FORM OF RESTRICTED STOCK AGREEMENT
UNDER THE CENTURYTEL, INC.**

2005 MANAGEMENT INCENTIVE COMPENSATION PLAN

This RESTRICTED STOCK AGREEMENT (this "Agreement") is entered into as of [_____] ___, 200___, by and between CenturyTel, Inc. ("CenturyTel") and _____ ("Award Recipient").

WHEREAS, CenturyTel maintains the 2005 Management Incentive Compensation Plan (the "Plan"), under which the Compensation Committee of the Board of Directors of CenturyTel (the "Committee") may, directly or indirectly, among other things, grant restricted shares of CenturyTel's common stock, \$1.00 par value per share (the "Common Stock"), to key employees of CenturyTel or its subsidiaries (collectively, the "Company"); and

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

NOW, THEREFORE, the parties agree as follows:

1.

AWARD OF SHARES

Upon the terms and conditions of the Plan and this Agreement, CenturyTel as of the date of this Agreement hereby awards to the Award Recipient _____ restricted shares of Common Stock, together with associated preference share purchase rights under CenturyTel's rights agreement dated as of August 27, 1996, as amended (collectively, the "Restricted Stock"), that vest, subject to Sections 2, 3 and 4 hereof, in installments as follows:

Scheduled Vesting Date	Number of Shares of Restricted Stock
-----	-----

2.

**AWARD RESTRICTIONS ON
RESTRICTED STOCK**

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

2.2 If the shares of Restricted Stock have not already vested in accordance with Section 1 above, the shares of Restricted Stock shall vest and all restrictions set forth in Section 2.1 shall lapse on the earlier of:

- (a) the date on which the employment of the Award Recipient terminates as a result of (i) death, (ii) disability within the meaning of Section 22(e)(3) of the Internal Revenue Code, or (iii) if permitted by the Committee in accordance with Section 3 below, retirement or termination by the Company; or
- (b) the occurrence of a Change of Control of CenturyTel, as described in Section 11.12 of the Plan.

3.

TERMINATION OF EMPLOYMENT

If the Award Recipient's employment terminates as the result of death or disability within the meaning of Section 22(e)(3) of the Internal Revenue Code, all unvested shares of Restricted Stock granted hereunder shall immediately vest. Unless the Committee determines otherwise in the case of retirement of the Award Recipient or termination by the Company of the Award Recipient's employment, termination of employment for any other reason, except termination upon a Change of Control (as provided in Section 11.12 of the Plan), shall automatically result in the termination and forfeiture of all unvested Restricted Stock.

4.

FORFEITURE OF AWARD

4.1 If, at any time during the Award Recipient's employment by the Company or within 18 months after termination of employment, the Award Recipient engages in any activity in competition with any activity of the Company, or inimical, contrary or harmful to the interests of the Company, including but not limited to: (a) conduct relating to the Award Recipient's employment for which either criminal or civil penalties against the Award Recipient may be sought, (b) conduct or activity that results in termination of the Award Recipient's employment for cause, (c) violation of the Company's policies, including, without limitation, the Company's insider trading policy and corporate compliance program, (d) accepting employment with, acquiring a 5% or more equity or participation interest in, serving as a consultant, advisor, director or agent of, directly or indirectly soliciting or recruiting any employee of the Company who was employed at any time during the Award Recipient's tenure with the Company, or otherwise assisting in any other capacity or manner any company or enterprise that is directly or indirectly in competition with or acting against the interests of the Company or any of its lines of business (a "competitor"), except for (A) any isolated, sporadic accommodation or assistance provided to a competitor, at its request, by the Award Recipient during the Award Recipient's tenure with the Company, but only if provided in the good faith and reasonable belief that such action would benefit the Company by promoting good business relations with the competitor and would not harm the Company's interests in any substantial manner or (B) any other service or assistance that is provided at the request or with the written permission of the Company, (e) disclosing or misusing any confidential information or material concerning the Company, (f) engaging in, promoting, assisting or otherwise participating in a hostile takeover attempt of the Company or any other transaction or proxy contest that could reasonably be expected to result in a Change of Control (as defined in the Plan) not approved by the CenturyTel Board of Directors or (g) making any statement or disclosing any information to any customers, suppliers, lessors, lessees, licensors, licensees, regulators, employees or others with whom the Company engages in business that is defamatory or derogatory with respect to the business, operations, technology, management, or other employees of the Company, or taking any other action that could reasonably be expected to injure the Company in its business relationships with any of the foregoing parties or result in any other detrimental effect on the Company, then the award of Restricted Stock granted hereunder shall automatically terminate and be forfeited effective on the date on which the Award Recipient engages in such activity and (i) all shares of Common Stock acquired by the Award Recipient pursuant to this Agreement (or other securities into which such shares have been converted or exchanged) shall be returned to the Company or, if no longer held by the Award Recipient, the Award Recipient shall pay to the Company, without interest, all cash, securities or other assets received by the Award Recipient upon the sale or transfer of such stock or securities, and (ii) all unvested shares of Restricted Stock shall be forfeited.

4.2 If the Award Recipient owes any amount to the Company under Section 4.1 above, the Award Recipient acknowledges that the Company may, to the fullest extent permitted by applicable law, deduct such amount from any amounts the Company owes the Award Recipient from time to time for any reason (including without limitation amounts owed to the Award Recipient as salary, wages, reimbursements or other compensation, fringe benefits, retirement benefits or vacation pay). Whether or not the Company elects to make any such set-off in whole or in part, if the Company does not recover by means of set-off the full amount the Award Recipient owes it, the Award Recipient hereby agrees to pay immediately the unpaid balance to the Company. 4.3 The Award Recipient may be released from the Award Recipient's obligations under Sections 4.1 and 4.2 above only if the Committee determines in its sole discretion that such action is in the best interests of the Company.

5.

STOCK CERTIFICATES

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

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

6.

WITHHOLDING TAXES

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

7.

ADDITIONAL CONDITIONS

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

8.

NO CONTRACT OF EMPLOYMENT INTENDED

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

9.

BINDING EFFECT

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

10.

INCONSISTENT PROVISIONS

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

11.

ATTORNEYS' FEES AND EXPENSES

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

12.

GOVERNING LAW

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

13.

SEVERABILITY

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

14.

ENTIRE AGREEMENT; MODIFICATION

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

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

CENTURYTEL, INC.

By:

Glen F. Post, III Chairman and Chief Executive Officer

{Insert name} Award Recipient

CenturyTel, Inc.

COMPUTATIONS OF EARNINGS PER SHARE
(UNAUDITED)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(Dollars, except per share amounts, and shares in thousands)				
Income (Numerator):				
Net income	\$ 91,411	86,192	256,145	252,755
Dividends applicable to preferred stock	(99)	(100)	(298)	(299)
Net income applicable to common stock	91,312	86,092	255,847	252,456
Interest on convertible debentures, net of tax	1,207	1,208	3,621	3,621
Dividends applicable to preferred stock	99	100	298	299
Net income as adjusted for purposes of computing diluted earnings per share	\$ 92,618	87,400	259,766	256,376
Shares (Denominator):				
Weighted average number of shares:				
Outstanding during period	130,433	134,885	131,054	138,525
Nonvested restricted stock	(283)	-	(177)	-
Employee Stock Ownership Plan shares not committed to be released	-	-	-	(13)
Number of shares for computing basic earnings per share	130,150	134,885	130,877	138,512
Incremental common shares attributable to dilutive securities:				
Shares issuable under convertible securities	4,509	4,514	4,512	4,514
Shares issuable upon settlement of accelerated share repurchase agreements	825	-	344	-
Shares issuable under incentive compensation plans	432	417	410	377
Number of shares as adjusted for purposes of computing diluted earnings per share	135,916	139,816	136,143	143,403
Basic earnings per share	\$.70	.64	1.95	1.82
Diluted earnings per share	\$.68	.63	1.91	1.79

CERTIFICATIONS

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

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

Date: November 9, 2005

/s/ Glen F. Post, III

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

Exhibit 31.2

CERTIFICATIONS

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

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

Date: November 9, 2005

/s/ R. Stewart Ewing, Jr.

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

CenturyTel, Inc.

November 9, 2005

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

Re: CenturyTel, Inc.

Certification of Contents of Form 10-Q for the quarter ending September 30, 2005 pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Ladies and Gentlemen:

The undersigned, acting in their capacities as the Chief Executive Officer and the Chief Financial Officer of CenturyTel, Inc. (the "Company"), certify that the Form 10-Q for the quarter ended September 30, 2005 of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by such report.

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

Very truly yours,

/s/ Glen F. Post, III

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

/s/ R. Stewart Ewing, Jr.

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

End of Filing

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