

# CENTURYTEL INC

## FORM 10-K (Annual Report)

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

**FORM 10-K**

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

For the fiscal year ended December 31, 1998

or

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

*Commission file number 1-7784*

**CENTURY TELEPHONE ENTERPRISES, INC.**

(Exact name of Registrant as specified in its charter)

Louisiana  
(State or other jurisdiction of  
incorporation or organization)

72-0651161  
(IRS Employer  
Identification No.)

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

71203  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$1.00	New York Stock Exchange Berlin Stock Exchange
Preference Share Purchase Rights	New York Stock Exchange Berlin Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

As of February 28, 1999, the aggregate market value of voting stock held by non-affiliates (affiliates being for these purposes only directors, executive officers and holders of more than five percent of the Company's outstanding voting securities) was \$3.7 billion. As of February 28, 1999, there were 92,357,172 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's Proxy Statement prepared in connection with the 1999 annual meeting of shareholders are incorporated in Part III of this Report.

## PART I

### Item 1. Business

General. Century Telephone Enterprises, Inc. ("Century"), which operates under the tradename of CenturyTel, is a regional diversified communications company engaged primarily in providing local exchange telephone services and cellular telephone services. For the year ended December 31, 1998, local exchange telephone operations and cellular operations provided 69% and 26%, respectively, of the consolidated revenues of Century and its subsidiaries (the "Company"). All of the Company's telephone and cellular operations are conducted within the continental United States and Alaska.

At December 31, 1998, the Company's local exchange telephone subsidiaries operated over 1.3 million telephone access lines, primarily in rural, suburban and small urban areas in 21 states, with the largest customer bases located in Wisconsin, Washington, Alaska, Michigan, Louisiana, Colorado, Ohio, Oregon and Montana. According to published sources, the Company is the ninth largest local exchange telephone company in the United States based on the number of access lines served. For more information, see "Telephone Operations."

At December 31, 1998, the Company's majority-owned and operated cellular systems served approximately 624,000 customers in 21 Metropolitan Statistical Areas ("MSAs") in Michigan, Louisiana, Arkansas, Mississippi, Wisconsin and Texas, and 23 Rural Service Areas ("RSAs"), most of which are in Michigan, Mississippi, Wisconsin, Louisiana and Arkansas. The Company's ownership interest in these operated markets represented approximately 8.1 million pops (the estimated population of licensed cellular telephone markets multiplied by the Company's proportionate equity interest in the licensed operators thereof). At December 31, 1998, the Company also owned minority equity interests in 10 MSAs and 17 RSAs, representing approximately 1.9 million pops. Of the Company's 10.1 million aggregate pops, approximately 67% are attributable to the Company's MSA interests, with the balance attributable to its RSA interests. All of the cellular systems operated by the Company are operated under wireline licenses, except for five MSAs and four RSAs which are operated under non-wireline licenses. According to data derived from published sources, the Company is the tenth largest cellular telephone company in the United States based on the Company's 10.1 million pops. For more information, see "Cellular Operations."

The Company also provides long distance, call center, security monitoring, cable television and interactive services in certain local and regional markets, as well as certain printing and related services. For more information, see "Other Operations."

Recent acquisitions and dispositions. On December 1, 1998, the Company acquired the assets of certain of Ameritech's telephone operations and related telephone directories in 19 telephone exchanges covering 21 communities in northern and central Wisconsin for approximately \$221 million cash. The operations acquired by the Company include the telephone property and equipment that serves nearly 69,000 customers, or approximately 86,000 access lines, as well as the nine related telephone directories.

On December 1, 1997, the Company acquired Pacific Telecom, Inc. ("PTI") in exchange for \$1.503 billion cash. As a result of the PTI acquisition, the Company acquired (i) over 660,000 telephone access lines in four midwestern states, seven western states and Alaska, (ii) over 88,000 cellular customers in ten markets located in two midwestern states and Alaska and (iii) various wireless, cable television and other communications assets. In May 1998, the Company sold PTI's undersea cable operations for approximately \$61.8 million cash.

During late 1997 and early 1998, the Company acquired two security alarm businesses that provide services to approximately 6,000 customers in north central Louisiana, southern Arkansas and northwestern Mississippi.

In December 1997 the Company acquired an additional 76% interest in Wisconsin RSA 8, which is adjacent to the Company's existing cellular operations in southwestern Wisconsin.

During 1997 the Company exchanged its 89% interest in its competitive access subsidiary for approximately 4.3 million shares of publicly traded common stock. Approximately 3.8 million shares of such stock were sold in November 1997 for \$203 million and the remaining shares were converted into approximately 1.0 million shares of MCIWorldCom, Inc. ("WorldCom") in early 1998. In the second quarter of 1998, the Company sold 750,000 shares of WorldCom common stock for \$35.6 million. In January 1999, the Company sold its remaining shares of WorldCom stock for \$20.1 million.

In January 1997 the Company acquired Pecoco, Inc., a provider of local exchange telephone service in four counties in Wisconsin. As a result of the acquisition, the Company acquired (i) more than 7,600 telephone access lines, (ii) a minority interest in two cellular partnerships serving Madison and Milwaukee, Wisconsin, representing approximately 35,000 pops and (iii) certain cable television assets.

In August 1998 the Company entered into a definitive agreement to sell the stock of the entities conducting the Company's Alaska operations to ALEC Acquisition Corporation for \$415 million cash, subject to various adjustments. Proceeds from this transaction will be used to reduce debt. The Alaska transaction is anticipated to close in the second quarter of 1999, subject to regulatory approvals and various closing conditions. The transaction is also subject to the buyer's receipt of financing pursuant to its existing debt and equity financing commitments.

In January 1999 the Company signed definitive asset purchase agreements to sell all of the operations of the Brownsville and McAllen, Texas, cellular markets to Western Wireless Corporation for \$95 million cash, subject to various adjustments. The Company, which is the majority owner in these markets, will receive a proportionate share of the sale proceeds of approximately \$39 million after-tax. The transaction is

expected to close in the second quarter of 1999, subject to regulatory approvals, the satisfactory completion of buyer's due diligence and various other closing conditions.

Over the past several years, the Company has expanded its operations through an ongoing program of acquisitions. Substantial acquisitions during the last five years also include the 1994 acquisition of Celutel, Inc. (over 1.1 million pops). The Company continually evaluates the possibility of acquiring additional telecommunications assets in exchange for cash, securities or both, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. Over the past few years, the number and size of communications properties on the market has increased substantially. Recently, two large communications companies announced their intent to sell up to 1.6 million primarily rural access lines. Although the Company's primary focus will continue to be on acquiring telephone and wireless interests that are proximate to its properties or that serve a customer base large enough for the Company to operate efficiently, other communications interests may also be acquired.

Other. As of December 31, 1998, the Company had approximately 5,800 employees, approximately 1,000 of whom were members of seven different bargaining units represented by the International Brotherhood of Electrical Workers, Communications Workers of America, or the NTS Employee Committee. Relations with employees continue to be generally good.

In mid-1998, the Company adopted the tradename "CenturyTel" as part of its branding strategy to operate under a single name. The Company currently markets its telephone, cellular, long distance, Internet access and most of its other services under the CenturyTel tradename. Century proposes to formally change its corporate name to CenturyTel, Inc. at its 1999 annual shareholders meeting scheduled for May 6, 1999.

Century was incorporated under Louisiana law in 1968 to serve as a holding company for several telephone companies acquired over the previous 15 to 20 years. Century's principal executive offices are located at 100 Century Park Drive, Monroe, Louisiana 71203 and its telephone number is (318) 388-9000.

### TELEPHONE OPERATIONS

According to published sources, the Company is the ninth largest local exchange telephone company in the United States, based on the more than 1.3 million access lines it served at December 31, 1998. All of the Company's access lines are digitally switched. Through its operating telephone subsidiaries, the Company provides services to predominately rural, suburban and small urban markets in 21 states. The table below sets forth certain information with respect to the Company's access lines as of December 31, 1998 and 1997.

	December 31, 1998		December 31, 1997	
State	Number of access lines	Percent of access lines	Number of access lines	Percent of access lines
Wisconsin	340,895	25%	245,091	20%
Washington	175,508	13	166,611	14
Alaska	131,858	10	124,869	10
Michigan	108,769	8	104,440	9
Louisiana	97,676	7	94,432	8
Colorado	86,249	7	81,206	7
Ohio	80,400	6	77,987	7
Oregon	75,392	6	71,544	6
Montana	60,657	5	57,390	5
Texas	44,822	3	41,852	4
Arkansas	43,778	3	42,193	4
Minnesota	29,708	2	29,029	2
Tennessee	25,609	2	24,578	2
Mississippi	19,648	2	17,839	2
Idaho	5,881	1	5,746	-
New Mexico	5,770	-	5,559	-
Indiana	5,136	-	4,975	-
Wyoming	4,663	-	4,447	-
Iowa	1,938	-	1,801	-
Arizona	1,780	-	1,624	-
Nevada	430	-	437	-
	1,346,567	100%	1,203,650	100%

As indicated in the following table, the Company has experienced growth in its telephone operations over the past several years, a substantial portion of which was attributable to the acquisition of PTI and other telephone properties and to the expansion of services:

Year ended or as of December 31,				
1998	1997	1996	1995	1994
(Dollars in thousands)				

Access lines	1,346,567	1,203,650	503,562	480,757	454,963
% Residential	74%	74	77	78	79
% Business	26%	26	23	22	21
Operating revenues	\$1,091,610	530,597	451,538	419,242	391,265
Capital expenditures \$	233,190	115,854	110,147	136,006	152,336

Future growth in telephone operations is expected to be derived from (i) acquiring additional telephone properties, (ii) providing service to new customers, (iii) increasing network usage and (iv) providing additional services made possible by advances in technology and changes in regulation. For information on developing competitive trends, see "-Regulation and Competition."

## Services

The Company's local exchange telephone subsidiaries derive revenue from providing (i) local telephone services, (ii) network access services and (iii) other related services. The following table reflects the percentage of telephone operating revenues derived from these respective services:

	1998	1997	1996
Local service	30.4%	27.8	26.9
Network access	57.7	60.2	61.2
Other	11.9	12.0	11.9
	100.0%	100.0	100.0

Local service revenues are derived from the provision of local exchange telephone services in the Company's service areas. Internal access line growth during 1998, 1997 and 1996 was 4.7%, 4.4% and 4.3%, respectively. The Company believes that access line growth in the future should benefit from population growth in its service areas, acquisitions and increases in the number of households maintaining more than one access line. The Company markets local Internet access in 396 communities in 12 states, which the Company believes has led to an increase in orders for second lines.

Network access revenues primarily relate to services provided by the Company to long distance carriers and other customers in connection with the use of the Company's facilities to originate and terminate interstate and intrastate long distance telephone calls. Access charges to long distance carriers and other customers are based on tariffed access rates filed with the Federal Communications Commission ("FCC") for interstate services and with the respective state regulatory agency for intrastate services. Certain of the Company's interstate network access revenues are based on access charges filed directly with the FCC; the remainder of such revenues are derived under revenue sharing arrangements with other LECs administered by the National Exchange Carrier Association ("NECA").

Certain of the Company's intrastate network access revenues are derived through access charges billed by the Company to intrastate long distance carriers and other LEC customers. Such intrastate network access charges are based on access tariffs, which are subject to state regulatory commission approval. Additionally, certain of the Company's intrastate network access revenues, along with intrastate long distance revenues, are derived through revenue sharing arrangements with other LECs.

The installation of digital switches and related software has been an important component of the Company's growth strategy because it allows the Company to offer enhanced services (such as call forwarding, conference calling, caller identification, selective call ringing and call waiting) and to thereby increase utilization of existing access lines. In 1998 the Company continued to expand its list of premium services (such as voice mail and Internet access) offered in certain service areas and aggressively marketed these services.

The Company is installing fiber optic cable in certain of its high traffic routes and provides alternative routing of telephone service over fiber optic cable networks in several strategic operating areas. At December 31, 1998, the Company's telephone subsidiaries had over 8,350 miles of fiber optic cable in use.

Other revenues include revenues related to (i) leasing, selling, installing, maintaining and repairing customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for long distance companies, (iii) participating in the publication of local directories and (iv) providing Internet access. At the end of 1998, the Company offered Internet access in telephone markets representing 60% of its access lines. Certain large communications companies for which the Company currently provides billing and collection services continue to indicate their desire to reduce their billing and collection expenses, which may result in future reductions of the Company's billing and collection revenues.

For further information on the regulation of the Company's revenues, see "-Regulation and Competition."

## Federal Financing Programs

Certain of the Company's telephone subsidiaries receive long-term financing from the Rural Utilities Service ("RUS") and the Rural Telephone Bank ("RTB"). The RUS has made long-term loans to telephone companies since 1949 for the purpose of improving telephone service in rural areas. The RUS continues to make new loans at interest rates that range from 5% to 7% based on borrower qualifications and the cost of funds to the United States government. The RTB, established in 1971, makes long-term loans at interest rates based on its average cost of funds as determined by statutory formula (such rates ranged from 5.71% to 5.96% for the fiscal year ended September 30, 1998), and in some cases makes loans concurrently with RUS loans. Most of the Company's telephone plant is pledged or mortgaged to secure obligations of the Company's telephone subsidiaries to the RUS and RTB. The Company's telephone subsidiaries which have borrowed from government agencies generally may not loan or advance any funds to Century, but may pay dividends if certain financial covenants are met.

For additional information regarding the Company's financing, see the Company's consolidated financial statements included in Item 8 herein.

## **Regulation and Competition**

Traditionally, LECs have operated as regulated monopolies. Consequently, the majority of the Company's telephone operations have traditionally been regulated extensively by various state regulatory agencies (generally called public service commissions or public utility commissions) and by the FCC. As discussed in greater detail below, passage of the Telecommunications Act of 1996 (the "1996 Act"), coupled with state legislative and regulatory initiatives and technological changes, has fundamentally altered the telephone industry by reducing the regulation of LECs and permitting competition in each segment of the telephone industry. Although Century anticipates that these trends towards reduced regulation and increased competition will continue, it is difficult to determine the form or degree of future regulation and competition in the Company's service areas.

State regulation. The local service rates and intrastate access charges of substantially all of the Company's telephone subsidiaries are regulated by state regulatory commissions. Most of such commissions have traditionally regulated pricing through "rate of return" regulation that focuses on authorized levels of earnings by LECs. Most of these commissions also (i) regulate the purchase and sale of LECs, (ii) prescribe depreciation rates and certain accounting procedures and (iii) regulate various other matters, including certain service standards and operating procedures.

In recent years, state legislatures and regulatory commissions having jurisdiction over the Company's telephone subsidiaries in most of the states in which the Company has substantial operations have either begun to reduce the regulation of LECs or have announced their intention to do so, and it is expected that this trend will continue. Wisconsin, Louisiana and several other of these states have passed legislation which permit LECs to opt out of rate of return regulation in exchange for agreeing to alternative forms of regulation which typically permit the LEC greater freedom to establish service rates in exchange for agreeing not to charge rates in excess of specified caps. The Company continues to explore its options in these states. The Company believes that reduced regulatory oversight of certain of the Company's telephone operations may allow the Company to offer new and competitive services faster than under the traditional regulatory process. Coincident with these efforts, legislative, regulatory and technological changes have introduced competition into the local exchange industry. See "-Developments Affecting Competition."

Substantially all of the state regulatory commissions have statutory authority, the specific limits of which vary, to initiate and conduct earnings reviews of the LECs that they regulate. As part of the movement towards deregulation, several states are moving away from traditional rate of return regulation towards price cap regulation and incentive regulation (which are similar to the FCC regulations discussed below), and are actively encouraging larger LECs to adopt these newer forms of price regulation. The continuation of this trend may lead to fewer earnings reviews in the future. Currently, however, most of the Company's LECs continue to be regulated under rate of return regulation.

During 1995 the Louisiana Public Service Commission ("LPSC") adopted a new regulatory plan for independent telephone companies in Louisiana that incrementally reduced the Company's access revenues between 1996 and 1998. In 1997 the LPSC adopted a Consumer Price Protection Plan (the "Louisiana Plan"), effective July 1997, which impacts all of the Company's LECs operating in Louisiana. The new form of regulation will focus on price and quality of service. Under the Louisiana Plan, the Company's Louisiana LECs' local rates were frozen for a period of three years and access rates were frozen for a period of two years. Although the Louisiana Plan has no specified term, the LPSC is required to review it by mid-2000. The Company's Louisiana LECs have the option to propose a new plan at any time if the LPSC determines that (i) effective competition exists or (ii) unforeseen events threaten the subsidiary's ability to provide adequate service or impair its financial health.

The Company's telephone operations in Wisconsin that were acquired in the December 1997 acquisition of PTI have been regulated under an alternative regulation plan (the "Wisconsin Plan") since June 1996. The Wisconsin Plan has a five-year term and includes a provision that allows the Company's subsidiary covered by such plan to freely adjust rates within specified parameters if certain quality-of-service and infrastructure-development commitments are met. The Wisconsin Plan also includes initiatives designed to promote competition. In early 1999, another of the Company's Wisconsin LECs filed a request with the Wisconsin Public Service Commission to be regulated under an alternative regulation plan.

The Michigan Public Service Commission regulates the Company's Michigan telephone subsidiaries pursuant to the parameters established by the Michigan Telecommunications Act of 1995 ("MTA"). The MTA restructured regulation to focus on price and quality of service as opposed to traditional rate of return regulation. The MTA relies more on existing federal and state law regarding antitrust consumer protection and fair trade to provide safeguards for competition and consumers.

FCC regulation. The FCC regulates the interstate services provided by the Company's telephone subsidiaries primarily by regulating the

interstate access charges that are billed to long distance companies and other LEC customers by the Company for use of its local network in connection with the origination and termination of interstate telephone calls. Additionally, the FCC has prescribed certain rules and regulations for telephone companies, including regulations regarding the use of radio frequencies; a uniform system of accounts; and rules regarding the separation of costs between jurisdictions and, ultimately, between interstate services.

Effective January 1, 1991, the FCC adopted price-cap regulation relating to interstate access rates for the Regional Bell Operating Companies ("RBOCs") and GTE Corporation. All other LECs may elect to be subject to price-cap regulation. Under price-cap regulation, limits imposed on a company's interstate rates are adjusted periodically to reflect inflation, productivity improvement and changes in certain non-controllable costs. In May 1993 the FCC adopted an optional incentive regulatory plan for LECs not subject to price-cap regulation. A LEC electing the optional incentive regulatory plan would, among other things, file tariffs based primarily on historical costs and not be allowed to participate in the relevant NECA pooling arrangements. The Company has not elected price-cap regulation or the optional incentive regulatory plan, but will continue to evaluate its options on a periodic basis. Either election, if made by the Company, would have to be applicable to all of the Company's telephone subsidiaries. The authorized interstate access rate of return for the Company's telephone subsidiaries is currently 11.25%, which is the authorized rate established by the FCC for LECs not governed by price-cap regulation or the optional incentive regulatory plan.

In September 1998, the FCC initiated a proceeding to represcribe the authorized rate of return for interstate access services provided by LECs. The FCC periodically represcribes this rate of return to ensure that the service rates filed by incumbent LECs subject to rate of return regulation continue to be just and reasonable. It is uncertain whether or by how much the FCC may lower the authorized rate of return.

In an access charge reform order adopted in May 1997, the FCC changed its system of interstate access charges to make them compatible with the deregulatory framework established by the 1996 Act. Such changes are primarily applicable to price-cap companies. The Company's telephone subsidiaries determine interstate revenues under rate of return regulation and are, therefore, only minimally impacted by the access charge reform order. In July 1998, the FCC issued a Notice of Proposed Rulemaking to amend the access charge rules for rate of return companies in a manner similar to that adopted for price cap companies, subject to reviewing whether differences exist between price cap companies and rate of return companies that would require different rules in order to achieve the goal of fostering an efficient, competitive marketplace. Comments were filed with the FCC in August 1998; the FCC has not yet issued a final ruling on this matter.

In 1998 the FCC created a federal-state joint board to review jurisdictional separations procedures through which the costs of regulated telecommunications services are allocated to the interstate and intrastate jurisdictions.

High-cost support funds, revenue sharing arrangements and related matters. A significant number of the Company's telephone subsidiaries recover a portion of their costs under federal and state cost recovery mechanisms that traditionally have allowed LECs serving small communities and rural areas to provide communications services reasonably comparable to those available in urban areas and at reasonably comparable prices.

The 1996 Act authorized the establishment of new federal and state universal service funds to provide continued support to eligible telecommunications carriers. In May 1997 the FCC adopted an order on universal service, as mandated by the 1996 Act. In the order, the FCC ruled that rural telephone companies which are designated eligible telecommunications carriers will continue to receive universal service funding. Each of the Company's LECs has been so designated by its respective state regulatory agency. As a result, the Company's LECs will continue to receive payments under the federal support mechanisms currently in effect until the FCC adopts funding support mechanisms based on forward-looking economic costs, which it is required to do, but no earlier than January 2001. Although the Company anticipates that it may experience a reduction in its federal support revenues at some point in the future, management believes it is premature to assess or estimate the ultimate impact thereof. There can be no assurance, however, that such impact will not be material. During 1998 and 1997 the Company's telephone subsidiaries received \$127.6 million and \$65.4 million, respectively, from the federal Universal Service Fund.

As part of its universal service order, the FCC also established a new program to provide up to \$2.25 billion of discounted telecommunications services annually to schools and libraries, commencing January 1998. In addition, the FCC established a \$400 million annual fund to provide discounted telecommunications services for rural health care providers. All communications carriers providing interstate telecommunications services, including the Company's LECs and its cellular and long distance operations, are required to contribute to these programs. The FCC has stated that local exchange telephone companies will recover their funding contributions in their rates for interstate services. The Company's contribution by its cellular and long distance operations for 1998, which was passed on to its customers, was approximately \$3.1 million.

Some of the Company's telephone subsidiaries operate in states where traditional cost recovery mechanisms, including rate structures, are under evaluation or have been modified. See "-State Regulation." There can be no assurance that these states will continue to provide for cost recovery at current levels.

Substantially all of the Company's LECs concur with the common line tariffs and certain of the Company's LECs concur with the traffic sensitive tariffs filed by the NECA; such LECs participate in the access revenue sharing arrangements administered by the NECA for interstate services. All of the intrastate network access revenues of the Company's LECs are based on access charges, cost separation studies or special settlement arrangements. See "-Services."

Certain long distance carriers continue to request that certain of the Company's LECs reduce intrastate access tariffed rates. There is no assurance that these requests will not result in decreased access revenues.

Developments affecting competition. The communications industry is currently undergoing fundamental changes which may have a significant

impact on the future operations and financial performance of all communications companies. Primarily as a result of legislative and regulatory initiatives and technological changes, competition has been introduced and encouraged in each sector of the telephone industry, including, most recently, the local exchange sector. As a result, the number of companies offering competitive services has increased substantially.

As indicated above, in February 1996 Congress enacted the 1996 Act, which obligates LECs to permit competitors to interconnect their facilities to the LEC's network and to take various other steps that are designed to promote competition. The 1996 Act imposes several duties on a LEC if it receives a specific request from another entity which seeks to connect with or provide services using the LEC's network. In addition, each incumbent LEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide "unbundled" access to all aspects of the LEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors to collocate its physical plant on the LEC's property, or provide virtual collocation if physical collocation is not practicable. Although the 1996 Act provides certain exemptions for rural LECs such as those operated by the Company, the FCC's August 1996 order implementing most of the 1996 Act's interconnection provisions placed the burden of proving the continuing availability of these exemptions on rural LECs. States are permitted to adopt laws or regulations that provide for greater competition than is mandated under the 1996 Act. Although substantial portions of the FCC's August 1996 interconnection order have survived judicial challenge, the FCC has neither completed its interconnection rulemaking nor issued rules on universal service or access reform. Management believes that competition in its telephone service areas will ultimately increase as a result of the 1996 Act, although the form and degree of competition cannot be ascertained until such time as the FCC (and, in certain instances, state regulatory commissions) adopts final and nonappealable implementing regulations.

Substantially all of the 21 states in which the Company provides telephone services have taken legislative or regulatory steps to further introduce competition into the LEC business. Largely as a result of these steps and the 1996 Act, several competitive access providers originally organized to provide redundancy or access services have begun, during the past several years, to provide competitive local exchange services, principally in urban areas. Moreover, several well-capitalized long distance, cable television, wireless and electric utility companies, along with several start-up companies, have also begun to provide competitive local exchange services or announced their intention to do so, and this trend is expected to continue. Currently the Company is subject to a limited number of agreements permitting competitors in Wisconsin to purchase from the Company unbundled network elements or wholesale services, and the Company is aware of only a few other companies that have requested authorization to provide local exchange service in the Company's service areas. Over time, however, the Company anticipates that several more companies will request authorization to provide competitive services, especially in its operating areas located near larger urban areas.

In addition to receiving services directly from companies competing with incumbent LECs, long distance companies and other users of toll service are expected to increasingly seek other means to bypass LECs' switching services and local distribution facilities. Certain interexchange carriers provide services which allow users to divert their traffic from LECs' usage-sensitive services to their flat-rate services. In addition, users or long distance companies may construct, modify or lease facilities to transmit traffic directly from a user to a long distance company. Cable television companies, in particular, may be able to modify their networks to partially or completely bypass the Company's local network. Moreover, users may choose to use wireless services to bypass LECs' switching services. Although certain of the Company's telephone subsidiaries have experienced a loss of traffic to such bypass, the Company believes that the impact of such loss on revenues has not been significant.

Historically, cellular telephone services have complemented traditional LEC services. However, the Company anticipates that existing and emerging wireless technologies will increasingly compete with LEC services. Technological and regulatory developments in cellular telephone, personal communications services, digital microwave, coaxial cable, fiber optics, local-multipoint-distribution services and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline services. For further information on certain of these developments, see "Wireless Operations - Regulation and Competition."

To the extent that the telephone industry increasingly experiences competition, the size and resources of each respective competitor may increasingly influence its prospects. Many companies currently providing or planning to provide competitive communication services have substantially greater financial and marketing resources than the Company, and several are not subject to the same regulatory constraints as the Company.

The Company anticipates that the traditional operations of LECs will be increasingly impacted by continued technological developments as well as legislative and regulatory initiatives affecting the ability of LECs to provide new services and the capability of long distance companies, competitive local exchange providers, wireless companies, cable television companies and others to provide competitive LEC services. Competition relating to services traditionally provided solely by LECs is expected to initially affect large urban areas to a greater extent than rural, suburban and small urban areas such as those in which the Company operates. The Company intends to actively monitor these developments, to observe the effect of emerging competitive trends in initial competitive markets and to continue to evaluate new business opportunities that may arise out of future technological, legislative and regulatory developments.

The Company anticipates that regulatory changes and competitive pressures may result in future revenue reductions in its telephone operations. However, the Company anticipates that such reductions may be minimized by increases in revenues attributable to the continued demand for enhanced services and new product offerings. While the Company expects its telephone revenues to continue to grow, its internal telephone revenue growth rate may slow during upcoming periods.

## **CELLULAR OPERATIONS**

At December 31, 1998, the Company's cellular holdings represented approximately 10.1 million pops, of which 67% were applicable to MSAs



and 33% were RSA pops. According to data derived from published sources, the Company is the tenth largest cellular telephone company in the United States based on the Company's 10.1 million pops.

## **Cellular Industry**

The cellular telephone industry has been in existence for approximately 15 years in the United States. The industry has grown significantly during this period and cellular service is now available in substantially all areas of the United States. According to the Cellular Telecommunications Industry Association, at September 1998 there were estimated to be over 51 million cellular customers across the United States.

Until recently, substantially all radio transmissions of cellular systems were conducted on an analog basis. Technological developments involving the application of digital radio technology offer certain advantages over analog technologies, including expanding the capacity of mobile communications systems, improving voice clarity, permitting the introduction of new services, and making such systems more secure. Providers of certain services competitive with cellular have incorporated digital technology into their operations. In recent years most major cellular carriers have installed digital cellular voice transmission facilities in certain of their systems, principally in larger markets. Digital service is now available in 95% of the Company's MSA markets and the Company plans to expand the marketing of such service during 1999. See "-Regulation and Competition-Developments Affecting Wireless Competition."

## **Construction and Maintenance**

The construction and maintenance of cellular systems is capital intensive. Although all of the Company's MSA and RSA systems have been operational for several years, the Company has continued to add cell sites to increase coverage, provide additional capacity, and improve the quality of these systems. In 1998 the Company completed construction of 57 cell sites in markets operated by the Company. At December 31, 1998, the Company operated 615 cell sites in its majority-owned markets.

During the last few years the Company upgraded certain portions of its cellular systems to be capable of providing digital service. Such service became operational in certain markets during 1996 and 1997 using the TDMA digital standard and the Company continued to install digital voice transmission facilities in other markets in 1998. See "-Regulation and Competition-Developments Affecting Wireless Competition." Capital expenditures related to majority-owned and operated cellular systems totaled approximately \$49.5 million in 1998. Such capital expenditures for 1999 are anticipated to be approximately \$70 million.

## **Strategy**

The Company's business development strategy for its cellular telephone operations is to secure operating control of service areas that are geographically clustered. Clustered cellular systems aid the Company's marketing efforts and provide various operating and service advantages. Approximately 43% of the Company's pops in markets operated by the Company are in a single, contiguous cluster of eight MSAs and nine RSAs in Michigan; another 17% are in a cluster of five MSAs and seven RSAs in northern and central Louisiana, southern Arkansas and eastern Texas. See "-The Company's Cellular Interests."

Another component of the Company's strategy for cellular operations includes capturing revenues from roaming service. Roaming service revenues are derived from calls made in one cellular service area by subscribers from other service areas. Roaming service is made possible by technical standards requiring that cellular telephones be functionally compatible with the cellular systems in all United States market areas. In exchange for providing roaming service to customers of other cellular carriers, the Company charges premium rates to most of these other carriers, who then frequently pass on some or all of these premium rates to their own customers. The Company's Michigan cellular properties include a significant portion of the interstate highway corridor between Chicago and Detroit. Its Louisiana properties include an east-west interstate highway and a north-south interstate highway which intersect in its Louisiana cellular service area. Its Mississippi properties include two east-west interstate highways and two north-south interstate highways. See "-Services, Customers and System Usage."

## **Marketing**

The Company markets its cellular services through several distribution channels, including its direct sales force, retail outlets owned by the Company and independent agents. All sales employees and certain independent agents solicit cellular customers exclusively for the Company. Company sales employees are compensated by salary and commission and independent sales agents are paid commissions. The Company advertises its services through various means, including direct mail, billboard, magazine, radio, television and newspaper advertisements.

The sales and marketing costs of obtaining new subscribers include advertising and a direct expense applicable to most new subscribers, either in the form of a commission payment to an agent or an incentive payment to a direct sales employee. In addition, the Company discounts the cost of cellular telephone equipment, and periodically runs promotions which waive certain fees or provide some amount of free service to new subscribers. The average cost of acquiring each new customer (\$268 in 1998) remains one of the larger expenses in conducting the Company's cellular operations. In recent years, the Company has sought to lower this average cost by focusing more on its direct distribution channels. The Company opened its first retail outlet in 1994, and currently operates 59 such outlets. During 1998, approximately 58% of new cellular customers were added through direct distribution channels, up from 37% during 1996.

## **Services, Customers and System Usage**

There are a number of different types of cellular telephones, all of which are currently compatible with cellular systems nationwide. The Company sells a full range of vehicle-mounted, transportable, and hand-held portable cellular telephones.

The Company charges its subscribers for access to its systems, for minutes of use and for enhanced services, such as voice mail. A subscriber may purchase certain of these services separately or may purchase rate plans which bundle these services in different ways and are designed to fit different calling patterns. While the Company historically has typically charged its customers separately for custom-calling features, air time in excess of the packaged amount, and toll calls, it currently offers plans which include features such as unlimited toll calls and unlimited weekend calling in certain calling areas. Custom-calling features provided by the Company include call-forwarding, call-waiting, three-way calling and no-answer transfer. The Company offers voice message service in many of its markets. In the Company's markets where digital service is operational, customers can subscribe to caller ID and other digital enhancements.

Cellular customers come from a wide range of occupations and typically include a large proportion of individuals who work outside of their office. In recent years, the individual consumer market has generated a majority of new customer additions. The Company's average monthly cellular service revenue per customer declined to \$57 in 1998 from \$61 in 1997 and \$63 in 1996. Such average revenue per customer may further decline (i) as market penetration increases and additional lower usage customers are activated and (ii) as competitive pressures from current and future wireless communications providers intensify. See "-Regulation and Competition."

Most cellular systems allow a customer to place or receive a call in a cellular service area away from the customer's home market area. The Company has entered into "roaming agreements" with operators of other cellular systems covering virtually all markets in the United States; such agreements offer the Company's customers the opportunity to roam in these markets. Also, a customer of a participating non-Company system traveling in a market operated by the Company where this arrangement is in effect is able to automatically make calls on the Company's system. The charge to a non-Company customer for this service is typically at premium rates, and is billed by the Company to the customer's service provider, which then bills the customer. In most instances, based on competitive factors and financial considerations, the Company charges an amount to its customers that is equal to or lower than the amount actually charged by the cellular carrier providing the roaming service. The Company anticipates that competitive factors and industry consolidation may place further pressure on charging premium roaming rates. For additional information on roaming revenue, see "-Strategy."

Roamer fraud, a cellular industry problem, occurs when cellular telephone equipment is programmed to conceal the true identity and location of the user. The Company and the industry have implemented extensive fraud control processes in an attempt to minimize roamer fraud.

Churn rate (the average percentage of cellular customers that terminate service each month) is an industry-wide concern. A significant portion of the churn in the Company's markets is due to the Company disconnecting service to cellular customers for nonpayment of their bills. In addition, the Company faces substantial competition from the other wireless providers, including PCS providers. The Company's average monthly churn rate in its majority-owned and operated markets was 2.23% in 1998 and 2.31% in 1997. The Company is attempting to lower its churn rate by increasing its proactive customer service efforts and through the implementation of additional customer retention programs.

During recent years, the Company's cellular subsidiaries experienced strong subscriber growth in the fourth quarter, primarily due to holiday season sales.

The following table summarizes, among other things, certain information about the Company's customers and market penetration:

	Year ended or at December 31,		
	1998	1997	1996
Majority-owned and operated MSA and RSA systems (Note 1):			
Cellular systems operated	44	44	34
Cell sites	615	558	354
Population of systems operated (Note 2)	9,026,150	9,008,219	7,097,568
Customers (Note 3):			
At beginning of period	569,983	368,233	290,075
Gross units added internally	214,596	193,623	165,377
Net effect of property acquisitions/dispositions	-	123,600	4,850
Disconnects	160,460	115,473	92,069
At end of period	624,119	569,983	368,233
Market penetration at end of period (Note 4)	6.9%	6.3	5.2
Churn rate (Note 5)	2.23%	2.31	2.37
Average monthly cellular service revenue per customer			
	\$ 57	61	63
Construction expenditures (in thousands)	\$ 49,538	39,102	83,679
All operated MSA and RSA systems (Note 6):			
Cellular systems operated	51	50	38
Cell sites	729	656	413
Population of systems operated (Note 2)	10,312,145	10,124,759	7,946,442
Customers at end of period (Note 7)	689,181	632,446	407,400

Market penetration at end of period (Note 8)	6.7%	6.2	5.1
Churn rate (Note 5)	2.34%	2.33	2.32

## Notes:

1. Represents the number of systems in which the Company owned at least a 50% interest. The revenues and expenses of these cellular markets, all of which are operated by the Company, are included in the Company's consolidated operating revenues and operating expenses.
2. Based on independent third-party population estimates for each respective year.
3. Represents the approximate number of revenue-generating cellular telephones served by the cellular systems referred to in note 1.
4. Computed by dividing the number of customers at the end of the period by the total population of systems referred to in note 1.
5. Represents the average percentage of customers that are disconnected on a monthly basis.
6. Represents the total number of systems that the Company operated, including systems in which it does not own a majority interest.
7. Represents the approximate number of revenue-generating cellular telephones served by the cellular systems referred to in note 6.
- 8 Computed by dividing the number of customers at the end of the period by the total population of systems referred to in note 6.

## The Company's Cellular Interests

The Company obtained the right to provide cellular service through (i) the FCC's licensing process described below, under which it received interests in wireline licenses, and (ii) its acquisition program, under which it has acquired interests in both wireline and non-wireline licenses. The table below sets forth certain information with respect to the interests in cellular systems that the Company owned as of December 31, 1998:

	1998 population (Note 1)	Ownership percentage	The Company's pops at 12/31/98	Other cellular operator (Note 2)
Majority-owned and operated MSAs				
Pine Bluff, AR	81,588	100.00%	81,588	SBC
Texarkana, AR/TX	137,764	89.00	122,610	AT&T
Alexandria, LA	143,311	100.00	143,311	Centennial
Monroe, LA	147,570	87.00	128,386	AT&T
Shreveport, LA	379,370	87.00	330,052	AT&T
Battle Creek, MI	195,400	97.00	189,538	Centennial
Benton Harbor, MI	161,753	97.00	156,900	Centennial
Grand Rapids, MI	770,152	97.00	747,047	AirTouch
Jackson, MI	156,316	97.00	151,627	Centennial
Kalamazoo, MI	308,144	97.00	298,900	Centennial
Lansing-E. Lansing, MI	512,390	97.00	497,018	AirTouch
Muskegon, MI	191,712	97.00	185,961	AirTouch
Saginaw-Bay City- Midland, MI	404,426	91.70	370,859	AirTouch
Biloxi-Gulfport, MS (Note 4)	232,431	96.45	224,182	Cellular South
Jackson, MS (Note 4)	426,583	89.58	382,130	MCTA
Pascagoula, MS (Note 4)	130,979	89.22	116,862	Cellular South
Brownsville- Harlingen, TX (Note 4)	329,824	78.74	259,700	SBC
McAllen-Edinburg- Mission, TX (Note 4)	525,734	69.50	365,372	SBC
Appleton-Oshkosh- Neenah, WI	500,164	98.85	494,401	U.S. Cellular
Eau Claire, WI	143,664	55.50	79,734	American Cellular
LaCrosse, WI	102,768	95.00	97,630	U. S. Cellular
	5,982,043		5,423,808	
Minority-owned MSAs (Note 3)				
Little Rock, AR	555,272	36.00%	199,898	
Lafayette, LA	262,964	49.00	128,852	
Detroit, MI	4,761,992	3.20	152,289	
Flint, MI	511,788	3.20	16,367	
Rochester, MN	113,844	2.93	3,336	
Austin, TX	1,016,912	35.00	355,919	
Dallas-Ft. Worth, TX	4,630,120	0.50	23,151	
Sherman-Denison, TX	102,618	0.50	513	
Madison, WI	702,398	9.78	68,688	
Milwaukee, WI	1,972,973	17.96	354,405	
	14,630,881		1,303,418	

Total MSAs	20,612,924		6,727,226	
Operated RSAs				
Alaska 1 (Note 4)	85,056	100.00%	85,056	Mactel
Alaska 3	74,712	100.00	74,712	Mercury
Arkansas 2	87,646	82.00	71,870	SBC
Arkansas 3	103,724	82.00	85,054	SBC
Arkansas 11	66,228	89.00	58,943	SBC
Arkansas 12	185,325	80.00	148,260	SBC
Louisiana 1	112,083	87.00	97,512	AT&T
Louisiana 2	115,624	87.00	100,593	AT&T
Louisiana 3 B2	96,231	87.00	83,721	Centennial
Louisiana 4	72,615	100.00	72,615	Centennial
Michigan 1	196,408	100.00	196,408	American Cellular
Michigan 2	113,772	100.00	113,772	RFB
Michigan 3	164,586	42.84	70,509	Unitel
Michigan 4	135,657	100.00	135,657	RFB
Michigan 5	161,584	42.84	69,223	Unitel
Michigan 6	142,356	98.00	139,509	Centennial
Michigan 7	244,148	56.07	136,895	Centennial
Michigan 8	101,746	97.00	98,694	Allegan Cellular
Michigan 9	301,227	43.38	130,672	Centennial
Mississippi 2 (Note 4)	249,231	100.00	249,231	Bell South Mobility
Mississippi 5	159,176	-	-	
Mississippi 6 (Note 4)	183,177	100.00	183,177	Cellular South
Mississippi 7 (Note 4)	181,661	100.00	181,661	MCTA
Texas 7 B6	58,013	89.00	51,632	AT&T
Wisconsin 1	112,351	42.21	47,421	American Cellular
Wisconsin 2	86,024	99.00	85,164	American Cellular
Wisconsin 5	95,903	-	-	American Cellular
Wisconsin 6	116,145	57.14	66,369	U.S. Cellular
Wisconsin 7	291,168	22.70	66,100	U.S. Cellular
Wisconsin 8	236,525	84.00	198,681	U.S. Cellular
	4,330,102		3,099,111	
Non-operated RSAs (Note 3)				
Michigan 10	137,398	26.00	35,723	
Minnesota 7	172,206	2.93	5,046	
Minnesota 8	67,467	2.93	1,977	
Minnesota 9	134,073	2.93	3,928	
Minnesota 10	230,077	2.93	6,741	
Minnesota 11	205,949	2.93	6,034	
Texas 16	334,056	9.60	32,069	
Washington 5	60,311	8.47	5,109	
Washington 8	137,237	7.36	10,095	
Wisconsin 3	142,332	42.86	61,000	
Wisconsin 4	119,763	25.00	29,941	
Wisconsin 10	129,404	22.50	29,116	
	1,870,273		226,779	
Total RSAs	6,200,375		3,325,890	
	26,813,299		10,053,116	

#### Notes:

1. Based on 1998 independent third-party population estimates.
2. Information provided to the best of the Company's knowledge. There is also at least one PCS competitor in each of the operated MSAs and certain of the operated RSAs.
3. Markets not operated by the Company.
4. Represents a non-wireline interest.

For information on certain cellular properties that the Company has agreed to sell, see "-Recent acquisitions and dispositions" above.

#### Operations

A substantial number of the cellular systems in MSAs operated by the Company are owned by limited partnerships in which the Company is a general partner ("MSA Partnerships"). Most of these partnerships are governed by partnership agreements with similar terms, including, among

other things, customary provisions concerning capital contributions, sharing of profits and losses, and dissolution and termination of the partnership. Most of these partnership agreements vest complete operational control of the partnership with the general partner. The general partner typically has the power to manage, supervise and conduct the affairs of the partnership, make all decisions appropriate in connection with the business purposes of the partnership, and incur obligations and execute agreements on behalf of the partnership. The general partner also may make decisions regarding the time and amount of cash contributions and distributions, and the nature, timing and extent of construction, without the consent of the other partners. The Company owns more than 50% of all of the MSA Partnerships.

A substantial number of the cellular systems in RSAs operated by the Company are also owned by limited or general partnerships in which the Company is either the general or managing partner (the "RSA Partnerships"). These partnerships are governed by partnership agreements with varying terms and provisions. In many of these partnerships, the noncontrolling partners have the right to vote on major issues such as the annual budget and system design. In a few of these partnerships, the Company's management position is for a limited term (similar to a management contract) and the other partners in the partnership have the right to change managers, with or without cause. The Company owns less than 50% of some of the RSA Partnerships.

The partnership agreements for both the MSA Partnerships and RSA Partnerships generally contain provisions granting all partners a right of first refusal in the event a partner desires to transfer a partnership interest. This restriction on transfer can under certain circumstances make these partnership interests more difficult to sell to a third party.

**Revenue**

The following table reflects the major revenue categories for the Company's wireless operations as a percentage of wireless operating revenues in 1998, 1997 and 1996.

	1998	1997	1996
-----	-----	-----	-----
Cellular access fees and toll revenues	74.2%	78.2	79.7
Cellular roaming	23.6	20.0	18.6
Equipment sales	2.2	1.8	1.7
-----	-----	-----	-----
	100.0%	100.0	100.0
=====	=====	=====	=====

For further information on these revenue categories, see "-Services, Customers and System Usage."

**Regulation and Competition**

As discussed below, the FCC and various state public utility commissions regulate, among other things, the licensing, construction, operation, interconnection arrangements, sale and acquisition of cellular telephone systems.

Competition between providers of wireless communications service in each market is conducted principally on the basis of price, services and enhancements offered, the technical quality and coverage of the system, and the quality and responsiveness of customer service. As discussed below, competition has intensified in recent years in a substantial number of the Company's markets. Under applicable law, the Company is required to permit the reselling of its services. In certain larger markets and in certain market segments, competition from resellers may be significant. There is also substantial competition for sales agents. Certain of the Company's competitors have substantially greater assets and resources than the Company.

Cellular licensing process. The term "MSA" means a Metropolitan Statistical Area for which the FCC has granted a cellular operating license. The term "RSA" means a Rural Service Area for which the FCC has granted a cellular operating license. During the 1980's and early 1990's, the FCC awarded two 10-year licenses to provide cellular service in each MSA and RSA market. Initially, one license was reserved for companies offering local telephone service in the market (the wireline carrier) and one license was available for firms unaffiliated with the local telephone company (the non-wireline carrier). Since mid-1986, the FCC has permitted telephone companies or their affiliates to acquire control of non-wireline licenses in markets in which they do not hold interests in the wireline license. The FCC has issued a decision that grants a renewal expectancy during the license renewal period to incumbent licensees that substantially comply with the terms and conditions of their cellular authorizations and the FCC's regulations. The licenses for the MSA markets operated by the Company were initially granted between 1984 and 1987, and licenses for operated RSAs were initially granted between 1989 and 1991. Thus far, the Company has received 10-year extensions of all of its licenses that have become subject to renewal since their original grant dates.

The completion of an acquisition involving the transfer of control of a cellular system requires prior FCC approval and, in certain cases, receipt of other federal and state regulatory approvals. The acquisition of a minority interest generally does not require FCC approval. Whenever FCC approval is required, any interested party may file a petition to dismiss or deny the application for approval of the proposed transfer.

In addition to regulation by the FCC, cellular systems are subject to certain Federal Aviation Administration tower height regulations concerning the siting and construction of cellular transmitter towers and antennas.

Cellular operators are also subject to state and local regulation in some instances. Although the FCC has pre-empted the states from exercising jurisdiction in the areas of licensing, technical standards and market structure, certain states require cellular operators to be certified. In addition, some state authorities regulate certain aspects of a cellular operator's business, including certain aspects of pricing, the resale of long distance service to its customers, the technical arrangements and charges for interconnection with the landline network, and the transfer of interests in cellular systems. The siting and construction of the cellular facilities may also be subject to state or local zoning, land use and other local regulations.

Developments affecting wireless competition. Competition in the wireless communications industry has increased due to continued and rapid technological advances in the communications field, coupled with legislative and regulatory changes.

Several recent FCC initiatives over the past several years have resulted in the allocation of additional radio spectrum or the issuance of licenses for emerging mobile communications technologies that are competitive with the Company's cellular and telephone operations, including personal communication services ("PCS"). Although there is no universally recognized definition of PCS, the term is generally used to refer to wireless services to be provided by licensees operating in the 1850 MHz to 1990 MHz radio frequency band using microcells and high-capacity digital technology. In 1996 and early 1997 the FCC auctioned up to six PCS licenses per market. Two 30MHz frequency blocks were awarded for each of the 51 Rand McNally Major Trading Areas ("MTAs"), while one 30MHz and three 10MHz frequency blocks were awarded for each of the 493 Rand McNally Basic Trading Areas ("BTAs").

PCS technology permits PCS operators to offer wireless voice, data, image and multimedia services. The largest PCS providers commenced initial operations in late 1996 and since then have aggressively expanded their operations. These providers have initially focused on larger markets, and have generally marketed PCS as being a competitive service to cellular. Many of these companies have aggressively competed for customers on the basis of price, which has placed downward pressure on cellular prices. There is at least one PCS competitor in each of the Company's operated MSAs and certain of its operated RSAs.

In addition to PCS, users and potential users of cellular systems may find their communication needs satisfied by other current and developing technologies. Several years ago the FCC authorized the licensees of certain specialized mobile radio service ("SMR") systems (which historically have generally been used by taxicabs and tow truck operators) to configure their systems into digital networks that operate in a manner similar to cellular systems. Such systems are commonly referred to as enhanced specialized mobile radio service ("ESMR") systems. The Company believes that ESMR systems are operating in a few of its cellular markets. One well-established ESMR provider has constructed a nationwide digital mobile communications system to compete with cellular systems. Other similar communication services that have the technical capability to handle wireless telephone calls may provide competition in certain markets, although these services currently lack the subscriber capacity of cellular systems. Paging or beeper services that feature text message and data display as well as tones may be adequate for potential subscribers who do not need to converse directly with the caller. Mobile satellite systems, in which transmissions are between mobile units and satellites, may ultimately be successful in obtaining market share from cellular systems that communicate directly to land-based stations.

In recent years, several large cellular providers have merged with other companies or formed joint ventures. Several of these joint ventures pooled their resources to develop extensive PCS systems. Many current or potential competitors of the Company have substantially greater financial and marketing resources than the Company.

Although it is uncertain how PCS, SMR, ESMR, mobile satellites and other emerging technologies will ultimately affect the Company, the Company anticipates that it will continue to face increased competition in its operating markets. However, management believes that providing digital services and applying new microcellular technologies will permit its cellular systems to provide services comparable with the emerging technologies described above, although no assurances can be given that this will happen or that future technological advances or legislative or regulatory changes will not create additional sources of competition.

## **OTHER OPERATIONS**

The Company provides long distance, call center, security monitoring, cable television and interactive services in certain local and regional markets, as well as certain printing and related services. The results of these operations, which accounted for 4.9% and 3.2%, respectively, of the Company's consolidated revenues and operating income during 1998, are reflected for financial reporting purposes in the "Other operations" section in operating income.

Long distance. In 1996 the Company began marketing long distance service in all of its equal access telephone operating areas. At December 31, 1998, the Company provided long distance services to approximately 227,000 customers. Approximately 65% of the Company's long distance revenues are derived from service provided to residential customers. Although the Company owns and operates long distance switches in LaCrosse, Wisconsin and San Marcos, Texas, it anticipates that most of its future long distance service revenues will be provided by reselling service purchased from other facilities-based long distance providers. The Company intends to continue to expand its long distance business, principally through reselling arrangements.

Call center. The Company provides certain operator services for retail and wholesale markets. The retail market consists primarily of the hospitality and payphone industries. The wholesale market consists of other independent telephone companies and interexchange carriers.

PCS. In early 1997 the Company was awarded 12 PCS licenses, 11 of which are in Michigan, in connection with the FCC's auctions of 10MHz PCS licenses. The licenses cover areas with a population of approximately 4.0 million. As a result of the PTI acquisition, the Company

acquired PCS licenses that cover areas with a population of approximately 4.1 million. In 1998, the Company began marketing PCS service in select Michigan markets as a fixed wireless local loop alternative to the LEC's service in these markets. Approximately \$15 million of the Company's 1999 capital expenditure budget is for development of the Company's PCS networks.

**Security monitoring.** The Company offers 24-hour burglary and fire monitoring services to approximately 6,000 customers in select markets in Louisiana, Arkansas, Mississippi, Texas and Ohio. The Company plans to expand the availability of this service to more of its markets in 1999.

**Other.** The Company, through one or more of its subsidiaries, provides audiotext services; printing, database management and direct mail services; and cable television services. In connection with its long-range plans to sell capacity to other carriers in or near certain of its select markets, the Company is currently constructing a \$20 million 650-to 700-mile fiber optic ring connecting several communities in southern and central Michigan. The Company also holds minority equity investments in certain communications companies, and is in the process of developing deployment plans for 32 Local Multipoint Distribution System licenses acquired by the Company in 1998.

Certain service subsidiaries of the company provide installation and maintenance services, materials and supplies, and managerial, technical and accounting services to the telephone and wireless operating subsidiaries. In addition, Century provides and bills management services to subsidiaries and in certain instances makes interest-bearing advances to finance construction of plant and purchases of equipment. These transactions are recorded by the Company's regulated telephone subsidiaries at their cost to the extent permitted by regulatory authorities. Intercompany profit on transactions with regulated affiliates is limited to a reasonable return on investment and has not been eliminated in connection with consolidating the results of operations of Century and its subsidiaries. Such intercompany profit is reflected in operating income in the "Other operations" segment.

## **FORWARD-LOOKING STATEMENTS**

This report on Form 10-K and other documents filed by the Company under the federal securities laws include, and future oral or written statements of the Company and its management may include, certain forward-looking statements, including without limitation statements with respect to the Company's anticipated future operating and financial performance (including the impact of pending acquisitions), financial position and liquidity, growth opportunities and growth rates, business prospects, regulatory and competitive outlook, investment and expenditure plans, financing sources, pricing plans, strategic alternatives, business strategies, and other similar statements of expectations or objectives that are highlighted by words such as "expects," "anticipates," "intends," "plans," "believes," "projects," "seeks," "estimates," "should," and "may," and variations thereof and similar expressions. Such forward-looking statements are inherently speculative and are based upon several assumptions concerning future events, many of which are outside of the Company's control. The Company's forward-looking statements, and the assumptions upon which such statements are based, are subject to uncertainties that could cause the Company's actual results to differ materially from such statements. These uncertainties include but are not limited to those set forth below:

- o the effects of ongoing deregulation in the telecommunications industry as a result of the 1996 Act and other similar federal and state legislation and federal and state regulations enacted thereunder, including without limitation

- (i) greater than anticipated interconnection requests or competition in the Company's predominately rural local exchange telephone markets resulting therefrom, (ii) greater than anticipated reductions in revenues received from the Universal Service Fund or other current or future federal and state support funds designed to compensate LECs that provide services in high-cost markets, (iii) the final outcome of regulatory and judicial proceedings with respect to interconnection agreements and access charge reforms and (iv) future regulatory actions taken in response to the 1996 Act.

- o the effects of greater than anticipated competition from PCS, SMR, ESMR, satellite or other wireless companies, including without limitation competition requiring new pricing or marketing strategies or new product offerings, and the attendant risk that the Company will not be able to respond on a timely or profitable basis.

- o possible changes in the demand for the Company's products and services, including without limitation (i) lower than anticipated demand for traditional or premium telephone services or for additional access lines per household, (ii) lower than anticipated demand for wireless telephone services, whether caused by changes in economic conditions, technology, competition, health concerns or otherwise, and (iii) reduced demand for the Company's access or billing and collection services.

- o the Company's ability to successfully introduce new offerings on a timely and cost-effective basis, including without limitation the Company's ability to

- (i) expand successfully its long distance and Internet offerings to new markets (including those acquired in December 1997 in the PTI acquisition or to be acquired in connection with future acquisitions), (ii) offer bundled service packages on terms attractive to its customers, (iii) offer digital cellular service and (iv) successfully initiate PCS and data services in its targeted markets.

- o the risks inherent in rapid technological change, including without limitation (i) the lack of assurance that the Company's ongoing wireless network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks, (ii) technological developments that could make the Company's analog and digital wireless networks uncompetitive or obsolete, such as the risk that the Time Division Multiple Access technology used by the Company will be uncompetitive with Code Division Multiple Access or other digital technologies, and (iii) the risk that technologies will not be developed by the Company on a timely or cost-effective basis or perform according to expectations.

- o the Company's ability to effectively manage its growth, including without limitation the Company's ability to (i) integrate newly-acquired operations into the Company's operations, (ii) attract and retain technological and other key personnel to work at the Company's Monroe,

Louisiana headquarters or regional offices, (iii) achieve projected economies of scale and cost savings, (iv) meet pro forma cash flow projections developed by management in valuing newly-acquired businesses and (v) implement necessary internal controls.

o the success and expense of the remediation efforts of the Company and its vendors in achieving year 2000 compliance (as discussed in greater detail in Item 7 of this report).

o regulatory limits on the Company's ability to change its prices for telephone services in response to competitive pressures.

o any difficulties in the Company's ability to expand through additional acquisitions, whether caused by financing constraints, a decrease in the pool of attractive target companies, or competition for acquisitions from other interested buyers.

o higher than anticipated wireless operating costs due to churn or to fraudulent uses of the Company's networks.

o the lack of assurance that the Company can compete effectively against better-capitalized competitors.

o the future unavailability of SFAS 71 to the Company's telephone subsidiaries.

o the effects of more general factors, including without limitation:

- . changes in general industry and market conditions and growth rates
- . changes in interest rates or other general national, regional or local economic conditions
- . changes in legislation, regulation or public policy, including changes in federal rural financing programs
- . unanticipated increases in capital, operating or administrative costs, or the impact of new business opportunities requiring significant up-front investments
- . the continued availability of financing in amounts, and on terms and conditions, necessary to support the Company's operations
- . changes in the Company's relationships with vendors
- . changes in the Company's senior debt ratings
- . unfavorable outcomes of regulatory or legal proceedings, including rate proceedings
- . changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles.

For additional information, see the description of the Company's business included above, as well as Item 7 of this report. Due to these uncertainties, you are cautioned not to place undue reliance upon the Company's forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update or revise any of its forward-looking statements for any reason.

## OTHER MATTERS

The Company has certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 1998 have not been material and the Company currently has no reason to believe that such costs will become material.

For additional information concerning the business and properties of the Company, see notes 2, 4, 6, and 18 of Notes to Consolidated Financial Statements set forth in Item 8 elsewhere herein.

### Item 2. Properties.

The Company's properties consist principally of (i) telephone lines, central office equipment, telephone instruments and related equipment, and land and buildings related to telephone operations, and (ii) switching and cell site equipment related to cellular telephone operations. As of December 31, 1998 and 1997, the Company's gross property, plant and equipment of approximately \$4.3 billion and \$3.8 billion, respectively, consisted of the following:

	December 31,	
	1998	1997
Telephone operations		
Cable and wire	47.7%	47.9
Central office equipment	27.9	27.9
General support	6.3	6.7
Information origination/termination equipment	1.7	1.7
Construction in progress	1.5	1.4
Other	.2	.2
	85.3	85.8



Cellular operations		
Cell site	7.4	7.4
General support	1.9	1.7
Construction in progress	.6	.6
Other	.1	.1
-----	-----	-----
	10.0	9.8
-----	-----	-----
Other	4.7	4.4
-----	-----	-----
	100.0%	100.0
=====	=====	=====

"Cable and wire" facilities consist primarily of buried cable and aerial cable, poles, wire, conduit and drops. "Central office equipment" consists primarily of switching equipment, circuit equipment and related facilities. "General support" consists primarily of land, buildings, tools, furnishings, fixtures, motor vehicles and work equipment. "Information origination/termination equipment" consists primarily of premise equipment (private branch exchanges and telephones) for official company use. "Cell site" consists primarily of radio frequency channel equipment, switching equipment and towers. "Construction in progress" includes property of the foregoing categories that has not been placed in service because it is still under construction.

Most of the properties of the Company's telephone subsidiaries are subject to mortgages securing the debt of such companies. The Company owns substantially all of the central office buildings, local administrative buildings, warehouses, and storage facilities used in its telephone operations. The Company leases most of the offices used in its cellular operations; certain of its transmitter sites are leased while others are owned by the Company. For further information on the location and type of the Company's properties, see the descriptions of the Company's telephone and cellular operations in Item 1.

### Item 3. Legal Proceedings.

From time to time, the Company is involved in litigation 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. Currently, there are no material legal proceedings.

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

Not applicable.

### Executive Officers of the Registrant

Information concerning Executive Officers, set forth at Item 10 in Part III hereof, is incorporated in Part I of this Report by reference.

## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Century's common stock is listed on the New York Stock Exchange and is traded under the symbol CTL. The following table sets forth the high and low sale prices, along with the quarterly dividends, for each of the quarters indicated (adjusted to reflect the March 1999 three-for-two stock split):

	Sale prices		Dividend per common share
	High	Low	
-----	-----	-----	-----
1998:			
First quarter	\$ 27-3/8	21-9/16	.0433
Second quarter	\$ 33-5/16	27-1/16	.0433
Third quarter	\$ 35-1/8	29-15/16	.0433
Fourth quarter	\$ 45-3/16	30-1/16	.0433
1997:			
First quarter	\$ 14-7/8	12-3/4	.0411
Second quarter	\$ 15-1/16	12-11/16	.0411
Third quarter	\$ 19-9/16	14-11/16	.0411
Fourth quarter	\$ 22-7/16	18-1/4	.0411

Common stock dividends during 1997 and 1998 were paid each quarter. As of February 28, 1999, there were approximately 6,054 stockholders of record of Century's common stock.

## Item 6. Selected Financial Data.

The following table presents certain selected consolidated financial data as of and for each of the years ended in the five-year period ended December 31, 1998:

### Selected Income Statement Data

	Year ended December 31,				
	1998	1997	1996	1995	1994
	(Dollars, except per share amounts, and shares expressed in thousands)				
Operating revenues					
Telephone	\$ 1,091,610	530,597	451,538	419,242	391,265
Cellular	407,749	307,742	250,243	197,494	150,802
Other	77,726	63,182	47,896	28,104	22,534
Total operating revenues	\$ 1,577,085	901,521	749,677	644,840	564,601
	=====				
Operating income					
Telephone	\$ 333,708	173,285	155,183	143,527	137,992
Cellular	130,580	88,081	67,914	57,009	31,443
Other	15,523	6,404	199	2,383	3,371
Total operating income	\$ 479,811	267,770	223,296	202,919	172,806
	=====				
Gain on sale or exchange of assets (pre-tax)	\$ 49,859	169,640	815	6,782	15,877
	=====				
Net income	\$ 228,757	255,978	129,077	114,776	100,238
	=====				
Diluted earnings per share *	\$ 1.64	1.87	.95	.87	.80
	=====				
Dividends per common share *	\$ .173	.164	.16	.147	.142
	=====				
Average diluted shares outstanding *	140,105	137,412	135,980	132,456	130,242
	=====				
* Adjusted to reflect the March 1999 three-for-two stock split					

### Selected Balance Sheet Data

	December 31,				
	1998	1997	1996	1995	1994
	(Dollars in thousands)				
Net property, plant and equipment	\$ 2,351,453	2,258,563	1,149,012	1,047,808	947,131
Excess cost of net assets acquired, net	\$ 1,956,701	1,767,352	532,410	493,655	441,436
Total assets	\$ 4,935,455	4,709,401	2,028,505	1,862,421	1,643,253
Long-term debt	\$ 2,558,000	2,609,541	625,930	622,904	518,603
Stockholders' equity	\$ 1,531,482	1,300,272	1,028,153	888,424	650,236

The following table presents certain selected consolidated operating data as of the end of each of the years in the five-year period ended December 31, 1998:

	December 31,				
	1998	1997	1996	1995	1994
Telephone access lines	1,346,567	1,203,650	503,562	480,757	454,963

Cellular units in service in majority-owned markets	624,119	569,983	368,233	290,075	211,710
Long distance customers	226,730	171,962	110,560	46,608	27,632

See Items 1 and 2 in Part I and notes 1, 2 and 6 of Notes to Consolidated Financial Statements set forth in Item 8 elsewhere herein for additional information.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### RESULTS OF OPERATIONS

#### OVERVIEW

Century Telephone Enterprises, Inc., which operates under the trade name of CenturyTel, and its subsidiaries (the "Company"), is a regional diversified communications company engaged primarily in providing local exchange telephone services and cellular telephone communications services. At December 31, 1998, the Company's local exchange telephone subsidiaries operated over 1.3 million telephone access lines primarily in rural, suburban and small urban areas in 21 states, and the Company's majority-owned and operated cellular entities had more than 624,000 cellular subscribers. On December 1, 1997, the Company significantly expanded its operations by acquiring Pacific Telecom, Inc. ("PTI") for \$1.503 billion cash. As a result of the acquisition, the Company acquired (i) over 660,000 telephone access lines, (ii) over 88,000 cellular subscribers and (iii) various wireless, cable television and other communications assets. On December 1, 1998, the Company acquired from affiliates of Ameritech Corporation ("Ameritech") telephone operations serving 86,000 access lines in northern and central Wisconsin and the related telephone directories for approximately \$221 million cash. The operations of PTI are included in the Company's results of operations beginning December 1, 1997 and the operations of the former Ameritech properties are included in the Company's results of operations beginning December 1, 1998. See Acquisitions and Note 2 of Notes to Consolidated Financial Statements for additional information. During the three years ended December 31, 1998, the Company has acquired various other telephone and cellular operations, the impact of which has not been material to the financial position and results of operations of the Company.

The net income of the Company for 1998 was \$228.8 million, compared to \$256.0 million during 1997 and \$129.1 million during 1996. Diluted earnings per share for 1998 were \$1.64 compared to \$1.87 in 1997 and \$.95 in 1996. Excluding gain on sale or exchange of assets, the Company's net income (and diluted earnings per share) for 1998, 1997 and 1996 was \$198.2 million (\$1.42), \$149.6 million (\$1.09) and \$128.6 million (\$.95), respectively.

Year ended December 31,	1998	1997	1996
(Dollars, except per share amounts, and shares in thousands)			
Operating income			
Telephone	\$ 333,708	173,285	155,183
Cellular	130,580	88,081	67,914
Other	15,523	6,404	199
	479,811	267,770	223,296
Gain on sale or exchange of assets, net	49,859	169,640	815
Interest expense	(167,552)	(56,474)	(44,662)
Income from unconsolidated cellular entities	32,869	27,794	26,952
Minority interest	(12,797)	(5,498)	(6,675)
Other income and expense	5,268	5,109	3,916
Income tax expense	(158,701)	(152,363)	(74,565)
Net income	\$ 228,757	255,978	129,077
Diluted earnings per share*	\$ 1.64	1.87	.95
Average diluted shares outstanding*	140,105	137,412	135,980
*Adjusted to reflect stock split in early 1999. See Note 21 of Notes to Consolidated Financial Statements.			

The Company's operating income for 1998 was \$479.8 million, an increase of \$212.0 million (79.2%) over 1997 operating income of \$267.8 million. During 1998 the operating income of the Company's telephone and wireless segments increased \$160.4 million (92.6%) and \$42.5 million (48.2%), respectively, while the operating income of the Company's other operations increased \$9.1 million (142.4%). The Company's operating income for 1996 was \$223.3 million.

Contributions to operating revenues and operating income by the Company's telephone, wireless and other operations for each of the years in

the three-year period ended December 31, 1998 were as follows:

Year ended December 31,	1998	1997	1996
Operating revenues			
Telephone operations	69.2%	58.9	60.2
Wireless operations	25.9%	34.1	33.4
Other operations	4.9%	7.0	6.4
Operating income			
Telephone operations	69.6%	64.7	69.5
Wireless operations	27.2%	32.9	30.4
Other operations	3.2%	2.4	.1

As indicated by the chart above, the percentage of the Company's total operating revenues and operating income contributed by its telephone operations significantly increased during 1998 as a result of the Company's acquisition of PTI on December 1, 1997.

In addition to historical information, management's discussion and analysis includes certain forward-looking statements regarding events and financial trends that may affect the Company's future operating results and financial position. Such forward-looking statements are subject to uncertainties that could cause the Company's actual results to differ materially from such statements. Such uncertainties include but are not limited to: the effects of ongoing deregulation in the telecommunications industry; the effects of greater than anticipated competition in the Company's markets; possible changes in the demand for the Company's products and services; the Company's ability to successfully introduce new offerings on a timely and cost-effective basis; the risks inherent in rapid technological change; the Company's ability to effectively manage its growth, including integrating newly-acquired properties into the Company's operations; the success and expense of the remediation efforts of the Company and its vendors in achieving year 2000 compliance; and the effects of more general factors such as changes in general market 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 Annual Report on Form 10-K for the year ended December 31, 1998. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

## TELEPHONE OPERATIONS

The Company conducts its telephone operations in rural, suburban and small urban communities in 21 states. As of December 31, 1998, approximately 86% of the Company's 1.3 million telephone access lines were in Wisconsin, Washington, Alaska, Michigan, Louisiana, Colorado, Ohio, Oregon and Montana. In August 1998 the Company entered into a definitive agreement to sell all of its operations in Alaska. This transaction is expected to close in the second quarter of 1999. As of December 31, 1998, the Company had approximately 132,000 access lines in Alaska. The operating revenues, expenses and income of the Company's telephone operations for 1998, 1997 and 1996 are summarized below.

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Operating revenues			
Local service	\$ 331,736	147,589	121,728
Network access	629,583	319,301	276,123
Other	130,291	63,707	53,687
	1,091,610	530,597	451,538
Operating expenses			
Plant operations	245,164	110,220	90,083
Customer operations	92,552	50,819	43,413
Corporate and other	157,293	80,551	67,066
Depreciation and amortization	262,893	115,722	95,793
	757,902	357,312	296,355
Operating income	\$ 333,708	173,285	155,183

### Local service revenues

Local service revenues are derived from the provision of local exchange telephone services in the Company's service areas. The \$184.1 million (124.8%) increase in such revenues in 1998 included \$171.0 million from acquired properties, of which \$169.2 million was from the PTI properties; \$10.7 million due to the internal increase in the number of customer access lines; and \$3.0 million due to the increased provision of custom calling features. The \$25.9 million increase in revenues in 1997 included \$17.4 million from acquired properties, of which \$15.0 million was from the PTI properties; \$5.6 million due to the internal increase in the number of customer access lines; and \$2.8 million due to the increased provision of custom calling features. Internal access line growth during 1998, 1997 and 1996 was 4.7%, 4.4% and 4.3%, respectively.

## Network access revenues

Network access revenues are primarily derived from charges to long distance companies and other customers for access to the Company's local exchange carrier ("LEC") networks in connection with the completion of long distance telephone calls. These access charges are based on tariffed access rates filed with the Federal Communications Commission ("FCC") for interstate services and with the respective state regulatory agency for intrastate services. Certain of the Company's interstate network access revenues are based on access charges filed directly with the FCC; the remainder of such revenues are derived under revenue sharing arrangements with other LECs administered by the National Exchange Carrier Association. Intrastate network access revenues are based on access charges or are derived under revenue sharing arrangements with other LECs.

Network access revenues increased \$310.3 million (97.2%) in 1998 and \$43.2 million in 1997 due to the following factors:

	1998 increase (decrease)	1997 increase (decrease)
-----		
	(Dollars in thousands)	
PTI acquisition	\$ 278,471	26,040
Increased recovery from the federal Universal Service Fund ("USF")	8,329	11,314
Increased minutes of use	8,846	5,033
Acquisitions, excluding PTI	1,013	3,465
Partial recovery of increased operating costs through revenue sharing arrangements with other telephone companies and return on rate base	10,440	2,454
Other, net	3,183	(5,128)
-----		
	\$ 310,282	43,178
=====		

Included in "Other, net" for 1998 and 1997 were decreases of \$1.8 million and \$3.8 million, respectively, in access revenues due to the reductions in intrastate switched access rates mandated by the Louisiana Public Service Commission ("LPSC") which were phased in from July 1995 through July 1997.

## Other revenues

Other revenues include revenues related to (i) leasing, selling, installing, maintaining and repairing customer premise telecommunications equipment and wiring ("CPE services"), (ii) providing billing and collection services for long distance carriers, (iii) participating in the publication of local directories and (iv) providing Internet access. Acquisitions contributed \$60.7 million (which includes \$60.3 million related to PTI) to the \$66.6 million increase in other revenues in 1998. Exclusive of acquisitions, revenues from the provision of Internet access and CPE services increased \$3.9 million and \$3.5 million, respectively, in 1998. Other revenues increased \$10.0 million in 1997, of which \$4.6 million was attributable to the PTI acquisition. Revenues from CPE services and the provision of Internet access contributed \$3.5 million and \$2.5 million, respectively, of the remainder of the increase in other revenues in 1997.

## Operating expenses

Plant operations expenses during 1998 and 1997 increased \$134.9 million (122.4%) and \$20.1 million (22.4%), respectively. Expenses incurred by the PTI and former Ameritech operations in 1998 accounted for \$120.4 million of the 1998 increase. The remainder of the increase in 1998 was primarily due to an increase in salaries and benefits. Expenses incurred by the PTI operations in 1997 accounted for \$12.0 million of the 1997 increase. Exclusive of PTI, expenses incurred in connection with providing Internet access to a larger number of customers contributed \$3.5 million to the 1997 increase and other acquisitions accounted for \$1.8 million of such increase.

Customer operations, corporate and other expenses increased \$118.5 million (90.2%) in 1998, of which \$110.7 million was applicable to the PTI properties. Exclusive of acquisitions, the remainder of the 1998 increase was due to a \$4.3 million increase in salaries and benefits and a \$2.0 million increase in marketing expenses. Of the \$20.9 million increase in these expenses in 1997, \$13.4 million was incurred by acquired properties (of which \$11.2 million was incurred by PTI). Exclusive of acquisitions, \$1.7 million of the remaining increase in 1997 expenses was due to an increase in marketing expenses, \$1.6 million was due to higher operating taxes and \$1.4 million was due to expenses incurred in the increased provision of CPE services.

Depreciation and amortization increased \$147.2 million (127.2%) and \$19.9 million (20.8%) in 1998 and 1997, respectively. Approximately \$136.6 million of the 1998 increase was applicable to acquiring and operating PTI (of which \$27.9 million represented amortization of goodwill) and \$1.3 million was applicable to the former Ameritech properties. Approximately \$11.4 million of the 1997 increase was applicable to acquiring and operating PTI (of which \$1.5 million represented amortization of goodwill). Exclusive of acquisitions, depreciation expense included nonrecurring additional depreciation charges approved by regulators in certain jurisdictions which aggregated \$6.2 million in 1998 and \$4.4 million in 1997. In addition, the Company obtained increased depreciation rates in certain jurisdictions which increased depreciation expense by \$1.1 million in 1998 and \$4.4 million in 1997. The remaining increases in depreciation and amortization in 1998 and

1997 were due to higher levels of plant in service. The composite depreciation rate for the Company's regulated telephone properties, including the additional depreciation charges, was 6.9% for 1998, 7.4% for 1997 and 7.5% for 1996. The properties acquired in the PTI acquisition historically have had a lower composite depreciation rate than the Company's incumbent properties.

## Other

For additional information regarding certain matters that have impacted or may impact the Company's telephone operations, see Regulation and Competition.

## Cellular Operations and Income From Unconsolidated Cellular Entities

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Operating income - cellular operations	\$ 130,580	88,081	67,914
Minority interest	(12,635)	(6,916)	(7,062)
Income from unconsolidated cellular entities	32,869	27,794	26,952
	\$ 150,814	108,959	87,804

The Company's cellular operations reflect 100% of the results of operations of the cellular entities in which the Company has a majority ownership interest. The minority interest owners' share of the income of such entities is reflected in the Company's Consolidated Statements of Income as an expense in "Minority interest." See Minority Interest for additional information. The Company's share of earnings from the cellular entities in which it has less than a majority interest is accounted for using the equity method and is reflected in the Company's Consolidated Statements of Income in "Income from unconsolidated cellular entities." See Income from Unconsolidated Cellular Entities for additional information.

## Cellular Operations

All of the Company's cellular customers are located in Michigan, Louisiana, Wisconsin, Mississippi, Texas, Alaska and Arkansas. The operating revenues, expenses and income of the Company's cellular operations for 1998, 1997 and 1996 are summarized below.

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Operating revenues			
Service revenues	\$ 398,661	302,156	246,037
Equipment sales	9,088	5,586	4,206
	407,749	307,742	250,243
Operating expenses			
Cost of equipment sold	16,954	14,576	12,771
System operations	59,920	47,572	36,301
General, administrative and customer service	80,827	62,258	52,891
Sales and marketing	57,466	54,128	46,793
Depreciation and amortization	62,002	41,127	33,573
	277,169	219,661	182,329
Operating income	\$ 130,580	88,081	67,914

## Operating revenues

Service revenues include monthly service fees for providing access and airtime to customers, service fees for providing airtime to other carriers' customers roaming through the Company's service areas and toll revenue. Cellular service revenues during 1998 increased to \$398.7 million from \$302.2 million in 1997 and \$246.0 million in 1996.

Of the \$96.5 million increase in service revenues in 1998 and the \$56.1 million increase in 1997, \$76.1 million and \$11.8 million, respectively, was attributable to acquisitions of properties. Excluding acquisitions, the remainder of the increases in cellular service revenues were primarily attributable to the increases in cellular usage in the Company's incumbent markets due to the increased demand for wireless services. Exclusive of acquisitions, local and toll revenues increased \$9.4 million (4.0%) in 1998 and \$34.9 million (17.5%) in 1997 while roaming revenues increased \$10.9 million (18.5%) in 1998 and \$12.6 million (27.1%) in 1997.

The following table further illustrates the growth in the Company's cellular customer base in its majority-owned markets:

Year ended December 31,	1998	1997	1996
Customers at beginning of period	569,983	368,233	290,075
Gross units added internally	214,596	193,623	165,377
Disconnects	160,460	115,473	92,069
Net units added	54,136	78,150	73,308
Net effect of property acquisitions	-	123,600	4,850
Customers at end of period	624,119	569,983	368,233

The average monthly service revenue per customer (including acquisitions) declined to \$57 during 1998 from \$61 in 1997 and \$63 in 1996 due to the continued trend that a higher percentage of new subscribers tend to be lower usage customers and to a reduction in rates. In addition, the properties acquired in the PTI acquisition historically have had a lower average monthly service revenue per customer than the Company's incumbent properties. The average monthly service revenue per customer may further decline (i) as market penetration increases and additional lower usage customers are activated and

(ii) as competitive pressures from current and future wireless communications providers intensify. The Company is responding to such competitive pressures by, among other things, modifying certain of its price plans and implementing certain other plans and promotions, all of which are likely to result in lower average revenue per customer. The Company will continue to focus on customer service and attempt to stimulate cellular usage by promoting the availability of certain enhanced services and by improving the quality of its service through the construction of additional cell sites and other enhancements to its system.

### Operating expenses

System operations expenses increased \$12.3 million (26.0%) in 1998 primarily due to \$15.6 million of expenses attributable to acquisitions. Such increase was partially offset by a \$6.1 million decrease in the net amounts paid to other carriers for cellular service provided to the Company's customers who roam in the other carriers' service areas primarily due to a decrease in rates. The \$11.3 million (31.0%) increase in system operations expenses in 1997 included a \$4.7 million increase in the net amounts paid to other carriers for cellular service provided to the Company's customers who roam in the other carriers' service areas and \$2.8 million of expenses incurred by acquired properties. The remainder of the increase in system operations expenses in 1997 resulted primarily from the operation of more cell sites.

The Company operated 615 cell sites at December 31, 1998 in entities in which it had a majority interest, compared to 558 at December 31, 1997 and 354 at December 31, 1996. In 1997, 155 cell sites were added through acquisitions.

General, administrative and customer service expenses increased \$18.6 million (29.8%) in 1998, of which \$13.4 million was attributable to expenses of entities acquired. The remainder of the 1998 increase was primarily due to a \$2.1 million increase in the provision for doubtful accounts and a \$1.8 million increase in customer service expenses. Of the \$9.4 million (17.7%) increase in 1997 expenses, \$3.0 million was applicable to acquired operations. The remainder of the increase in 1997 was primarily due to a \$2.4 million increase in customer service and retention costs and a \$2.4 million increase in billing costs.

Churn rate (the percentage of cellular customers that terminate service) is an industry-wide concern. The Company faces substantial competition from other wireless providers, including Personal Communication Services ("PCS"). A significant portion of the churn in the Company's cellular markets is due to the Company disconnecting service to customers for nonpayment. The Company's average monthly churn rate was 2.23% in 1998, 2.31% in 1997 and 2.37% in 1996.

Sales and marketing expenses increased \$3.3 million (6.2%) in 1998 primarily due to \$9.7 million of expenses of acquired entities, a \$2.9 million increase in costs incurred in selling products and services in retail locations and a \$2.4 million increase in advertising expenses. Such increases were substantially offset by a \$10.6 million reduction in commissions paid to agents for selling services to new customers primarily as a result of fewer cellular units being added through this distribution channel during 1998 as compared to 1997. The 1997 increase in sales and marketing expenses of \$7.3 million (15.7%) included a \$4.9 million increase in costs incurred in selling products and services in retail locations and a \$2.8 million increase applicable to operations acquired.

Depreciation and amortization increased \$20.9 million (50.8%) in 1998 and \$7.6 million in 1997, of which \$14.5 million and \$2.1 million, respectively, was attributable to acquisitions. The remainder of the 1998 and 1997 increases were primarily due to higher levels of plant in service.

### Other

For additional information regarding certain matters that have impacted or may impact the Company's cellular operations, see Regulation and Competition.

### Other Operations

Other operations include the results of operations of subsidiaries of the Company which are not included in the telephone or cellular segments including, but not limited to, the Company's non-regulated long distance and call center operations and the Company's competitive access subsidiary (which was sold to Brooks Fiber Properties, Inc. ("Brooks") in May 1997). The operating revenues, expenses and income of the Company's other operations for 1998, 1997 and 1996 are summarized below.

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Operating revenues			
Long distance	\$ 53,027	36,550	28,894
Call center	9,701	14,285	8,832
Competitive access	-	2,499	2,730
Other	14,998	9,848	7,440
	77,726	63,182	47,896
Operating expenses			
Cost of sales and operating expenses	58,544	54,132	45,042
Depreciation and amortization	3,659	2,646	2,655
	62,203	56,778	47,697
Operating income	\$ 15,523	6,404	199
=====			

The 1998 and 1997 increases of \$16.5 million and \$7.7 million, respectively, in long distance revenues were attributable to the growth in the number of customers. The number of long distance customers as of December 31, 1998, 1997 and 1996 was 226,700, 172,000 and 110,600, respectively. The \$4.6 million decrease in 1998 call center revenues was primarily due to the loss of two major customers in the fourth quarter of 1997. The \$5.5 million increase in call center revenues in 1997 was primarily due to an increase in customers prior to the loss of the two major customers in late 1997. The increases in other revenues of \$5.2 million in 1998 and \$2.4 million in 1997 was primarily attributable to the acquisition of cable television properties in the PTI acquisition and the acquisition of two security businesses.

Operating expenses in 1998 increased due to (i) an increase of \$13.6 million in expenses of the Company's long distance operations due primarily to an increase in customers and (ii) \$6.6 million of operating expenses applicable to acquisitions. Such increases were substantially offset by decreases in operating expenses because (i) 1997 included \$9.2 million of costs applicable to entities sold during 1997 and (ii) the amount of intercompany profit with regulated affiliates (the recognition of which in accordance with regulatory accounting principles acts to offset operating expenses) increased \$5.8 million as a result of the acquisition of PTI.

In 1997 an increase in operating expenses of \$11.7 million incurred by the long distance and call center operations was partially offset by a decrease of \$4.1 million in operating expenses incurred by the Company's competitive access subsidiary.

Certain of the Company's service subsidiaries provide managerial, operational, technical and accounting services, along with materials and supplies, to the Company's telephone subsidiaries. In accordance with regulatory accounting, intercompany profit on transactions with regulated affiliates has not been eliminated in connection with consolidating the results of operations of the Company. When the regulated operations of the Company no longer qualify for the application of Statement of Financial Accounting Standards No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation," such intercompany profit will be eliminated in subsequent financial statements, the primary result of which will be a decrease in operating expenses applicable to the Company's telephone operations and an increase in operating expenses applicable to the Company's other operations segment. The amount of intercompany profit with regulated affiliates which was not eliminated was approximately \$14.4 million, \$8.9 million and \$7.7 million in 1998, 1997 and 1996, respectively. For additional information applicable to SFAS 71, see Regulation and Competition - Other Matters.

### **Gain on Sale or Exchange of Assets, Net**

In 1998 the Company recorded net pre-tax gains aggregating \$49.9 million (\$30.5 million after-tax; \$.22 per diluted share) primarily due to the conversion of its investment in the common stock of Brooks into common stock of MCIWorldCom, Inc. ("WorldCom"), the subsequent sale of 750,000 shares of WorldCom stock, and the sale of minority interests in two non-strategic cellular entities. See Note 14 of Notes to Consolidated Financial Statements for additional information.

In the second quarter of 1997, the Company sold its competitive access subsidiary to Brooks in exchange for approximately 4.3 million shares of Brooks' common stock and recorded a pre-tax gain of approximately \$71 million (\$46 million after-tax; \$.34 per diluted share). In November 1997 the Company sold approximately 3.8 million shares of Brooks' stock and recorded a pre-tax gain of approximately \$108 million (\$66 million after-tax; \$.48 per diluted share).

### **Interest Expense**

Interest expense increased \$111.1 million in 1998 primarily due to \$89.7 million of interest expense on the borrowings used to finance the PTI and Ameritech acquisitions and \$23.2 million of interest expense applicable to PTI's debt.

Interest expense increased \$11.8 million in 1997 primarily due to \$7.2 million of interest expense on the borrowings used to finance the PTI acquisition and \$3.5 million of interest expense applicable to PTI's debt.

### **Income From Unconsolidated Cellular Entities**



Earnings from unconsolidated cellular entities, net of the amortization of associated goodwill, increased \$5.1 million (18.3%) in 1998 primarily due to \$7.3 million of earnings of unconsolidated cellular entities acquired in the PTI acquisition. Such increase was partially offset by a \$2.5 million decrease due to the sale of the Company's minority interests in two non-strategic cellular entities during the second quarter of 1998.

The improvement in profitability in 1997 of most of the cellular entities in which the Company owns less than a majority interest was substantially offset by a \$2.4 million decrease in the Company's portion of the profits of a partnership in which the Company has a significant ownership interest.

### **Minority Interest**

Minority interest is the expense recorded by the Company to reflect the minority interest owners' share of the earnings of the Company's majority-owned and operated cellular entities and majority-owned subsidiaries. Of the \$7.3 million increase in minority interest in 1998, \$2.0 million was associated with entities acquired in the PTI acquisition. The remainder of the increase was primarily due to the increased profitability of the Company's majority-owned and operated cellular entities.

The decrease in minority interest in 1997 of \$1.2 million was due to the effect of the Company's acquisition, during the second quarter of 1996, of an additional 25% interest in a Louisiana cellular partnership which decreased the minority interest percentage of such partnership.

### **Income Tax Expense**

The Company's effective income tax rate was 41.0%, 37.3% and 36.6% in 1998, 1997 and 1996, respectively. Such increase in the effective income tax rate for 1998 was primarily due to the increase in non-deductible amortization of excess cost of net assets acquired (goodwill) attributable to the PTI acquisition.

### **Acquisitions**

On December 1, 1998, the Company acquired the assets of certain of Ameritech's telephone operations and the related telephone directories in 19 telephone exchanges covering 21 communities in northern and central Wisconsin for approximately \$221 million cash. The operations acquired by the Company include the telephone property and equipment that serves nearly 69,000 customers, or approximately 86,000 access lines, as well as the related nine telephone directories. The Company provided initial financing for this acquisition through its committed credit facilities and will ultimately finance this transaction with proceeds from the sale of the Company's Alaska operations, which the Company expects to close during the second quarter of 1999 for \$415 million cash, subject to various adjustments.

On December 1, 1997, the Company acquired PTI in exchange for \$1.503 billion cash. To finance the acquisition, the Company borrowed \$1.288 billion under its committed credit facility and paid the remainder of the purchase price with available cash, most of which consisted of the proceeds of the sale of Brooks' common stock in November 1997. See Liquidity and Capital Resources - Financing Activities for additional information. As a result of the acquisition, the Company acquired (i) over 660,000 telephone access lines located in four midwestern states, seven western states and Alaska, (ii) over 88,000 cellular subscribers in two midwestern states and Alaska and (iii) various wireless, cable television and other communications assets. For additional information, see Note 2 of Notes to Consolidated Financial Statements.

### **Accounting Pronouncements**

In June 1997 the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income" and Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures About Segments of an Enterprise and Related Information." SFAS 130 established standards for reporting the components of comprehensive income, which is defined to include all changes in equity during a period except those resulting from investments by and distributions to shareholders. SFAS 131 established standards for reporting information about operating segments in annual financial statements and interim financial reports to shareholders. The Company adopted both statements in the first quarter of 1998.

In February 1998 the FASB issued Statement of Financial Accounting Standards No. 132, "Employers' Disclosures About Pensions and Other Postretirement Benefits," which standardizes the disclosure requirements for pensions and other postretirement benefits.

In March 1998 the Accounting Standards Executive Committee issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that certain costs related to the development or purchase of internal-use software be capitalized and amortized over the estimated useful life of the software. The impact of SOP 98-1 on the Company's results of operations is not expected to be material. SOP 98-1 is effective for financial statements issued for fiscal years beginning after December 15, 1998.

In June 1998 the FASB issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." SFAS 133 established accounting and reporting standards for derivative instruments and for hedging activities by requiring that entities recognize all derivatives as either assets or liabilities at fair value on the balance sheet. Based on the Company's current use of derivatives, SFAS 133 is not expected to materially impact the Company's financial position or results of operations.

## **Inflation**

The effects of increased costs historically have been mitigated by the ability to recover certain costs applicable to the Company's regulated telephone operations through the rate-making process. As operating expenses in the Company's nonregulated lines of business increase as a result of inflation, the Company, to the extent permitted by competition, recovers the costs by increasing prices for its services and equipment. While the rate-making process does not permit the Company to immediately recover the costs of replacing its physical plant, the Company has historically been able to recapture these costs over time. Possible future regulatory changes may alter the Company's ability to recover increased costs in its regulated operations. For additional information regarding the current regulatory environment, see Regulation and Competition.

## **Market Risk**

The Company is not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term debt obligations since the majority of the Company's long-debt obligations are fixed rate. At December 31, 1998, the fair value of the Company's long-term debt was estimated to be \$2.7 billion based on the overall weighted average rate of the Company's long-term debt of 6.6% and an overall weighted maturity of 14 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 66 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 \$115.3 million decrease in fair value of the Company's long-term debt. In early 1998 the Company utilized interest rate hedge contracts to manage its interest rate risk related to the issuance of \$765.0 million of senior notes and debentures. During 1998 the Company did not enter into any derivative financial instruments and is currently not evaluating the future use of such financial instruments.

## **Year 2000 Readiness Disclosure**

The Year 2000 issue concerns the inability of computer systems and certain other equipment to properly recognize and process data that uses two digits rather than four to designate particular years. The Company has initiated a Year 2000 Project Plan ("the Plan") to assess whether its systems that process date sensitive information will perform satisfactorily leading up to and beyond January 1, 2000. The goal of the Plan is to correct, prior to January 1, 2000, any Year 2000-related problem with critical systems, the failure of which could have a material adverse effect on the Company's operations. The Plan includes steps to (i) identify each critical system element that requires date code remediation, (ii) establish a plan to remediate such systems, (iii) implement all required remediations and (iv) selectively test the remediated systems.

Thus far, the identification phase has identified Year 2000 issues in the following critical Company-owned systems: (i) switching and transmission hardware and software used by the Company to route and deliver telephone calls; (ii) network support systems, including customer service systems and (iii) billing and collection systems used by the Company to invoice and process most of its customer payments. In addition, the Company (i) receives critical services from providers of utilities and other services to facilities that house employees and switching, transmission and other equipment and (ii) is dependent upon outside vendors for, among other things, the provision of critical network components and cellular billing services. The Company is also critically reliant upon the systems of other telecommunications carriers with which the Company's systems interconnect for the routing and delivery of telephone calls. The Company has also identified potential Year 2000-related liability with respect to telephone equipment manufactured by unaffiliated parties that the Company has sold or leased to its customers ("Customer Premises Equipment" or "CPE"). The identification and planning phases of the Plan are materially complete as they relate to Company-owned systems. As they relate to third party vendors, other telecommunications carriers and CPE customers, the identification and planning phases are on-going and are expected to be materially complete by first quarter 1999.

Based on work completed under the Plan to date, the Company currently intends to take the following additional steps under its Plan with respect to Company-owned systems, third-party vendors, other telecommunications carriers, and CPE customers:

- o The Company generally plans to remediate Company-owned switching, transmission, billing and collection and other critical systems through the revision or replacement of current system components. Necessary changes to Company-owned systems are in process and are expected to be completed by mid-year 1999. The selective testing and verification of such changes are expected to be completed during 1999. Due to the large number of system components requiring remediation, the Company does not intend to test every remediated system but will rely upon the results of selective testing to determine the effectiveness of remediation efforts.
- o With respect to critical services provided by utilities and other third parties, the Company has contacted all such suppliers during 1998. Thus far, a majority of those suppliers who have responded have indicated that their systems and service delivery mechanisms are Year 2000 compliant or can be made so through currently available modifications. The Company plans to continue monitoring all third-party remediation efforts and to make contingency plans for the delivery of such services as necessary.
- o The Year 2000 compliance status of other telecommunications carriers with which the Company's switching systems interconnect is not yet known. The Company is making inquiries with these carriers to determine their compliance status and expects to obtain the results of compliance tests during first quarter 1999, although there can be no assurance that carriers will supply this information.
- o Finally, the Company is in the process of obtaining Year 2000 compliance information from CPE manufacturers and plans to provide this information to the Company's business customers in early 1999. The Company plans to work with CPE manufacturers to encourage the development of remedies for Year 2000 problems in such equipment and to continue working with its customers to identify Year 2000

problems in CPE. However, there can be no assurance that CPE manufacturers or customers will cooperate with the Company's efforts to address these problems.

While the Company currently believes that it will be able to remediate and selectively test Company-owned systems in time to minimize any detrimental effect on its operations, there can be no assurance that such steps will be successful. Failure by the Company to timely and effectively remediate its systems, or the failure of critical vendors and suppliers and other telecommunications carriers to remediate affected systems, could have a material adverse impact on the Company's business, financial condition, results of operations and prospects. Because the impact of Year 2000 issues on the Company is materially dependent on the mitigation efforts of parties outside the Company's control, the Company cannot assess with certainty the magnitude of any such potential adverse impact. However, based upon risk assessment work conducted thus far, the Company believes that the most reasonably likely worst case scenario of the failure by the Company, its suppliers or other telecommunications carriers with which the Company interconnects to resolve Year 2000 issues would be an inability by the Company (i) to provide telecommunications services to the Company's customers, (ii) to route and deliver telephone calls originating from or terminating with other telecommunications carriers, (iii) to timely and accurately process service requests and (iv) to timely and accurately bill its customers. In addition to lost earnings, these failures could also result in loss of customers due to service interruptions and billing errors, substantial claims by customers and increased expenses associated with stabilizing operations and executing mitigation plans.

Contingency planning to maintain and restore service in the event of natural disasters, power failures and systems-related problems is a routine part of the Company's operations. The Company believes that such contingency plans will assist the Company in responding to the failure by outside service providers to successfully address Year 2000 issues. In addition, the Company is currently identifying and considering various Year 2000-specific contingency plans, including identification of alternate vendors and service providers and manual alternatives to system operations. These Year 2000-specific contingency plans are expected to be materially completed during the first quarter of 1999, but their review and development will continue during 1999.

Although the total costs to implement the Plan cannot be precisely estimated, the Company incurred costs of \$4.2 million during 1998 (none of which was related to hardware costs) and anticipates spending an aggregate of approximately \$32.1 million during 1999 (which includes \$20.9 million of hardware costs.) These costs will be expensed as incurred, unless new systems are purchased that should be capitalized in accordance with generally accepted accounting principles. Some of the costs represent ongoing investment in systems upgrades, the timing of which is being accelerated in order to facilitate Year 2000 compliance. In some instances, such upgrades will position the Company to provide more and better-quality services to its customers than they currently receive. The Company expects to fund these costs with cash provided by operations. Cost estimates and statements of the Company's plans discussed above are forward-looking statements that are derived using numerous assumptions of future events, many of which are outside the Company's control, including the availability and future cost of trained personnel and various other resources, third party modification plans, the absence of systems requiring remediation that have not yet been discovered, and other factors.

## **LIQUIDITY AND CAPITAL RESOURCES**

Excluding cash used for acquisitions, the Company relies on cash provided by operations to provide substantially all of its cash needs. 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.

### **Operating activities**

Net cash provided by operating activities was \$467.8 million, \$297.3 million and \$264.7 million in 1998, 1997 and 1996, respectively. 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 those years. For additional information relating to the telephone operations, cellular operations and other operations of the Company, see Results of Operations.

### **Investing activities**

Net cash used in investing activities was \$375.6 million, \$1.503 billion and \$241.8 million in 1998, 1997 and 1996, respectively. Cash used for acquisitions was \$225.6 million during 1998 compared to \$1.544 billion during 1997 and \$46.3 million during 1996. See Results of Operations - Acquisitions for additional information. Capital expenditures for 1998 were \$233.2 million for telephone operations, \$49.5 million for cellular operations and \$28.2 million for corporate and other operations. Capital expenditures during 1997 and 1996 were \$181.2 million and \$222.9 million, respectively. Proceeds from the sale of assets were \$132.3 million in 1998 and \$202.7 million in 1997.

### **Financing activities**

Net cash used in financing activities in 1998 was \$112.4 million. Net cash provided by financing activities was \$1.223 billion during 1997, of which \$1.288 billion was related to the acquisition of PTI. Net cash used in financing activities was \$23.0 million during 1996. In December 1997 the Company filed a shelf registration statement with the United States Securities and Exchange Commission registering \$1.5 billion of senior unsecured debt securities, preferred stock, common stock and warrants, under which the Company issued \$665 million of senior debt securities in January 1998 concurrent with the issuance of the remaining \$100 million of senior debt securities under its predecessor shelf registration statement. The net proceeds of approximately \$758 million were used to reduce the bank indebtedness incurred by the Company in connection with its December 1997 acquisition of PTI. In addition, the Company paid approximately \$40 million in 1998 to settle numerous interest rate hedge contracts that had been entered into in anticipation of these debt issuances.

In December 1997 after giving consideration to the PTI acquisition, Standard & Poor's assigned Century's senior unsecured debt a rating of BBB+ and Moody's reaffirmed its rating of Baa1.

Other

Budgeted capital expenditures for 1999 total \$215 million for telephone operations, \$70 million for cellular operations and \$60 million for corporate and other operations. The Company anticipates that capital expenditures in its telephone operations will continue to include the installation of fiber optic cable and the upgrading of its plant and equipment, including its digital switches, to provide enhanced services. Capital expenditures in the cellular operations are expected to continue to focus on constructing additional cell sites (which will provide additional capacity and expanded areas where hand-held cellular phones may be used) and providing digital service. Capital expenditures for corporate and other operations include \$20 million for construction of the Company's fiber network in Michigan and \$15 million for continued expansion of the Company's PCS operations.

In April 1998 the Company acquired 32 Local Multipoint Distribution System licenses in the FCC's A and B band auctions for an aggregate of \$9.7 million. The licenses acquired cover geographic areas with a combined population of approximately 10.6 million. The Company has not finalized capital expenditure or deployment plans for these systems.

The Company continually evaluates the possibility of acquiring additional telecommunications operations and expects to continue its long-term strategy of pursuing the acquisition of attractive communications properties in exchange for cash, securities or both. Over the past few years, the amount of communications properties available to be purchased by the Company has increased substantially. The Company may require additional financing in connection with any such acquisitions. Approximately 3.8 million shares of Century common stock and 200,000 shares of Century preferred stock remain available for future issuance in connection with acquisitions under an acquisition shelf registration statement.

As of December 31, 1998, the Company's telephone subsidiaries had available for use \$135.1 million of commitments for long-term financing from the Rural Utilities Service and the Company had \$332.6 million of undrawn committed bank lines of credit. The Company also has access to debt and equity capital markets, including its shelf registration statement mentioned above.

The following table reflects the Company's debt to total capitalization percentage and ratio of earnings to fixed charges as of and for the years ended December 31:

	1998	1997	1996
Debt to total capitalization percentage	63.0%	67.2	38.6
Ratio of earnings to fixed charges	2.25	7.80	5.10
Ratio of earnings to fixed charges excluding gain on sale or exchange of assets	1.96	4.87	5.09

REGULATION AND COMPETITION

The communications industry continues to undergo various fundamental regulatory, competitive and technological changes that make it difficult to determine the form or degree of future regulation and competition affecting the Company's telephone and cellular operations. These changes may have a significant impact on the future financial performance of all communications companies.

Events affecting the communications industry

In 1996 the United States Congress enacted the Telecommunications Act of 1996 (the "1996 Act"), which obligates LECs to permit competitors to interconnect their facilities to the LEC's network and to take various other steps that are designed to promote competition. The 1996 Act provides certain exemptions for rural LECs such as those operated by the Company. Under the FCC's August 1996 order implementing most of the 1996 Act's interconnection provisions, rural LECs have the burden of proving the availability of these exemptions.

Prior to and since the enactment of the 1996 Act, the FCC and a number of state legislative and regulatory bodies have taken steps to foster local exchange competition. Coincident with this recent movement toward increased competition has been the gradual reduction of regulatory oversight of LECs. These cumulative changes have led to the continued growth of various companies providing services that compete with LECs' services. Wireless services entities are also expected to increasingly compete with LECs.

The 1996 Act authorized the establishment of federal and state universal service funds to provide support to eligible telecommunications carriers. In May 1997 the FCC adopted an order on universal service, as mandated by the 1996 Act. In the order, the FCC ruled that rural telephone companies which are designated eligible telecommunications carriers will continue to receive universal service funding. Each of the Company's LECs has been so designated by its respective state regulatory agency. As a result, the Company's LECs will continue to receive payments under the federal support mechanisms currently in effect until the FCC adopts funding support mechanisms based on forward-looking economic costs, which it is required to do, but no earlier than January 2001.

As part of its universal service order, the FCC also established a new program in January 1998 to provide up to \$2.25 billion of discounted telecommunications services annually to schools and libraries. In addition, the FCC established a \$400 million annual fund to provide discounted telecommunications services for rural health care providers. All communications carriers providing interstate telecommunications services, including the Company's LECs and its cellular and long distance operations, are required to contribute to these programs. The FCC has stated that LECs will recover their funding contributions in their rates for interstate services. The Company's contribution by its cellular and long distance operations for 1998, which was passed on to its customers, was approximately \$3.1 million.

In an access charge reform order adopted in May 1997, the FCC changed its system of interstate access charges to make them compatible with the deregulatory framework established by the 1996 Act. Such changes are primarily applicable to price-cap companies. The Company's telephone subsidiaries determine interstate revenues under rate of return regulation and are, therefore, only minimally impacted by the access charge reform order. In July 1998 the FCC issued a Notice of Proposed Rulemaking to amend the access charge rules for rate of return companies in a manner similar to that adopted for price cap companies, subject to reviewing whether differences exist between price cap companies and rate of return companies that would require different rules in order to achieve the goal of fostering an efficient, competitive marketplace. Comments were filed with the FCC in August 1998; the FCC has not yet issued a final ruling on this matter.

In 1998 the FCC created a federal-state joint board to review jurisdictional separations procedures through which the costs of regulated telecommunications services are allocated to the interstate and intrastate jurisdictions.

In recent years the FCC has allocated additional frequency spectrum for wireless technologies that compete or are expected to compete with cellular, including PCS and mobile satellite services. The FCC has also authorized certain specialized mobile radio service licensees to operate in a manner competitive with cellular systems.

In September 1998 the FCC initiated a proceeding to represcribe the authorized rate of return for interstate access services provided by LECs. The FCC periodically represcribes this rate of return to ensure that the service rates filed by incumbent LECs subject to rate of return regulation continue to be just and reasonable. It is uncertain whether or by how much the FCC may lower the authorized rate of return.

Competition to provide traditional telephone or wireless services is expected to initially affect large urban areas to a greater extent than rural, suburban and small urban areas such as those in which the Company's operations are located. The Company does not believe such competition is likely to materially affect it in the near term. The Company further believes that it may benefit from having the opportunity to observe the effects of these developments in large urban markets. The Company will continue to monitor ongoing changes in regulation, competition and technology and consider which developments provide the most favorable opportunities for the Company to pursue.

#### Recent events affecting the Company

During 1998 the Company's revenues from the USF increased approximately \$62.3 million (of which \$58.8 million was applicable to the PTI properties) to \$127.6 million after increasing \$16.1 million during 1997. Although the Company anticipates that it may experience a reduction in its federal support revenues at some point in the future, management believes it is premature to assess or estimate the ultimate impact thereof. There can be no assurance, however, that such impact will not be material.

During the last few years, several states in which the Company has substantial operations took legislative or regulatory steps to further introduce competition into the LEC business. While the Company is aware of only a few companies which have requested authorization to provide local exchange service in the Company's service areas, it is anticipated that similar action may be taken by others in the future.

In June 1997 the Louisiana Public Service Commission ("LPSC") adopted a Consumer Price Protection Plan (the "Consumer Plan"), effective July 1997, which froze the local rates and access rates that can be charged by the Company's LECs operating in Louisiana. Although the Consumer Plan has no specified term, the LPSC is required to review it by mid-2000. The Company's Louisiana LECs have the option to propose a new plan at any time if the LPSC determines that (i) effective competition exists or (ii) unforeseen events threaten the LEC's ability to provide adequate service or impair its financial health. Certain other states have implemented various forms of alternative regulation plans, the impact of which has not been material either individually or in the aggregate to the results of operations of the Company.

Certain long distance carriers continue to request that the Company reduce intrastate access tariffed rates for certain of its LECs. There is no assurance that these requests will not result in reduced intrastate access revenues in the future.

The Company anticipates that regulatory changes and competitive pressures may result in future revenue reductions in its telephone operations. However, the Company anticipates that such reductions may be minimized by increases in revenues attributable to the continued demand for enhanced services and new product offerings. While the Company expects its telephone revenues to continue to grow, its internal telephone revenue growth rate may slow during upcoming periods.

#### Other matters

The Company's regulated telephone operations are subject to the provisions of SFAS 71, under which the Company is required to account for the economic effects of the rate-making process, including the recognition of depreciation of plant and equipment over lives approved by regulators. The ongoing applicability of SFAS 71 to the Company's regulated telephone operations is being monitored due to the changing regulatory, competitive and legislative environments. When the regulated operations of the Company no longer qualify for the application of

SFAS 71, the net adjustments required will result in a material, extraordinary, noncash charge against earnings. While the amount of such charge cannot be precisely estimated at this time, management believes that the noncash, after-tax, extraordinary charge would be between \$350 million and \$400 million. See Note 12 of Notes to Consolidated Financial Statements for additional information.

The Company has certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 1998 have not been material, and the Company currently has no reason to believe that such costs will become material.

#### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

The Company is not exposed to material future earnings or cash flow exposures from changes in interest rates on long-term obligations since the majority of the Company's long-term obligations are fixed rate. At December 31, 1998, the Company estimates that the fair value of the Company's long-term debt was \$2.7 billion which was determined by comparing the overall weighted average rate of the Company's long-term debt of 6.6% and an overall weighted maturity of 14 years 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 66 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 \$115.3 million decrease in fair value of the Company's long-term debt. In late 1997 and early 1998 the Company utilized interest rate hedge contracts to manage its interest rate risk related to its January 1998 issuance of \$765.0 million of senior notes and debentures. During 1998 the Company did not enter into any derivative financial instruments and is not currently evaluating the future use of such financial instruments.

#### **Item 8. Financial Statements and Supplementary Data**

##### **Report of Management**

The Shareholders  
Century Telephone Enterprises, Inc.:

Management has prepared and is responsible for the Company's consolidated financial statements. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts determined using our best judgments and estimates with consideration given to materiality.

The Company maintains internal control systems and related policies and procedures designed to provide reasonable assurance that the accounting records accurately reflect business transactions and that the transactions are in accordance with management's authorization. The design, monitoring and revision of the systems of internal control involve, among other things, our judgment with respect to the relative cost and expected benefits of specific control measures. Additionally, the Company maintains an internal auditing function which independently evaluates the effectiveness of internal controls, policies and procedures and formally reports on the adequacy and effectiveness thereof.

The Company's consolidated financial statements have been audited by KPMG LLP, independent certified public accountants, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with generally accepted auditing standards, which includes the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed of directors who are not officers or employees of the Company. The Committee meets periodically with the independent certified public accountants, internal auditors and management. The Committee considers the audit scope and discusses internal control, financial and reporting matters. Both the independent and internal auditors have free access to the Committee.

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

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

##### **Independent Auditors' Report**

The Board of Directors  
Century Telephone Enterprises, Inc.:

We have audited the consolidated financial statements of Century Telephone Enterprises, Inc. and subsidiaries as listed in Item 14a(i). In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in Item 14a(ii). These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit

to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Century Telephone Enterprises, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

KPMG LLP

Shreveport, Louisiana

January 28, 1999, except as to Note 21 which is as of February 23, 1999

**CENTURY TELEPHONE ENTERPRISES, INC.**  
Consolidated Statements of Income

	Year ended December 31,		
	1998	1997	1996
	(Dollars in thousands, except per share amounts,)		
OPERATING REVENUES			
Telephone	\$ 1,091,610	530,597	451,538
Cellular	407,749	307,742	250,243
Other	77,726	63,182	47,896
Total operating revenues	1,577,085	901,521	749,677
OPERATING EXPENSES			
Cost of sales and operating expenses	768,720	474,256	394,360
Depreciation and amortization	328,554	159,495	132,021
Total operating expenses	1,097,274	633,751	526,381
OPERATING INCOME	479,811	267,770	223,296
OTHER INCOME (EXPENSE)			
Gain on sale or exchange of assets, net	49,859	169,640	815
Interest expense	(167,552)	(56,474)	(44,662)
Income from unconsolidated cellular entities	32,869	27,794	26,952
Minority interest	(12,797)	(5,498)	(6,675)
Other income and expense	5,268	5,109	3,916
Total other income (expense)	(92,353)	140,571	(19,654)
INCOME BEFORE INCOME TAX EXPENSE	387,458	408,341	203,642
Income tax expense	158,701	152,363	74,565
NET INCOME	\$ 228,757	255,978	129,077
BASIC EARNINGS PER SHARE*	\$ 1.67	1.89	.96
DILUTED EARNINGS PER SHARE*	\$ 1.64	1.87	.95
DIVIDENDS PER COMMON SHARE*	\$ .173	.164	.16

\*Adjusted to reflect stock split in early 1999. See Note 21.

See accompanying notes to consolidated financial statements.

**CENTURY TELEPHONE ENTERPRISES, INC.**  
**Consolidated Statements of Comprehensive Income**

	Year ended December 31,		
	1998	1997	1996
	(Dollars in thousands)		
Net income	\$ 228,757	255,978	129,077
Other comprehensive income, net of tax:			
Unrealized holding gains arising during period, net of tax of \$8,509 and \$6,404	15,802	11,893	-
Reclassification adjustment for gains included in net income, net of tax of \$11,027	(20,478)	-	-
Other comprehensive income, net of tax	(4,676)	11,893	-
Comprehensive income	\$ 224,081	267,871	129,077

See accompanying notes to consolidated financial statements.

**Century Telephone Enterprises, INC. Consolidated Balance Sheets**

	December 31,	
	1998	1997
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,742	26,017
Accounts receivable		
Customers, less allowance of		
\$4,155 and \$5,954	130,289	143,613
Other	55,109	83,659
Materials and supplies, at average cost	23,709	21,994
Other	11,389	8,197
Total current assets	226,238	283,480
NET PROPERTY, PLANT AND EQUIPMENT		
	2,351,453	2,258,563
INVESTMENTS AND OTHER ASSETS		
Excess cost of net assets acquired,		
less accumulated amortization		
of \$133,135 and \$84,132	1,956,701	1,767,352
Other	401,063	400,006
Total investments and other assets	2,357,764	2,167,358
TOTAL ASSETS	\$ 4,935,455	4,709,401
=====		
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 53,010	55,244
Accounts payable	87,627	83,378
Accrued expenses and other current liabilities		
Salaries and benefits	36,900	38,225
Taxes	33,411	74,898
Interest	36,926	20,821
Other	24,249	25,229
Advance billings and customer deposits	32,721	24,213



Total current liabilities	304,844	322,008
<hr/>		
LONG-TERM DEBT	2,558,000	2,609,541
<hr/>		
DEFERRED CREDITS AND OTHER LIABILITIES	541,129	477,580
<hr/>		
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 175,000,000 shares, issued and outstanding 138,082,926* and 91,103,674 shares	138,083	91,104
Paid-in capital	451,535	469,586
Unrealized holding gain on investments, net of taxes	7,217	11,893
Retained earnings	932,611	728,033
Unearned ESOP shares	(6,070)	(8,450)
Preferred stock - non-redeemable	8,106	8,106
<hr/>		
Total stockholders' equity	1,531,482	1,300,272
<hr/>		
TOTAL LIABILITIES AND EQUITY	\$ 4,935,455	4,709,401
<hr/>		

\*Adjusted to reflect stock split in early 1999. See Note 21.  
See accompanying notes to consolidated financial statements.

### CENTURY TELEPHONE ENTERPRISES, INC. Consolidated Statements of Cash Flows

	Year ended December 31,		
	1998	1997	1996
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 228,757	255,978	129,077
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	328,554	159,495	132,021
Income from unconsolidated cellular entities	(32,869)	(27,794)	(26,952)
Minority interest	12,797	5,498	6,675
Deferred income taxes	17,713	16,230	7,935
Gain on sales of assets	(49,859)	(169,640)	(815)
Changes in current assets and current liabilities:			
Accounts receivable	(15,227)	7,649	(4,353)
Accounts payable	4,249	(25,440)	5,103
Other accrued taxes	(34,908)	58,205	1,285
Other current assets and other current liabilities, net	15,033	7,263	6,220
Increase (decrease) in other noncurrent liabilities	(1,706)	2,173	4,305
Other, net	(4,760)	7,702	4,151
Net cash provided by operating activities	467,774	297,319	264,652
INVESTING ACTIVITIES			
Acquisitions, net of cash acquired	(225,569)	(1,543,814)	(46,327)
Payments for property, plant and equipment	(310,919)	(181,225)	(222,885)
Proceeds from sales of assets	132,307	202,705	-
Investment in unconsolidated personal communications services entity	-	-	18,900
Distributions from unconsolidated cellular entities	26,515	16,825	15,648
Purchase of life insurance investment, net	(2,786)	(12,962)	(5,944)
Proceeds from note receivable	-	22,500	1,667
Other, net	4,807	(7,156)	(2,850)
Net cash used in investing activities	(375,645)	(1,503,127)	(241,791)

## FINANCING ACTIVITIES

Proceeds from issuance of long-term debt	957,668	1,312,546	59,649
Payments of long-term debt	(1,015,015)	(79,203)	(57,021)
Payment of hedge contracts	(40,237)	-	-
Notes payable, net	-	-	(14,199)
Proceeds from issuance of common stock	15,033	14,156	10,089
Payment of debt issuance costs	(6,625)	-	-
Cash dividends	(24,179)	(22,671)	(21,775)
Other, net	951	(1,405)	258

Net cash provided by (used in) financing activities	(112,404)	1,223,423	(22,999)
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Net increase (decrease) in cash and cash equivalents	(20,275)	17,615	(138)
Cash and cash equivalents at beginning of year	26,017	8,402	8,540

CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 5,742	26,017	8,402
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See accompanying notes to consolidated financial statements.

## CENTURY TELEPHONE ENTERPRISES, INC.

## Consolidated Statements of Stockholders' Equity

	Year ended December 31,		
	1998	1997	1996
	(Dollars and shares in thousands)		
COMMON STOCK			
Balance at beginning of year	\$ 91,104	59,859	59,114
Issuance of common stock for acquisitions	28	75	257
Conversion of convertible securities into common stock	169	237	33
Issuance of common stock through dividend reinvestment, incentive and benefit plans	754	565	455
Three-for-two stock split	46,028	30,368	-
Balance at end of year	138,083	91,104	59,859
PAID-IN CAPITAL			
Balance at beginning of year	469,586	474,607	453,584
Issuance of common stock for acquisitions	1,059	3,241	8,201
Conversion of convertible securities into common stock	3,131	4,998	163
Issuance of common stock through dividend reinvestment, incentive and benefit plans	14,279	13,591	9,676
Amortization of unearned compensation and other	9,508	3,517	2,983
Three-for-two stock split	(46,028)	(30,368)	-
Balance at end of year	451,535	469,586	474,607
UNREALIZED HOLDING GAIN ON INVESTMENTS, NET OF TAXES			
Balance at beginning of year	11,893	-	-
Change in unrealized holding gain on investments, net of taxes	(4,676)	11,893	-
Balance at end of year	7,217	11,893	-
RETAINED EARNINGS			
Balance at beginning of year	728,033	494,726	387,424
Net income	228,757	255,978	129,077
Cash dividends declared			
Common stock - \$.173, \$.164 and			

\$.16 per share*	(23,771)	(22,211)	(21,355)
Preferred stock	(408)	(460)	(420)
Balance at end of year	932,611	728,033	494,726
UNEARNED ESOP SHARES			
Balance at beginning of year	(8,450)	(11,080)	(13,960)
Release of ESOP shares	2,380	2,630	2,880
Balance at end of year	(6,070)	(8,450)	(11,080)
PREFERRED STOCK - NON-REDEEMABLE			
Balance at beginning of year	8,106	10,041	2,262
Issuance of preferred stock for acquisitions	-	-	7,975
Conversion of preferred stock into common stock	-	(1,935)	(196)
Balance at end of year	8,106	8,106	10,041
TOTAL STOCKHOLDERS' EQUITY	\$1,531,482	1,300,272	1,028,153
COMMON SHARES OUTSTANDING			
Balance at beginning of year	91,104	59,859	59,114
Issuance of common stock for acquisitions	28	75	257
Conversion of convertible securities into common stock	169	237	33
Issuance of common stock through dividend reinvestment, incentive and benefit plans	754	565	455
Three-for-two stock split	46,028	30,368	-
Balance at end of year	138,083	91,104	59,859
*Adjusted to reflect stock split in early 1999. See Note 21. See accompanying notes to consolidated financial statements.			

## CENTURY TELEPHONE ENTERPRISES, INC.

### Notes to Consolidated Financial Statements December 31, 1998

#### (1) Summary of Significant Accounting Policies

**Principles of consolidation** - The consolidated financial statements of Century Telephone Enterprises, Inc. and its subsidiaries (the "Company") include the accounts of Century Telephone Enterprises, Inc. ("Century") and its majority-owned subsidiaries and partnerships. The Company's regulated telephone operations are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." Investments in cellular entities where the Company does not own a majority interest are accounted for using the equity method of accounting.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

**Revenue recognition** - Revenues are recognized when earned. Certain of the Company's telephone subsidiaries participate in revenue sharing arrangements with other telephone companies for interstate revenue and for certain intrastate revenue. Such sharing arrangements are funded by toll revenue and/or access charges within state jurisdictions and by access charges in the interstate market. Revenues earned through the various sharing arrangements are initially recorded based on the Company's estimates.

**Property, plant and equipment** - Telephone plant is stated substantially at original cost. Normal retirements of telephone plant are charged against accumulated depreciation, along with the costs of removal, less salvage, with no gain or loss recognized. Renewals and betterments of plant and equipment are capitalized while repairs, as well as renewals of minor items, are charged to operating expense. Depreciation of telephone plant is provided on the straight line method, using class or overall group rates acceptable to regulatory authorities; such rates range from 1.8% to 25%.

**Non-telephone property** is stated at cost and, when sold or retired, a gain or loss is recognized. Depreciation of such property is provided on the straight line method over estimated service lives ranging from three to 30 years.

Impairment of long-lived assets and excess cost of net assets acquired (goodwill) - The carrying value of long-lived assets, including allocated goodwill, is reviewed for impairment at least annually, or whenever events or changes in circumstances indicate that such carrying value may not be recoverable, by assessing the recoverability of such carrying value through estimated undiscounted future net cash flows expected to be generated by the assets or the acquired business. The excess cost of net assets acquired of substantially all of the Company's acquisitions accounted for as purchases is being amortized over 40 years.

Affiliated transactions - Certain service subsidiaries of Century provide installation and maintenance services, materials and supplies, and managerial, technical and accounting services to subsidiaries. In addition, Century provides and bills management services to subsidiaries and in certain instances makes interest bearing advances to finance construction of plant and purchases of equipment. These transactions are recorded by the Company's telephone subsidiaries at their cost to the extent permitted by regulatory authorities. Intercompany profit on transactions with regulated affiliates is limited to a reasonable return on investment and has not been eliminated in connection with consolidating the results of operations of Century and its subsidiaries. Intercompany profit on transactions with nonregulated affiliates has been eliminated.

Income taxes - Century files a consolidated federal income tax return with its eligible subsidiaries. The Company uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are established for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Investment tax credits related to telephone plant have been deferred and are being amortized as a reduction of federal income tax expense over the estimated useful lives of the assets giving rise to the credits.

Derivative financial instruments - During 1997 the Company entered into certain interest rate hedge contracts in anticipation of a public debt issuance, utilizing such hedge contracts to manage interest rate exposure. The hedge contracts were treated as off-balance sheet financial instruments. In connection with the settlement of these contracts, all losses related to these transactions have been deferred and amortized as interest expense over the life of the underlying debt issuance. Such contracts were settled in 1998. See Note 6 for additional information. The Company does not utilize derivative financial instruments for trading or other speculative purposes.

Earnings per share - During 1997 the Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings per Share." SFAS 128 established requirements for the computation of basic earnings per share and diluted earnings per share and was effective for financial statements issued for periods ending after December 15, 1997. Earnings per share amounts for prior periods have been restated to conform with SFAS 128.

Stock compensation - The Company accounts for employee stock compensation plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" as allowed by Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation."

Cash equivalents - The Company considers short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

## (2) Acquisitions

On December 1, 1997, Century acquired Pacific Telecom, Inc. ("PTI") in exchange for \$1.503 billion cash. To finance the acquisition, which was accounted for as a purchase, Century borrowed \$1.288 billion under its \$1.6 billion senior unsecured credit facility (the "Senior Credit Facility") dated August 28, 1997 with NationsBank of Texas, N.A. and a syndicate of other lenders. Century paid the remainder of the PTI acquisition price with available cash.

As a result of the acquisition, the Company acquired (i) telephone access lines located in four midwestern states, seven western states and Alaska, (ii) cellular subscribers in two midwestern states and Alaska and (iii) various wireless, cable television and other communications assets.

The following pro forma information represents the consolidated results of operations of the Company as if the PTI acquisition had been consummated as of January 1, 1997 and 1996.

Year ended December 31,	1997	1996
	(Dollars in thousands, except per share amounts) (unaudited)	
Operating revenues	\$ 1,392,268	1,245,036
Net income	256,992	120,632
Diluted earnings per share	1.87	.89

The pro forma information is not necessarily indicative of the operating results that would have occurred if the PTI acquisition had been consummated as of January 1 of each respective period, nor is it necessarily indicative of future operating results. The actual results of operations of PTI have been included in the Company's consolidated financial statements only from the date of acquisition.

On December 1, 1998, the Company acquired the assets of certain local telephone and directory operations in parts of northern and central Wisconsin from affiliates of Ameritech Corporation ("Ameritech"), in exchange for approximately \$221 million cash. The assets included (i) access lines and related property and equipment in 21 predominantly rural communities in Wisconsin and (ii) Ameritech's directory publishing operations that relate to nine telephone directories.

### (3) Investments and Other Assets

Investments and other assets at December 31, 1998 and 1997 were composed of the following:

December 31,	1998	1997
(Dollars in thousands)		
Excess cost of net assets acquired, less accumulated amortization	\$ 1,956,701	1,767,352
Investments in unconsolidated cellular entities	118,016	189,363
Cash surrender value of life insurance contracts, net	84,976	78,658
Marketable equity securities	29,496	40,570
Deferred hedge contracts	38,027	-
Other	130,548	91,415
	\$ 2,357,764	2,167,358

As a result of the purchase of PTI, the Company recorded approximately \$1.2 billion of excess cost of net assets acquired in 1997.

Goodwill amortization of \$47.8 million, \$16.6 million and \$12.8 million for 1998, 1997 and 1996, respectively, is included in "Depreciation and amortization" in the Company's Consolidated Statements of Income.

Included in investments in unconsolidated cellular entities at December 31, 1997 was approximately \$67.0 million of costs allocated to licenses from acquisitions made by PTI prior to Century's acquisition of PTI. Upon finalization of the PTI purchase price allocation, such costs were assigned to excess cost of net assets acquired.

The Company's investments in marketable equity securities are classified as available for sale and are reported at fair value with unrealized holding gains and losses reported, net of taxes, as a separate component of stockholders' equity. As of December 31, 1998, gross unrealized holding gains of the Company's marketable equity securities were \$11.1 million.

### (4) Property, Plant and Equipment

Net property, plant and equipment at December 31, 1998 and 1997 was composed of the following:

December 31,	1998	1997
(Dollars in thousands)		
Telephone, at original cost		
Cable and wire	\$ 2,046,638	1,843,002
Central office	1,197,438	1,070,477
General support	269,431	256,203
Information origination/termination	73,984	65,304
Construction in progress	66,241	53,382
Other	6,520	7,492
	3,660,252	3,295,860
Accumulated depreciation	(1,661,315)	(1,375,835)
	1,998,937	1,920,025
Cellular, at cost		
Cell site	316,706	284,599
General support	82,618	66,400
Construction in progress	23,733	23,664
Other	5,927	5,555
	428,984	380,218
Accumulated depreciation	(178,569)	(133,357)
	250,415	246,861
Corporate and other, at cost		
General support	180,359	148,883

Other	20,063	20,537
-----	-----	-----
	200,422	169,420
Accumulated depreciation	(98,321)	(77,743)
-----	-----	-----
	102,101	91,677
-----	-----	-----
Net property, plant and equipment	\$ 2,351,453	2,258,563
=====	=====	=====

Depreciation expense was \$280.5 million, \$142.6 million and \$118.9 million in 1998, 1997 and 1996, respectively. The composite depreciation rate for telephone properties was 6.9% for 1998, 7.4% for 1997 and 7.5% for 1996.

#### (5) Investments in Unconsolidated Cellular Entities

The Company's share of earnings from cellular entities in which it does not own a majority interest was \$34.1 million, \$29.4 million and \$28.2 million in 1998, 1997 and 1996, respectively, and is included, net of \$1.2 million, \$1.6 million and \$1.3 million of amortization of goodwill attributable to such investments, in "Income from unconsolidated cellular entities" in the Company's Consolidated Statements of Income. Over 74% of the 1998 income from unconsolidated cellular entities was attributable to the following investments.

	Ownership interest
-----	-----
Lafayette MSA Limited Partnership	49%
GTE Mobilnet of Austin Limited Partnership	35%
Milwaukee SMSA Limited Partnership	18%
Alltel Cellular Associates of Arkansas Limited Partnership	36%
Detroit SMSA Limited Partnership	3%
Michigan RSA #9 Limited Partnership	43%
Cellular North Michigan Network General Partnership	43%
-----	-----

The following summarizes the unaudited combined assets, liabilities and equity, and the unaudited combined results of operations, of the cellular entities in which the Company's investments (as of December 31, 1998 and 1997) were accounted for by the equity method.

December 31,	1998	1997	
<hr/>			
	(Dollars in thousands)		
	(unaudited)		
Assets			
Current assets	\$ 293,339	322,863	
Property and other noncurrent assets	759,665	767,123	
	<hr/>	<hr/>	
	\$ 1,053,004	1,089,986	
<hr/>			
Liabilities and equity			
Current liabilities	\$ 109,787	157,492	
Noncurrent liabilities	25,099	25,413	
Equity	918,118	907,081	
	<hr/>	<hr/>	
	\$ 1,053,004	1,089,986	
<hr/>			
<hr/>			
Year ended December 31,	1998	1997	1996
<hr/>			
	(Dollars in thousands)		
	(unaudited)		
Results of operations			
Revenues	\$ 1,281,803	1,277,524	985,788
Operating income	\$ 430,859	419,246	338,554
Net income	\$ 435,744	395,990	339,040

At December 31, 1998, \$59.0 million of the Company's consolidated retained earnings represented undistributed earnings of unconsolidated cellular entities.

#### (6) Long-Term Debt

December 31,	1998	1997
-----	-----	-----
	(Dollars in thousands)	

Century		
5.61%* Senior Credit Facility, due through 2002	\$ 752,063	1,535,000
6.875% senior notes, due 2028	425,000	-
6.30% senior notes, due 2008	240,000	-
6.15% senior notes, due 2005	100,000	-
8.25% senior notes, due 2024	100,000	100,000
7.20% senior notes, due 2025	100,000	100,000
6.39%* notes payable to banks, due 2002	40,000	30,000
7.75% senior notes, due 2004	50,000	50,000
6.55% senior notes, due 2005	50,000	50,000
9.38% senior notes, due through 2003	18,900	21,200
6.64%* Employee Stock Ownership Plan commitment, due in installments through 2004	6,070	8,450
9.85%* notes, due in installments through 2006	266	304
-----		
Total Century	1,882,299	1,894,954
-----		
Subsidiaries		
First mortgage debt		
5.97%* notes, payable to agencies of the United States government and cooperative lending associations, due in installments through 2025	341,817	348,971
7.98% notes, due through 2002	5,871	5,969
Other debt		
7.21%* unsecured medium-term notes, due through 2008	335,667	360,678
7.43%* notes, due in installments through 2020	29,301	40,805
6.50% note, due in installments through 2001	9,308	12,040
6.15%* capital lease obligations, due through 2003	6,747	1,368
-----		
Total subsidiaries	728,711	769,831
-----		
Total long-term debt	2,611,010	2,664,785
Less current maturities	53,010	55,244
-----		
Long-term debt, excluding current maturities	\$ 2,558,000	2,609,541
=====		
* weighted average interest rate at December 31, 1998		

The approximate annual debt maturities for the five years subsequent to December 31, 1998 are as follows: 1999 - \$53.0 million; 2000 - \$62.6 million; 2001 - \$144.5 million; 2002 - \$735.0 million; and 2003 - \$67.5 million.

Short-term borrowings of \$40.0 million at December 31, 1998 were classified as long-term debt on the accompanying balance sheet as the Company had adequate committed amounts available under long-term revolving facilities.

Certain of the Company's loan agreements contain various restrictions, among which are limitations regarding issuance of additional debt, payment of cash dividends, reacquisition of the Company's capital stock and other matters. At December 31, 1998, all of the consolidated retained earnings reflected on the balance sheet was available for the declaration of dividends.

The transfer of funds from certain consolidated subsidiaries to Century is restricted by various loan agreements. Subsidiaries which have loans from government agencies and cooperative lending associations, or have issued first mortgage bonds, generally may not loan or advance any funds to Century, but may pay dividends if certain financial ratios are met. At December 31, 1998, restricted net assets of subsidiaries were \$604.4 million. Subsidiaries' retained earnings in excess of amounts restricted by debt covenants totaled \$726.1 million.

Most of the Company's telephone property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

On January 15, 1998, Century issued \$100 million of 7-year, 6.15% senior notes (Series E); \$240 million of 10-year, 6.3% senior notes (Series F); and \$425 million of 30-year, 6.875% debentures (Series G) under its shelf registration statements. The net proceeds of approximately \$758 million (excluding payment obligations of approximately \$40 million related to interest rate hedging effected in connection with the offering) were used to reduce the bank indebtedness incurred under the Senior Credit Facility. In addition, the Senior Credit Facility's committed amount was reduced from \$1.6 billion to \$880 million in accordance with its terms. This facility carries floating rate interest based upon London InterBank Offered Rates for short-term periods.

In mid-January 1998 the Company settled numerous interest rate hedge contracts that had been entered into in anticipation of the above-mentioned debt issuances. The amounts paid by the Company upon settlement of the hedge contracts aggregated approximately \$40 million, which is being amortized as interest expense over the lives of the underlying debt instruments. The effective weighted average interest rate of the debt (after giving consideration to these payment obligations) is 7.15%. In March 1998 the Company paid approximately \$250,000 upon settlement of its remaining interest rate hedge contracts.

Century's telephone subsidiaries had approximately \$135.1 million in commitments for long-term financing from the Rural Utilities Service

available at December 31, 1998. Approximately \$332.6 million of additional borrowings were available to the Company through committed lines of credit with various banks.

#### (7) Deferred Credits and Other Liabilities

Deferred credits and other liabilities at December 31, 1998 and 1997 were composed of the following:

December 31,	1998	1997
(Dollars in thousands)		
Deferred federal and state income taxes	\$ 332,151	272,290
Accrued postretirement benefit costs	109,000	99,429
Minority interest	44,970	47,695
Regulatory liability - income taxes	17,380	22,856
Deferred investment tax credits	3,939	6,355
Other	33,689	28,955
	\$ 541,129	477,580

#### (8) Postretirement Benefits

The Company sponsors defined benefit health care plans that provide postretirement benefits to substantially all retired full-time employees.

Net periodic postretirement benefit cost for 1998, 1997 and 1996 included the following components:

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Service cost	\$ 5,519	2,578	2,354
Interest cost	10,744	5,047	4,212
Expected return on plan assets	(3,250)	(458)	-
Amortization of unrecognized actuarial losses	430	292	475
Amortization of unrecognized prior service cost	121	121	121
Net periodic postretirement benefit cost	\$ 13,564	7,580	7,162

The following is a reconciliation for the benefit obligation and the plan assets.

December 31,	1998	1997	1996
(Dollars in thousands)			
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 152,632	59,157	60,128
Service cost	5,519	2,578	2,354
Interest cost	10,744	5,047	4,212
Participant contributions	298	119	96
Acquisition	-	80,166	-
Actuarial (gain) loss	9,720	7,789	(5,420)
Benefits paid	(6,590)	(2,224)	(2,213)
Benefit obligation at end of year	\$ 172,323	152,632	59,157
=====			
December 31,	1998	1997	1996
(Dollars in thousands)			
Change in plan assets (primarily listed stocks and bonds)			
Fair value of plan assets at beginning of year	\$ 34,618	-	-
Return on assets	4,080	-	-
Employer contributions	749	-	-
Acquisition	-	34,618	-
Benefits paid	(3,648)	-	-
Fair value of plan assets at end of year	\$ 35,799	34,618	-



The following table sets forth the amounts recognized as liabilities for postretirement benefits at December 31, 1998, 1997 and 1996.

December 31,	1998	1997	1996
(Dollars in thousands)			
Benefit obligation	\$ (172,323)	(152,632)	(59,157)
Fair value of plan assets	35,799	34,618	-
Unamortized prior service cost	1,060	1,182	1,303
Unrecognized net actuarial loss	23,972	14,622	6,986
Accrued benefit cost	\$ (111,492)	(102,210)	(50,868)

Assumptions used in accounting for postretirement benefits as of December 31, 1998 and 1997 were:

	1998	1997
Weighted average assumptions		
Discount rate	6.5-6.75%	7.0
Expected return on plan assets	10.0%	10.0

For measurement purposes, a 6.0-7.4% annual rate in the per capita cost of covered health care benefits was assumed for 1999 and beyond. A one-percentage-point change in assumed health care cost rates would have the following effects:

	1-Percentage Point Increase	1-Percentage Point Decrease
(Dollars in thousands)		
Effect on total of service and interest cost components	\$ 1,012	(934)
Effect on postretirement benefit obligation	\$ 9,884	(9,089)

#### (9) Stockholders' Equity

Common stock - At December 31, 1998, unissued shares of Century common stock were reserved as follows:

December 31,	1998
(In thousands)	
Incentive compensation program	6,488
Acquisitions	4,825
Employee stock purchase plan	1,016
Conversion of convertible preferred stock	511
Other employee benefit plans	3,849
	16,689

Under Century's Articles of Incorporation each share of common stock beneficially owned continuously by the same person since May 30, 1987 generally entitles the holder thereof to ten votes per share. All other shares entitle the holder to one vote per share. At December 31, 1998, the holders of 12.6 million shares of common stock were entitled to ten votes per share.

Preferred stock - As of December 31, 1998, Century had 2.0 million shares of preferred stock, \$25 par value per share, authorized. At December 31, 1998 and 1997, there were 324,238 shares of outstanding preferred stock. Holders of outstanding Century preferred stock are entitled to receive cumulative dividends, receive preferential distributions equal to \$25 per share plus unpaid dividends upon Century's liquidation and vote as a single class with the holders of common stock.

Shareholders' Rights Plan - In 1996 the Board of Directors declared a dividend of one preference share purchase right for each common share outstanding. Such rights become exercisable if and when a potential acquiror takes certain steps to acquire 15% or more of Century's common stock. Upon the occurrence of such an acquisition, each right held by shareholders other than the acquiror may be exercised to receive that number of shares of common stock or other securities of Century (or, in certain situations, the acquiring company) which at the time of such transaction will have a market value of two times the exercise price of the right.

Stock split - On February 25, 1998, Century's Board of Directors declared a three-for-two common stock split effected as a 50% stock dividend

in March 1998. An amount equal to the par value of the additional common shares issued pursuant to the stock split was reflected as a transfer from paid-in-capital to common stock on the consolidated financial statements for 1997. See Note 21 for additional information concerning a stock split in early 1999.

#### (10) Earnings Per Share

Basic earnings per share amounts are determined on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share give effect to all potential dilutive common shares that were outstanding during the period.

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share computations:

Year ended December 31,	1998	1997	1996
	(Dollars, except per share amounts, and shares in thousands)		
Income (Numerator):			
Net income	\$ 228,757	255,978	129,077
Dividends applicable to preferred stock	(408)	(460)	(420)
Net income applicable to common stock for computing basic earnings per share	228,349	255,518	128,657
Dividends applicable to preferred stock	408	460	420
Interest on convertible securities, net of taxes	372	480	579
Net income as adjusted for purposes of computing diluted earnings per share	\$ 229,129	256,458	129,656
Shares (Denominator):			
Weighted average number of shares outstanding during period	137,568	135,637	134,147
Employee Stock Ownership Plan shares not committed to be released	(558)	(653)	(747)
Weighted average number of shares outstanding during period for computing basic earnings per share	137,010	134,984	133,400
Incremental common shares attributable to dilutive securities:			
Conversion of convertible securities	1,274	1,676	1,958
Shares issuable under stock option plan	1,821	752	622
Number of shares as adjusted for purposes of computing diluted earnings per share	140,105	137,412	135,980
Basic earnings per share*	\$ 1.67	1.89	.96
Diluted earnings per share*	\$ 1.64	1.87	.95
*Adjusted to reflect stock split in early 1999.			

The weighted average number of options to purchase shares of common stock that were excluded from the computation of diluted earnings per share because the exercise price of the option was greater than the average market price of the common stock was 3,000, 1,099,000 and 1,415,000 for 1998, 1997 and 1996, respectively.

#### (11) Stock Option Program

Century has an incentive compensation program which allows the Board of Directors, through a subcommittee to the Compensation Committee, to grant incentives to employees in any one or a combination of the following forms: incentive and non-qualified stock options; stock appreciation rights; restricted stock; and performance shares. As of December 31, 1998, Century had reserved 6.5 million shares of common stock which may be issued under the incentive compensation program.

Under the program, options have been granted to employees at a price either equal to or exceeding the then-current market price and all of the options expire ten years after the date of grant.

During 1998 the Company granted 121,667 options (the "1998 Options") at market price. The weighted average fair value of each of the 1998 Options was estimated as of the date of grant to be \$8.88 using an option-pricing model with the following assumptions: dividend yield - .5%; expected volatility - 20%; risk-free interest rate - 4.8%; and expected option life - seven years.

During 1997 the Company granted 1,293,909 options (the "1997 Options") at market price. The weighted average fair value of each of the 1997 Options was estimated as of the date of grant to be \$5.68 using an option-pricing model with the following assumptions: dividend yield - .8%; expected volatility - 25%; risk-free interest rate - 6.5%; and expected option life - eight years.

Stock option transactions during 1998, 1997 and 1996 were as follows:

	Number of options	Average price
-----		
Outstanding December 31, 1995	5,929,196	\$ 11.32
Exercised	(657,906)	8.32
Forfeited	(28,239)	13.01
-----		
Outstanding December 31, 1996	5,243,051	12.11
Exercised	(889,173)	10.18
Granted	1,293,909	13.51
Forfeited	(38,856)	13.39
-----		
Outstanding December 31, 1997	5,608,931	12.73
Exercised	(937,985)	11.41
Granted	121,667	26.25
Forfeited	(12,000)	13.33
-----		
Outstanding December 31, 1998	4,780,613	13.35
=====		
Exercisable December 31, 1997	4,712,532	12.59
=====		
Exercisable December 31, 1998	4,188,660	13.13
=====		

The following tables summarize certain information about Century's stock options at December 31, 1998.

Options outstanding			
Range of exercise prices	Number of options	Weighted average remaining contractual life outstanding	Weighted average exercise price
-----			
\$ 9.63-12.30	2,271,662	3.5 years	\$ 11.04
13.33-17.64	2,391,554	7.1	14.87
23.03-26.05	67,133	9.1	25.88
26.98-31.54	50,264	9.1	28.96
	-----		
9.63-31.54	4,780,613	7.3	13.35
	=====		
Options exercisable			
Range of exercise prices	Number of options exercisable		Weighted average exercise price
-----			
\$ 9.63-12.30	2,271,662		\$ 11.04
13.33-17.64	1,861,935		15.27
23.03-26.05	31,655		26.05
26.98-31.54	23,408		28.65
	-----		
9.63-31.54	4,188,660		13.13
	=====		

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its program. Accordingly, no compensation cost has been recognized for the program. If compensation cost for Century's program had been determined consistent with SFAS 123, the Company's net income and earnings per share on a pro forma basis for 1998, 1997 and 1996 would have been as follows:

Year ended December 31,	1998	1997	1996
-----			
	(Dollars in thousands, except per share amounts)		
Net income			

As reported	\$ 228,757	255,978	129,077
Pro forma	\$ 227,113	252,773	129,077
Diluted earnings per share			
As reported	\$ 1.64	1.87	.95
Pro forma	\$ 1.62	1.84	.95

## (12) Accounting for the Effects of Regulation

The Company's regulated telephone operations are subject to the provisions of Statement of Financial Accounting Standards No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation." Actions of a regulator can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset and impose a liability on a regulated enterprise. Such regulatory assets and liabilities are required to be recorded and, accordingly, reflected in the balance sheet of an entity subject to SFAS 71.

The Company's consolidated balance sheet as of December 31, 1998 included regulatory assets of approximately \$5.9 million and regulatory liabilities of approximately \$16.0 million exclusive of (i) property, plant and equipment, (ii) accumulated depreciation and (iii) deferred income taxes and deferred investment tax credits associated with regulatory assets and liabilities. The \$5.9 million of regulatory assets included assets established in connection with postretirement benefits (\$1.0 million), income taxes (\$2.1 million) and deferred financing costs (\$2.7 million). The \$16.0 million of regulatory liabilities was established in connection with the adoption of Statement of Financial Accounting Standards No. 109, "Accounting For Income Taxes." Net deferred income tax assets related to the regulatory assets and liabilities quantified above were \$3.5 million.

Property, plant and equipment of the Company's regulated telephone operations has been depreciated using generally the straight line method over lives approved by regulators. Such depreciable lives have generally exceeded the depreciable lives used by nonregulated entities. In addition, in accordance with regulatory accounting, retirements of regulated telephone property have been charged to accumulated depreciation, along with the costs of removal, less salvage, with no gain or loss recognized. These accounting policies have resulted in accumulated depreciation being significantly less than if the Company's telephone operations had not been regulated.

Statement of Financial Accounting Standards No. 101 ("SFAS 101"), "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71," specifies the accounting required when an enterprise ceases to meet the criteria for application of SFAS 71. SFAS 101 requires the elimination of the effects of any actions of regulators that have been recognized as assets and liabilities in accordance with SFAS 71 but would not have been recognized as assets and liabilities by enterprises in general, along with an adjustment of certain accumulated depreciation accounts to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had the Company's telephone operations not been subject to rate regulation. 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 enterprises in general. Deferred tax liabilities and deferred investment tax credits will be impacted based on the change in the temporary differences for property, plant and equipment and accumulated depreciation.

The ongoing applicability of SFAS 71 to the Company's regulated telephone operations is being monitored due to the changing regulatory, competitive and legislative environments, and it is possible that changes in regulation, legislation or competition or in the demand for regulated services or products could result in the Company's telephone operations no longer being subject to SFAS 71 in the near future. When the regulated operations of the Company no longer qualify for the application of SFAS 71, the net adjustments required will result in a material, noncash charge against earnings which will be reported as an extraordinary item. While the effect of implementing SFAS 101 cannot be precisely estimated at this time, management believes that the noncash, after-tax, extraordinary charge would be between \$350 million and \$400 million. For regulatory purposes, the accounting and reporting of the Company's telephone subsidiaries will not be affected by the discontinued application of SFAS 71.

## (13) Income Taxes

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 were as follows:

December 31,	1998	1997
	(Dollars in thousands)	
Deferred tax assets		
Postretirement benefit costs	\$ 38,023	35,826
Regulatory support	15,509	15,681
Net operating loss carry forwards of an acquired subsidiary	6,716	8,013
Regulatory liability	6,230	8,000
Long-term debt	3,382	3,957
Other employee benefits	8,812	8,281
Other	9,609	8,788
Gross deferred tax assets	88,281	88,546
Less valuation allowance	(6,716)	(8,013)

Net deferred tax assets	81,565	80,533
-----		
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(288,365)	(303,500)
Excess cost of net assets acquired	(8,500)	(7,177)
Basis difference in assets to be sold	(66,998)	(3,382)
Deferred debt costs	(13,309)	-
Customer base	(11,381)	-
Marketable equity securities	(8,928)	(11,840)
Intercompany profits	(3,128)	(3,112)
Other	(13,107)	(23,812)
-----		
Gross deferred tax liabilities	(413,716)	(352,823)
-----		
Net deferred tax liability	\$(332,151)	(272,290)
=====		

Income tax expense for the years ended December 31, 1998, 1997 and 1996 was as follows:

Year ended December 31,	1998	1997	1996
-----			
	(Dollars in thousands)		
Federal			
Current	\$ 117,490	122,861	60,530
Deferred	18,048	14,768	7,390
State			
Current	25,015	13,272	6,100
Deferred	(1,852)	1,462	545
-----			
	\$ 158,701	152,363	74,565
=====			

Income tax expense was allocated as follows:

Year ended December 31,	1998	1997	1996
-----			
	(Dollars in thousands)		
Net tax expense in the consolidated statements of income	\$ 158,701	152,363	74,565
Stockholders' equity, primarily for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(6,579)	(2,554)	(1,866)
-----			
	\$ 152,122	149,809	72,699
=====			

The following is a reconciliation from the statutory federal income tax rate to the Company's effective income tax rate:

December 31,	1998	1997	1996
-----			
	(Percentage of pre-tax income)		
Statutory federal income tax rate	35.0%	35.0	35.0
State income taxes, net of federal income tax benefit	3.9	2.3	2.1
Amortization of nondeductible excess cost of net assets acquired	3.3	1.1	1.8
Amortization of investment tax credits	(.6)	(.4)	(1.1)
Amortization of regulatory liability	(.6)	(.5)	(.9)
Other, net	-	(.2)	(.3)
-----			
Effective income tax rate	41.0%	37.3	36.6
=====			

#### (14) Sale or Exchange of Assets

In connection with the first quarter 1998 acquisition of Brooks Fiber Properties, Inc. ("Brooks") by MCIWorldCom, Inc. ("WorldCom"), the Company's 551,000 shares of Brooks' common stock were converted into approximately 1.0 million shares of WorldCom common stock. The Company recorded such conversion at fair value which resulted in a pre-tax gain of approximately \$22.8 million (\$14.8 million after-tax; \$.11 per diluted share). In the second quarter of 1998, the Company sold 750,000 shares of WorldCom common stock for \$35.6 million cash and

recorded a pre-tax gain of \$8.7 million (\$5.7 million after tax; \$.04 per diluted share).

In the second quarter of 1998, the Company sold its minority interests in two non-strategic cellular entities for approximately \$31.0 million cash which resulted in a pre-tax gain of \$21.8 million (\$12.3 million after-tax; \$.09 per diluted share). Additionally, in the second quarter the Company wrote off its minority investment in a start-up company.

During the second quarter of 1998, the Company also sold various other properties that were acquired in the PTI acquisition, including, but not limited to, the Company's submarine cable operations. The Company utilized the proceeds from these transactions to reduce its debt associated with the acquisition of PTI. In accordance with purchase accounting, no gain or loss was recorded upon the disposition of these assets.

In May 1997 the Company sold its majority-owned competitive access subsidiary to Brooks in exchange for approximately 4.3 million shares of Brooks' common stock. The Company recorded a pre-tax gain of approximately \$71 million (\$46 million after-tax; \$.34 per diluted share). In November 1997 the Company sold approximately 3.8 million shares of Brooks' common stock for \$202.7 million cash and recorded a pre-tax gain of approximately \$108 million (\$66 million after-tax; \$.48 per diluted share).

#### (15) Retirement and Savings Plans

Century sponsors an Outside Directors' Retirement Plan and a Supplemental Executive Retirement Plan to provide directors and officers, respectively, with supplemental retirement, death and disability benefits. In addition, as of December 31, 1998, the bargaining unit employees of a subsidiary are provided benefits under a defined benefit pension plan and substantially all of the employees of PTI are covered under a separate defined benefit pension plan.

The following table sets forth the combined plans' funded status and amounts recognized in the Company's consolidated balance sheet at December 31, 1998, 1997 and 1996.

December 31,	1998	1997	1996
-----			
	(Dollars in thousands)		
Benefit obligation	\$ (217,747)	(200,554)	(20,473)
Fair value of plan assets	278,678	237,618	22,158
Unrecognized transition (asset)/obligation	(2,136)	(1,550)	2,519
Unamortized prior service cost	1,053	-	-
Unrecognized net actuarial (gain)/loss	(57,981)	(37,731)	1
-----			
Prepaid (accrued) benefit cost	\$ 1,867	(2,217)	4,205
=====			

Net periodic pension cost for 1998, 1997 and 1996 included the following components:

Year ended December 31,	1998	1997	1996
-----			
	(Dollars in thousands)		
Service cost	\$ 5,361	793	466
Interest cost	13,225	2,508	1,382
Expected return on plan assets	(22,925)	(5,715)	(2,273)
Recognized net gains	(2,688)	-	-
Net amortization and deferral	(300)	2,459	933
-----			
Net periodic pension (benefit) cost	\$ (7,327)	45	508
=====			

The following is a reconciliation of the beginning and ending balances for the benefit obligation and the plan assets for the retirement and savings plans.

December 31,	1998	1997	1996
-----			
	(Dollars in thousands)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 200,554	20,473	19,420
Service cost	5,361	793	466
Interest cost	13,225	2,508	1,382
Plan amendments	227	-	-
Acquisition	-	175,165	-
Actuarial loss	8,683	2,548	95
Benefits paid	(10,303)	(933)	(890)
-----			
Benefit obligation at end of year	\$ 217,747	200,554	20,473
=====			

Change in plan assets (primarily listed

stocks and bonds)			
Fair value of plan assets at beginning of year	\$ 237,618	22,158	18,098
Return on plan assets	50,720	4,237	2,274
Employer contributions	643	807	2,676
Acquisition	-	211,349	-
Benefits paid	(10,303)	(933)	(890)
-----			
Fair value of plan assets at end of year	\$ 278,678	237,618	22,158
=====			

Assumptions used in accounting for the pension plans as of December 1998 and 1997 were:

	1998	1997
Discount rates	6.5-6.75%	7.0
Expected long-term rate of return on assets	8.0-10.0%	8.0-10.0

Century sponsors an Employee Stock Bonus Plan ("ESBP") and an Employee Stock Ownership Plan ("ESOP"). These plans cover most employees with one year of service with the Company and are funded by Company contributions determined annually by the Board of Directors.

The Company contributed \$3.7 million, \$2.8 million and \$1.9 million to the ESBP during 1998, 1997 and 1996, respectively. At December 31, 1998, the ESBP owned 5.9 million shares of Century common stock.

The Company's contributions to the ESOP approximate the ESOP's debt service less dividends received by the ESOP applicable to unallocated shares. The ESOP shares initially were pledged as collateral for its debt. As the debt is repaid, shares are released from collateral based on the percentage of principal payment to outstanding debt before applying the principal payment. As of each year end, such released shares are allocated to active employees.

The ESOP had outstanding debt of \$570,000 at December 31, 1998 which was applicable to shares purchased prior to 1993. Interest incurred by the ESOP on such debt was \$148,000, \$274,000 and \$430,000 in 1998, 1997, and 1996, respectively. The Company contributed and expensed \$1.5 million, \$1.8 million and \$2.1 million during 1998, 1997 and 1996, respectively, with respect to such shares. Dividends on unallocated ESOP shares used for debt service by the ESOP were \$69,000 in 1998, \$126,000 in 1997 and \$189,000 in 1996. The number of ESOP shares as of December 31, 1998 and 1997 which were purchased prior to 1993 were as follows:

December 31,	1998	1997
-----		
	(In thousands)	
Allocated shares	3,153	3,297
Unreleased shares	77	320
-----		
	3,230	3,617
=====		

The Company accounts for shares purchased subsequent to December 31, 1992 in accordance with Statement of Position 93-6 ("SOP 93-6"). Accordingly, as shares are released from collateral, the Company reports compensation expense equal to the current market price of the shares and the shares become outstanding for earnings per share computations. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt. ESOP compensation expense applicable to shares purchased subsequent to 1992 was \$2.9 million for 1998, \$1.5 million for 1997 and \$1.4 million for 1996. The fair value of unreleased ESOP shares accounted for under SOP 93-6 was \$23.2 million, \$13.5 million and \$9.7 million at December 31, 1998, 1997 and 1996, respectively. ESOP shares purchased subsequent to 1992 totaled 937,913, of which 422,060 were allocated and 515,853 were unreleased as of December 31, 1998.

Century also sponsors a qualified profit sharing plan pursuant to Section 401(k) of the Internal Revenue Code (the "401(k) Plan") which is available to substantially all employees of the Company. The Company's matching contributions to the 401(k) Plan were \$8.5 million in 1998, \$2.8 million in 1997 and \$2.3 million in 1996.

#### (16) Supplemental Cash Flow Disclosures

The Company paid interest of \$151.4 million, \$48.8 million and \$45.1 million during 1998, 1997 and 1996, respectively. Income taxes paid were \$185.9 million in 1998, \$79.3 million in 1997 and \$64.1 million in 1996.

In addition to the acquisitions of PTI and the Ameritech properties, Century has consummated the acquisitions of various telephone and cellular operations, along with certain other assets, during the three years ended December 31, 1998. In connection with these acquisitions, the

following assets were acquired, liabilities assumed, and common and preferred stock issued:

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Property, plant and equipment	\$ 75,043	1,106,558	4,963
Excess cost of net assets acquired	145,880	1,204,284	53,220
Other investments	5,028	119,356	-
Notes payable	-	(199,824)	-
Long-term debt	-	(527,937)	(3,273)
Deferred credits and other liabilities	-	(246,196)	(171)
Other assets and liabilities, excluding cash and cash equivalents	(382)	90,889	8,021
Common stock issued	-	(3,316)	(8,458)
Preferred stock issued	-	-	(7,975)
Decrease in cash due to acquisitions	\$ 225,569	1,543,814	46,327

During the second quarter of 1998, the Company sold various properties acquired in the PTI acquisition; a portion of its WorldCom stock; and certain cellular operations. See Note 14 for additional information.

In May 1997 the Company sold its majority-owned competitive access subsidiary in exchange for approximately 4.3 million shares of publicly-traded common stock. In November 1997 approximately 85% of such stock was sold. In addition, the Company has consummated the disposition of various cellular operations, along with certain other assets, during the three years ended December 31, 1998. In connection with these dispositions, the following assets were sold, liabilities eliminated, assets received and gain recognized:

Year ended December 31,	1998	1997	1996
(Dollars in thousands)			
Property, plant and equipment	\$ -	(38,481)	900
Excess cost of net assets acquired	-	(597)	-
Marketable equity securities	(21,923)	13,795	-
Other assets and liabilities,	(60,525)	(7,782)	(85)
Gain on sale of assets	(49,859)	(169,640)	(815)
Increase in cash due to dispositions	\$ (132,307)	(202,705)	-

#### (17) Fair Value of Financial Instruments

The following table presents the carrying amounts and estimated fair values of certain of the Company's financial instruments at December 31, 1998 and 1997.

	Carrying amount	Fair value
(Dollars in thousands)		
December 31, 1998		
Financial assets		
Investments		
Marketable equity securities	\$ 29,496	29,496 (2)
Other	\$ 29,813	29,813 (1)
Financial liabilities		
Long-term debt (including current maturities)	\$ 2,611,010	2,708,680 (3)
Other	\$ 32,721	32,721 (1)
December 31, 1997		
Financial assets		
Investments		
Marketable equity securities	\$ 40,570	40,570 (2)
Other	\$ 22,455	24,036 (1)
Financial liabilities		
Long-term debt (including		



current maturities)	\$ 2,664,785	2,677,348 (3)
Other	\$ 24,213	24,213 (1)
Off-balance sheet financial instruments		
Interest rate hedge contracts	\$ -	(16,061) (4)
-----		
(1) Fair value was estimated by the Company.		
(2) Fair value was based on quoted market prices.		
(3) Fair value was estimated by discounting the scheduled payment streams to present value based upon rates currently offered to the Company for similar debt.		
(4) Fair value represents the estimated amounts the Company would have to pay to settle these contracts. See Note 6 for additional information related to the settlement of these contracts.		

Cash and cash equivalents, accounts receivable, notes payable, accounts payable and accrued expenses - The carrying amount approximates the fair value due to the short maturity of these instruments.

#### (18) Business Segments

The Company has two reportable segments: telephone and cellular. The Company's reportable segments are strategic business units that offer different products and services.

The Company's telephone operations are conducted in rural, suburban and small urban communities in 21 states. Approximately 86% of the Company's telephone access lines are in Wisconsin, Washington, Alaska, Michigan, Louisiana, Colorado, Ohio, Oregon and Montana. The Company's cellular customers are located in Michigan, Louisiana, Wisconsin, Mississippi, Texas, Arkansas and Alaska.

	Operating revenues	Depreciation and amortization	Operating income
-----			
	(Dollars in thousands)		
Year ended December 31, 1998	-----		
Telephone	\$1,091,610	262,893	333,708
Cellular	407,749	62,002	130,580
Other segments	77,726	3,659	15,523
Total	\$1,577,085	328,554	479,811
=====			
Year ended December 31, 1997	-----		
Telephone	\$ 530,597	115,722	173,285
Cellular	307,742	41,127	88,081
Other segments	63,182	2,646	6,404
Total	\$ 901,521	159,495	267,770
=====			
Year ended December 31, 1996	-----		
Telephone	\$ 451,538	95,793	155,183
Cellular	250,243	33,573	67,914
Other segments	47,896	2,655	199
Total	\$ 749,677	132,021	223,296
=====			
Year ended December 31,	1998	1997	1996
-----			
	(Dollars in thousands)		
Operating income	\$ 479,811	267,770	223,296
Gain on sale or exchange of assets, net	49,859	169,640	815
Interest expense	(167,552)	(56,474)	(44,662)
Income from unconsolidated cellular entities	32,869	27,794	26,952
Minority interest	(12,797)	(5,498)	(6,675)
Other income and expense	5,268	5,109	3,916
Income before income tax expense	\$ 387,458	408,341	203,642
=====			
Year ended December 31,	1998	1997	1996
-----			

	(Dollars in thousands)		
Capital expenditures			
Telephone	\$ 233,190	115,854	110,147
Cellular	49,538	39,102	83,679
Other segments	28,191	26,269	29,059
Total	\$ 310,919	181,225	222,885
=====			
Identifiable assets			
Telephone	\$3,674,148	3,379,376	1,174,317
Cellular	1,097,789	989,729	644,587
Other segments	163,518	340,296	209,601
Total assets	\$4,935,455	4,709,401	2,028,505
=====			

Other accounts receivable are primarily amounts due from various long distance carriers, principally AT&T, and several large local exchange operating companies.

#### (19) Commitments and Contingencies

Construction expenditures and investments in vehicles, buildings and other work equipment during 1999 are estimated to be \$215 million for telephone operations, \$70 million for cellular operations and \$60 million for corporate and other operations.

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position or results of operations.

#### (20) Pending Dispositions

In August 1998 the Company entered into a definitive agreement to sell the stock of the entities conducting the Company's Alaska operations to ALEC Acquisition Corporation for \$415 million cash, subject to various adjustments. Proceeds from this transaction will be used to reduce debt. The Alaska transaction is anticipated to close in the second quarter of 1999, subject to regulatory approvals and various closing conditions.

In January 1999 the Company signed definitive asset purchase agreements to sell all of the operations of the Brownsville and McAllen, Texas, cellular markets to Western Wireless Corporation for \$95 million cash, subject to various adjustments. The Company is the majority owner in these markets and, therefore, will receive its proportionate share of the sale proceeds (approximately \$39 million after-tax.) The transaction is expected to close in the second quarter of 1999, subject to regulatory approvals and various closing conditions.

#### (21) Subsequent Event

On February 23, 1999, Century's Board of Directors declared a three-for-two common stock split effected as a 50% stock dividend in March 1999. All per share data included in this report has been restated to reflect this stock split. An amount equal to the par value of the additional common shares issued pursuant to the stock split has been reflected as a transfer from paid-in-capital to common stock on the consolidated financial statements for 1998.

### CENTURY TELEPHONE ENTERPRISES, INC. Consolidated Quarterly Income Information

	First quarter	Second quarter	Third quarter	Fourth quarter
-----				
	(Dollars in thousands, except per share amounts)			
1998	(unaudited)			
-----				
Operating revenues	\$ 371,720	388,378	401,949	415,038
Operating income	\$ 110,132	121,488	128,184	120,007
Net income	\$ 57,694	64,191	54,678	52,194
Diluted earnings per share*	\$ .41	.46	.39	.37
-----				
1997				
-----				
Operating revenues	\$ 198,985	210,576	218,351	273,609
Operating income	\$ 57,698	62,405	69,815	77,852
Net income	\$ 33,135	83,176	41,433	98,234
Diluted earnings per share*	\$ .24	.61	.30	.71

-----  
\*Adjusted to reflect stock split in early 1999. See Note 21 of Notes to Consolidated Financial Statements.

Diluted earnings per share for both the first quarter and second quarter of 1998 included \$.11 of net gain on sale or exchange of assets. See Note 14 for additional information.

Diluted earnings per share for the second quarter and fourth quarter of 1997 included \$.34 and \$.44 per share, respectively, of gain on sale of assets. The fourth quarter of 1997 includes one month of results of operations of Pacific Telecom, Inc.

#### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

### **PART III**

#### **Item 10. Directors and Executive Officers of the Registrant.**

The name, age and office(s) held by each of the Registrant's executive officers are shown below. Each of the executive officers listed below serves at the pleasure of the Board of Directors, except Mr. Williams who has entered into an employment agreement with the Registrant. The agreement's initial term has lapsed, but the agreement remains in effect from year to year, subject to the right of Mr. Williams or the Company to terminate such agreement.

Name ----	Age ---	Office(s) held with Century -----
Clarke M. Williams	77	Chairman of the Board of Directors
Glen F. Post, III	46	Vice Chairman of the Board of Directors, President and Chief Executive Officer
W. Bruce Hanks	44	Executive Vice President and Chief Operating Officer
David D. Cole	41	Senior Vice President - Operational Support
Kenneth R. Cole	51	Senior Vice President - Operations
R. Stewart Ewing, Jr.	47	Senior Vice President and Principal Financial and Accounting Officer
Harvey P. Perry	54	Senior Vice President, General Counsel and Secretary

Each of the Registrant's executive officers has served as an officer of the Registrant and one or more of its subsidiaries in varying capacities for more than the past five years. Mr. Hanks has served as Executive Vice President and Chief Operating Officer since November 1998, as Senior Vice President - Corporate Development and Strategy from October 1996 to October 1998 and as President - Telecommunications Services or a comparable position from 1989 to 1996. Mr. David D. Cole has served as Senior Vice President Operational Support since November 1998, as President - Wireless Group from October 1996 to October 1998 and as Vice President from 1990 to 1996. Mr. Kenneth R. Cole has served as Senior Vice President - Operations since November 1998, as President - Telephone Group from January 1995 to October 1998 and Vice President from 1983 to 1994.

The balance of the information required by Item 10 is incorporated by reference to the Registrant's definitive proxy statement relating to its 1999 annual meeting of stockholders (the "Proxy Statement"), which Proxy Statement will be filed pursuant to Regulation 14A within 120 days after the end of the last fiscal year.

#### **Item 11. Executive Compensation.**

The information required by Item 11 is incorporated by reference to the Proxy Statement.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management.**

The information required by Item 12 is incorporated by reference to the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions.**

The information required by Item 13 is incorporated by reference to the Proxy Statement.

**PART IV****Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.****a. Financial Statements****(i) Consolidated Financial Statements:**

Independent Auditors' Report on Consolidated Financial Statements and Financial Statement Schedules

Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Comprehensive Income for the years ended December 31, 1998, 1997 and 1996

**Consolidated Balance Sheets - December 31, 1998 and 1997**

Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996

Consolidated Statements of Stockholders' Equity for the years ended December 31, 1998, 1997 and 1996

**Notes to Consolidated Financial Statements****Consolidated Quarterly Income Information (unaudited)****(ii) Schedules:\***

I Condensed Financial Information of Registrant

**II Valuation and Qualifying Accounts**

\* Those schedules not listed above are omitted as not applicable or not required.

**b. Reports on Form 8-K.**

(i) The following item was reported in a Form 8-K filed December 3, 1998.

**Item 5. Other Events - News release announcing the acquisition**

of certain of Ameritech's telephone operations and related directories in Wisconsin.

(ii) The following items were reported in a Form 8-K filed December 10, 1998.

**Item 2. News release announcing third quarter result of operations.****c. Exhibits:**

3(i) Amended and Restated Articles of Incorporation of Registrant, dated as of December 2, 1996, (incorporated by reference to Exhibit 3(i) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).

3(ii) Registrant's Bylaws, as amended through October 7, 1998 (incorporated by reference to Exhibit 3(ii) of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).

4.1 Note Purchase Agreement, dated September 1, 1989, between Registrant, Teachers Insurance and Annuity Association of America and the Lincoln National Life Insurance Company (incorporated by reference to Exhibit 4.23 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1989).

4.2 Rights Agreement, dated as of August 27, 1996, between Century Telephone Enterprises, Inc. and Society National Bank, as Rights Agent, including the form of Rights Certificate (incorporated by reference to Exhibit 1 of Registrant's Current Report on Form 8-K filed August 30, 1996).

4.3 Form of common stock certificate of the Registrant (incorporated by reference to Exhibit 4.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993).

4.4 Indenture dated as of March 31, 1994 between the Company and Regions Bank (formerly First American Bank & Trust of Louisiana), as Trustee (incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form S-3, Registration No. 33-52915).

4.5 Resolutions designating the terms and conditions of the Company's 7-3/4% Senior Notes, Series A, due 2004 and 8-1/4% Senior Notes, Series B, due 2024 (incorporated by reference to Exhibit 4.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1994).

4.6 Resolutions designating the terms and conditions of the Company's 6.55% Senior Notes, Series C, due 2005 and 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

4.7 Form of Senior Notes described in 4.5 and 4.6 above (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-3, Registration No. 33-52915).

4.8 Competitive Advance and Revolving Credit Facility Agreement, dated as of August 28, 1997, among Registrant, the lenders named therein, and NationsBank of Texas, N.A. (incorporated by reference to Exhibit 4.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).

4.9 Resolutions designating the terms and conditions of the Company's 6.15% Senior Notes, Series E, due 2005; 6.30% Senior Notes, Series F, due 2008; and 6.875% Debentures, Series G, due 2028, (incorporated by reference to exhibit 4.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).

4.10 Form of Board Resolution to be used in designating and authorizing the terms and conditions of any series of Senior Debt Securities issuable under the Company's shelf registration statement (incorporated by reference to Exhibit 4.3 of the Company's Registration Statement on Form S-3, Registration No. 333-42013).

4.11 Form of Senior Debt Securities described in 4.9 above (incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3, Registration No. 333-42013).

4.12 First Supplemental Indenture, dated as of November 2, 1998, to Indenture between CenturyTel of the Northwest, Inc. and The First National Bank of Chicago (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).

## 10.1 Employee Benefit Plans

(a) Registrant's Employee Stock Ownership Plan and Trust, as amended and restated December 30, 1994 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995), amendment thereto dated January 26, 1996 (incorporated by reference to Exhibit 10.1(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated July 15, 1996 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996), and amendment thereto dated December 31, 1996 (incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), and amendment thereto dated March 18, 1997 (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), and amendments thereto dated January 1, 1997 (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997), and amendment thereto dated December 29, 1998, included elsewhere herein.

(b) Registrant's Stock Bonus Plan, PAYSOP and Trust, as amended and restated December 30, 1994 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1995), amendment thereto dated July 11, 1995 (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995), amendment thereto dated January 26, 1996 (incorporated by reference to Exhibit 10.1(b) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated July 15, 1996 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996), and amendment thereto dated December 31, 1996 (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), and amendments thereto dated January 1, 1997 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997), and amendment thereto dated December 29, 1998, included elsewhere herein.

(c) Registrant's Dollars & Sense Plan and Trust, as amended and restated, effective January 1, 1998 and amendment thereto dated December 29, 1998, both included elsewhere herein.

- (d) Registrant's Restated Supplemental Executive Retirement Plan, generally effective as of November 16, 1995 (incorporated by reference to Exhibit 10.1(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated November 21, 1996 (incorporated by reference to Exhibit 10.1(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).
- (e) Registrant's 1983 Restricted Stock Plan, dated February 21, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated November 21, 1996, (incorporated by reference to Exhibit 10.1(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996), and amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
- (f) Registrant's Key Employee Incentive Compensation Plan, dated January 1, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated November 21, 1996 (incorporated by reference to Exhibit 10.1 (f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996), and amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
- (g) Registrant's 1988 Incentive Compensation Program as amended and restated August 22, 1989 (incorporated by reference to Exhibit 19.8 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1989) and amendment thereto dated November 21, 1996 (incorporated by reference to Exhibit 10.1(g) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).
- (h) Form of Stock Option Agreement entered into in 1988 by the Registrant, pursuant to 1988 Incentive Compensation Program, with certain of its officers (incorporated by reference to Exhibit 10.10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1988) and amendment thereto (incorporated by reference to Exhibit 4.6 to Registrant's Registration No. 33-31314).
- (i) Registrant's 1990 Incentive Compensation Program, dated March 15, 1990 (incorporated by reference to Exhibit 19.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1990) and amendment thereto dated November 21, 1996 (incorporated by reference to Exhibit 10.1(i) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).
- (j) Form of Stock Option Agreement entered into in 1990 by the Registrant, pursuant to 1990 Incentive Compensation Program, with certain of its officers (incorporated by reference to Exhibit 19.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1990) and amendment thereto dated as of May 22, 1995 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
- (k) Form of Stock Option Agreement entered into in 1992 by the Registrant, pursuant to 1990 Incentive Compensation Program, with certain of its officers and employees (incorporated by reference to Exhibit 10.17 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1992) and amendment thereto dated as of May 22, 1995 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
- (l) Registrant's 1995 Incentive Compensation Plan approved by Registrant's shareholders on May 11, 1995 (incorporated by reference to Exhibit 4.4 to Registration No. 33-60061) and amendment thereto dated November 21, 1996 (incorporated by Reference to Exhibit 10.1 (l) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996), and amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997).
- (m) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of May 22, 1995, entered into by Registrant and its officers (incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995).
- (n) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of June 23, 1995, entered into by Registrant and certain key employees (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995).
- (o) Form of Performance Share Agreement Under the 1990 Incentive Compensation Program, entered into in 1993 with certain of its officers and employees (incorporated by reference to Exhibit 28.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993) and amendment thereto dated as of May 22, 1995 (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995).
- (p) Registrant's Restated Supplemental Defined Contribution Plan, dated as of November 16, 1995 (incorporated by reference to Exhibit 10.1 (q) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995), amendment thereto dated July 15, 1996 (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996) and amendment thereto dated November 21, 1996 (incorporated by reference to Exhibit 10.1 (p) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996).
- (q) Registrant's Amended and Restated Supplemental Dollars & Sense Plan, effective as of January 1, 1999, included elsewhere herein.
- (r) Registrant's Amended and Restated Salary Continuation (Disability) Plan for Officers, dated November 26, 1991 (incorporated by reference

to Exhibit 10.16 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).

(s) Registrant's Restated Outside Directors' Retirement Plan, dated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(t) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

(t) Registrant's Restated Deferred Compensation Plan for Outside Directors, dated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(u) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

(u) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of February 24, 1997, entered into by Registrant and its officers (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).

(v) Registrant's Chairman/Chief Executive Officer Short-Term Incentive Program (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).

(w) Amended and Restated Restricted Stock and Performance Share Agreement, pursuant to 1995 Incentive Compensation Plan, dated as of February 24, 1998 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).

(x) Form of Restricted Stock and Performance Share Agreement, pursuant to 1995 Incentive Compensation Plan, dated as of February 24, 1998 (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998).

(y) Registrant's Supplemental Defined Benefit Plan, effective as of January 1, 1999, included elsewhere herein.

(z) Registrant's Amended and Restated Retirement Plan, effective as of January 1, 1999, included elsewhere herein.

## 10.2 Employment, Severance and Related Agreements

(a) Employment Agreement, dated May 24, 1993, by and between Clarke M. Williams and Registrant (incorporated by reference to Exhibit 19.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993) and amendment thereto dated as of February 27, 1996 (incorporated by reference to Exhibit 10.2(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

(b) Form of Amended and Restated Severance Agreement, by and between Registrant and each of its executive officers other than Clarke M. Williams, dated as of November 16, 1995 (incorporated by reference to Exhibit 10.2(b) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

(c) Form of Amended and Restated Severance Agreement, by and between Registrant and three of its officers who are not executive officers, dated as of November 16, 1995 (incorporated by reference to Exhibit 10.2(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).

(d) Agreement, dated December 31, 1994, by and between Jim D. Reppond and Registrant (incorporated by reference to Exhibit 10.24 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1994).

(e) Consulting Agreement, dated as of July 2, 1996, by and

between Century Telephone Enterprises, Inc. and Jim D. Reppond (incorporated by reference to Exhibit 10 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).

## 10.3 Other Agreements

(a) Stock Purchase Agreement, dated as of June 11, 1997, by and among PacifiCorp Holdings, Inc., Pacific Telecom, Inc., Century Telephone Enterprises, Inc. and Century Cellunet, Inc. (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed June 24, 1997) and amendment thereto, dated November 5, 1997 (incorporated by reference to Exhibit 2.2 to Registrant's Current Report on Form 8-K dated December 1, 1997 and filed December 11, 1997).

(b) Purchase Agreement by and among ALEC Acquisition Corporation, CenturyTel of the Northwest, Inc. and CenturyTel Wireless, Inc., dated August 14, 1998 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the

quarter ended September 30, 1998).

- 21 Subsidiaries of the Registrant, included elsewhere herein.
- 23 Independent Auditors' Consent, included elsewhere herein.
- 27 Financial Data Schedule, included elsewhere herein.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

### CENTURY TELEPHONE ENTERPRISES, INC.

Date: March 15, 1999

By: /s/ Clarke M. Williams

-----  
Clarke M. Williams  
Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Clark M. Williams ----- Clarke M. Williams	Chairman of the Board of Directors	March 15, 1999
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Vice Chairman of the

/s/ Glen F. Post, III ----- Glen F. Post, III	Board of Directors, President, and Chief Executive Officer	March 15, 1999
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/s/ R. Stewart Ewing, Jr. ----- R. Stewart Ewing, Jr	Senior Vice President and Principal Financial and Accounting Officer	March 15, 1999
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/s/ Harvey P. Perry ----- Harvey P. Perry	Senior Vice President, General Counsel, Secretary and Director	March 15, 1999
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/s/ W. Bruce Hanks ----- W. Bruce Hanks	Executive Vice President, Chief Operating Officer and Director	March 15, 1999
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/s/ William R. Boles, Jr. ----- William R. Boles, Jr.	Director	March 15, 1999
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/s/ Virginia Boulet ----- Virginia Boulet	Director	March 15, 1999
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/s/ Ernest Butler, Jr. ----- Ernest Butler, Jr.	Director	March 15, 1999
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/s/ Calvin Czeschin ----- Calvin Czeschin	Director	March 15, 1999
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/s/ James B. Gardner ----- James B. Gardner	Director	March 15, 1999
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/s/ R. L. Hargrove, Jr. ----- R. L. Hargrove, Jr.	Director	March 15, 1999
/s/ Johnny Hebert ----- Johnny Hebert	Director	March 15, 1999
/s/ F. Earl Hogan ----- F. Earl Hogan	Director	March 15, 1999
/s/ C. G. Melville, Jr. ----- C. G. Melville, Jr.	Director	March 15, 1999
/s/ Jim D. Reppond ----- Jim D. Reppond	Director	March 15, 1999

**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**CENTURY TELEPHONE ENTERPRISES, INC.**  
(Parent Company)

**STATEMENTS OF INCOME**

	Year ended December 31,		
	1998	1997	1996
	(Dollars in thousands)		
REVENUES	\$ 16,055	9,666	6,520
EXPENSES			
Operating expenses	15,788	9,088	6,071
Depreciation and amortization	31,842	9,401	7,286
Total expenses	47,630	18,489	13,357
OPERATING LOSS	(31,575)	(8,823)	(6,837)
OTHER INCOME (EXPENSE)			
Gain on sales of assets	28,085	172,537	-
Loss on investment	-	-	(1,100)
Interest expense	(131,309)	(49,738)	(36,709)
Interest income	40,005	28,697	28,884
Total other income (expense)	(63,219)	151,496	(8,925)
INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN SUBSIDIARIES' EARNINGS	(94,794)	142,673	(15,762)
Income tax benefit (expense)	21,857	(55,591)	4,467
INCOME (LOSS) BEFORE EQUITY IN SUBSIDIARIES' EARNINGS	(72,937)	87,082	(11,295)
Equity in subsidiaries' earnings	301,694	168,896	140,372
NET INCOME	\$ 228,757	255,978	129,077

See accompanying notes to condensed financial information of registrant.

**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
(continued)

**CENTURY TELEPHONE ENTERPRISES, INC.**  
(Parent Company)

**BALANCE SHEETS**

	December 31,	
	1998	1997
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,540	28,300
Receivables from subsidiaries	142,912	76,931
Other receivables	23,906	792
Prepayments and other	259	28
Total current assets	173,617	106,051
PROPERTY, PLANT AND EQUIPMENT		
Property and equipment	1,162	1,236
Accumulated depreciation	(676)	(744)
Net property, plant and equipment	486	492

-----		
INVESTMENTS AND OTHER ASSETS		
Investments in subsidiaries (at equity)	3,170,861	2,706,066
Receivables from subsidiaries	514,366	655,398
Other investments	42,418	75,546
Deferred charges	58,073	5,878
-----		
Total investments and other assets	3,785,718	3,442,888
-----		
TOTAL ASSETS	\$ 3,959,821	3,549,431
=====		
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 30,046	11,486
Payables to subsidiaries	365,517	218,993
Accrued interest	27,711	11,088
Other accrued liabilities	23,475	41,628
-----		
Total current liabilities	446,749	283,195
-----		
LONG-TERM DEBT	1,852,253	1,883,467
-----		
PAYABLES TO SUBSIDIARIES	32,406	46,371
-----		
DEFERRED CREDITS AND OTHER LIABILITIES	96,931	36,126
-----		
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized		
175,000,000 shares, issued and outstanding		
138,082,926* and 91,103,674 shares	138,083	91,104
Paid-in capital	451,535	469,586
Unrealized holding gain on investments,		
net of taxes	7,217	11,893
Retained earnings	932,611	728,033
Unearned ESOP shares	(6,070)	(8,450)
Preferred stock - non-redeemable	8,106	8,106
-----		
Total stockholders' equity	1,531,482	1,300,272
-----		
TOTAL LIABILITIES AND EQUITY	\$ 3,959,821	3,549,431
=====		
* Adjusted to reflect stock split in early 1999.		

See accompanying notes to condensed financial information of registrant.

## SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT (Continued)

### CENTURY TELEPHONE ENTERPRISES, INC. (Parent Company)

#### STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	1998	1997	1996
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 228,757	255,978	129,077
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	31,842	9,401	7,286
Deferred income taxes	12,902	8,068	2,934
Earnings of subsidiaries	(301,694)	(168,896)	(140,372)
Gain on sale of assets	(28,085)	(172,537)	-
Changes in current assets and current liabilities:			
Other receivables	(23,114)	11,615	(2,639)
Other accrued liabilities	(40,535)	35,754	329
Other current assets and liabilities, net	37,754	8,412	3,998
Other, net	9,724	958	3,297
Net cash provided by (used in) operating activities	(72,449)	(11,247)	3,910

-----			
INVESTING ACTIVITIES			
Acquisitions	(225,569)	(1,283,291)	(46,327)
Capital contributions to subsidiaries	-	(16,634)	(20,179)
Dividends received from subsidiaries	116,906	117,499	473
Receivables from subsidiaries	303,221	(235,772)	(45,945)
Payables to subsidiaries	(90,319)	9,738	97,908
Proceeds from sales of assets	40,778	202,705	-
Investment in unconsolidated personal communications services entity	-	-	18,900
Note receivable	-	22,500	1,667
Other, net	(28,046)	(14,959)	(4,425)
-----			
Net cash provided by (used in) investing activities	116,971	(1,198,214)	2,072
-----			
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	950,000	1,297,435	47,500
Payments of long-term debt	(960,274)	(52,214)	(42,357)
Payment of hedge contracts	(40,237)	-	-
Proceeds from issuance of common stock	15,033	14,156	10,089
Payment of debt issuance costs	(6,625)		
Cash dividends paid	(24,179)	(22,671)	(21,775)
-----			
Net cash provided by (used in) financing activities	(66,282)	1,236,706	(6,543)
-----			
Net increase (decrease) in cash and cash equivalents	(21,760)	27,245	(561)
Cash and cash equivalents at beginning of year	28,300	1,055	1,616
-----			
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 6,540	28,300	1,055
=====			
See accompanying notes to condensed financial information of registrant.			

**SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
(continued)

**CENTURY TELEPHONE ENTERPRISES, INC.**  
(Parent Company)

**NOTES TO CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**(A) LONG-TERM DEBT**

The approximate annual debt maturities for the five years subsequent to December 31, 1998 are as follows:

1999 -	\$ 30.0 million
2000 -	\$ 37.4 million
2001 -	\$ 56.6 million
2002 -	\$ 688.8 million
2003 -	\$ 3.8 million

**(B) GUARANTEES**

As of December 31, 1998, Century has guaranteed a promissory note for a subsidiary of \$2.0 million, as well as the applicable interest and premium.

**(C) DIVIDENDS FROM SUBSIDIARIES**

Dividends paid to Century by consolidated subsidiaries were \$116.9 million, \$117.5 million and \$472,800 during 1998, 1997 and 1996, respectively.

**(D) INCOME TAXES AND INTEREST PAID**

Income taxes paid by Century (including amounts reimbursed from subsidiaries) were \$162.0 million, \$71.8 million and \$56.0 million during

1998, 1997, and 1996 respectively.

Interest paid by Century was \$114.7 million, \$42.4 million and \$37.3 million during 1998, 1997 and 1996, respectively.

#### (E) AFFILIATED TRANSACTIONS

Century provides and bills management services to subsidiaries and in certain instances makes interest bearing advances to finance construction of plant and purchases of equipment. Century recorded intercompany interest income of \$39.7 million, \$26.6 million and \$26.4 million in 1998, 1997 and 1996, respectively.

#### (F) SUBSEQUENT EVENT

On February 23, 1999, Century's Board of Directors declared a three-for-two common stock split effected as a 50% stock dividend in March 1999. An amount equal to the par value of the additional common shares issued pursuant to the stock split has been reflected as a transfer from paid-in-capital to common stock on the Condensed Financial Information of Registrant for 1998.

### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS CENTURY TELEPHONE ENTERPRISES, INC.

For the years ended December 31, 1998, 1997 and 1996

Description	Balance at beginning of period	Additions charged to costs and expenses	Deductions from allowance(1)	Other changes(2)	Balance at end of period
-----					
(Dollars in thousands)					
Year ended December 31, 1998					
Allowance for doubtful accounts	\$ 5,954	13,951	(15,775)	25	4,155
Year ended December 31, 1997					
Allowance for doubtful accounts	\$ 3,327	11,838	(9,975)	764	5,954
Year ended December 31, 1996					
Allowance for doubtful accounts	\$ 2,768	10,155	(9,662)	66	3,327

(1) Customers' accounts written-off, net of recoveries.

(2) Allowance for doubtful accounts at the date of acquisition of purchased subsidiaries, net of allowance for doubtful accounts at the date of disposition of subsidiaries sold.

**Exhibit 10.1(a)**

**AMENDMENT TO THE  
CENTURY TELEPHONE ENTERPRISES, INC.  
EMPLOYEE STOCK OWNERSHIP PLAN AND TRUST**

**STATE OF LOUISIANA**

**PARISH OF OUACHITA**

BE IT KNOWN, that on this 29th day of December, 1998, before me, a Notary Public, duly commissioned and qualified in and for the Parish of Ouachita, State of Louisiana, therein residing, and in the presence of the undersigned witnesses:

**PERSONALLY CAME AND APPEARED:**

CENTURY TELEPHONE ENTERPRISES, INC., represented herein by its Senior Vice President and Chief Financial Officer, R. Stewart Ewing, Jr., as Settlor and Employer, which hereby executes the following amendment to the Century Telephone Enterprises, Inc. Employee Stock Ownership Plan and Trust, such amendment to be effective immediately:

The last sentence of Section 2.1 of the Plan is hereby deleted and the following is inserted in lieu thereof:

In addition, Employees of the following are not eligible to participate in the Plan:

Century Business Communications, Inc. Century Interactive Communications, Inc. CenturyTel Security Systems, Inc. (and any predecessors thereto)

Employees of CenturyTel of Pecoco, Inc.(formerly Pecoco, Inc.) and its subsidiaries are eligible to participate in the Plan as of April 27, 1997. Employees of CenturyTel of the Northwest, Inc.(formerly Pacific Telecom, Inc.) and Pacific Telecom Cellular, Inc., their subsidiaries, and their Affiliates prior to the acquisition of Pacific Telecom, Inc. by Century Telephone Enterprises, Inc.or an Affiliate thereof are eligible to participate in the Plan as of January 1, 1999.

THUS DONE AND SIGNED on the day first above shown, in the presence of the undersigned competent witnesses, who hereunto sign their names with the said appearer and me, Notary, after reading of the whole.

**WITNESSES: CENTURY TELEPHONE ENTERPRISES, INC.**

*/s/ Ray B. Finney*

-----

*/s/ Jeffrey S. Glover*

-----

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

-----

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

*/s/ Kathy Tettleton*

-----

NOTARY PUBLIC

**ACCEPTANCE OF AMENDMENTS BY TRUSTEE**

**STATE OF LOUISIANA**

**PARISH OF OUACHITA**

On this 29th day of December, 1998.

BEFORE ME, a Notary Public, and in the presence of the undersigned competent witnesses, personally came and appeared:

**REGIONS BANK OF LOUISIANA**

which declared that it is appearing herein for the purpose of accepting and it does hereby accept the Amendments to the Century Telephone Enterprises, Inc. Employee Stock Ownership Plan and Trust adopted by the Settlor on the 29th day of December, 1998.

THUS DONE AND SIGNED at Monroe, Louisiana, on the date first above written. THUS DONE AND SIGNED at Monroe, Louisiana, on the

date first above written.

WITNESSES:	REGIONS BANK OF LOUISIANA, TRUSTEE
/s/ Twana Pulliam	By: /s/ Kevin Rodgers
-----	-----
	Kevin Rodgers, Vice President
/s/Lani Ingram-Schyard	
-----	
	/s/ Lisa K. McGivney
	-----
	NOTARY PUBLIC

**Exhibit 10.1(b)**  
**AMENDMENT TO THE**  
**CENTURY TELEPHONE ENTERPRISES, INC.**  
**STOCK BONUS PLAN, PAYSOP AND TRUST**

**STATE OF LOUISIANA**

**PARISH OF OUACHITA**

BE IT KNOWN, that on this 29th day of December, 1998, before me, a Notary Public, duly commissioned and qualified in and for the Parish of Ouachita, State of Louisiana, therein residing, and in the presence of the undersigned witnesses:

**PERSONALLY CAME AND APPEARED:**

CENTURY TELEPHONE ENTERPRISES, INC., represented herein by its Senior Vice President and Chief Financial Officer, R. Stewart Ewing, Jr., as Settlor and Employer, which hereby executes the following amendment to the Century Telephone Enterprises, Inc. Stock Bonus Plan, PAYSOP and Trust, such amendment to be effective immediately:

The last sentence of Section 2.1 of the Plan is hereby deleted and the following is inserted in lieu thereof:

In addition, Employees of the following are not eligible to participate in the Plan:

**Century Business Communications, Inc.**

**Century Interactive Communications, Inc.**

**CenturyTel Security Systems, Inc. (and any predecessors thereto)**

Employees of CenturyTel of Pecoco, Inc. (formerly Pecoco, Inc.) and its subsidiaries are eligible to participate in the Plan as of April 27, 1997. Employees of CenturyTel of the Northwest, Inc. (formerly Pacific Telecom, Inc.) and Pacific Telecom Cellular, Inc., their subsidiaries, and their Affiliates prior to the acquisition of Pacific Telecom, Inc. by Century Telephone Enterprises, Inc. or an Affiliate thereof are eligible to participate in the Plan as of January 1, 1999.

THUS DONE AND SIGNED on the day first above shown, in the presence of the undersigned competent witnesses, who hereunto sign their names with the said appearer and me, Notary, after reading of the whole.

**WITNESSES: CENTURY TELEPHONE ENTERPRISES, INC.**

*/s/ Ray B. Finney*  
-----

*/s/ Jeffrey S. Glover*  
-----

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

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

*/s/ Kathy Tettleton*  
-----

NOTARY PUBLIC

**ACCEPTANCE OF AMENDMENTS BY TRUSTEE**

**STATE OF LOUISIANA**

**PARISH OF OUACHITA**

On this 29th day of December, 1998.

BEFORE ME, a Notary Public, and in the presence of the undersigned competent witnesses, personally came and appeared:

**REGIONS BANK OF LOUISIANA**

which declared that it is appearing herein for the purpose of accepting and it does hereby accept the Amendments to the Century Telephone Enterprises, Inc. Stock Bonus Plan, PAYSOP and Trust adopted by the Settlor on the 29th day of December, 1998.



THUS DONE AND SIGNED at Monroe, Louisiana, on the date first above written.

WITNESSES:	REGIONS BANK OF LOUISIANA, TRUSTEE
/s/ Twana Pulliam	By: /s/ Kevin Rodgers
-----	-----
	Kevin Rodgers, Vice President
/s/Lani Ingram-Schyard	
-----	
	/s/ Lisa K. McGivney
	-----
	NOTARY PUBLIC

## Exhibit 10.1(c)

### Century Telephone Enterprises, Inc. Dollars & Sense Plan and Trust

#### As Amended and Restated Effective January 1, 1998

Century Telephone Enterprises, Inc. (the "Company") previously established the Century Telephone Enterprises, Inc. Dollars & Sense Plan (the "Plan"), for the exclusive benefit of eligible employees of the Company and its participating affiliates. The Plan is intended to constitute a qualified profit sharing plan, as described in Code section 401(a), which includes a qualified cash or deferred arrangement, as described in Code section 401(k). Effective July 1, 1993, the San Marcos Telephone Company, Inc. and SM Telecorp Companies Retirement Plan was merged into the Plan. Effective January 10, 1998, assets from the PacifiCorp K Plus Employee Savings Plan attributable to participants thereunder who immediately prior to the date of transfer are employees of Pacific Telecom, Inc. were transferred to the Plan.

The provisions of the Plan and Trust relating to the Trustee constitute the trust agreement which is entered into by and between Century Telephone Enterprises, Inc. and Merrill Lynch Trust Company, FSB. The Trust is intended to be tax exempt, as described in Code section 501 (a).

The Plan is intended to comply with the qualification requirements of the Small Business Job Protection Act of 1996 (the "SBJPA") and is intended to comply in operation therewith. To the extent that the Plan, as set forth below, is subsequently determined to be insufficient to comply with such requirements and any regulations issued under the SBJPA, the Plan shall later be amended to so comply.

The Plan constitutes an amendment and restatement of the Century Telephone Enterprises, Inc. Dollars & Sense Plan effective January 1, 1998, which was originally established effective as of May 1, 1986, and its related trust agreement.

The Century Telephone Enterprises, Inc. Dollars & Sense Plan and Trust, as set forth in this document, is hereby amended and restated effective as of January 1, 1998. The Plan and Trust were last restated generally effective April 1, 1992 and amended five times thereafter including a change in trustee amendment.

Date: 12/31 , 1998  
-----

Century Telephone Enterprises, Inc.

By: /s/ R. Stewart Ewing, Jr.  
-----

Title: Sr. Vice President and C.F.O.

The trust agreement set forth in those provisions of the Plan and Trust which relate to the Trustee is hereby executed.

Date: 2/25, 1999  
-----

Merrill Lynch Trust Company, FSB

By: /s/ Robin Hopkins  
-----

Title: Assistant Vice President

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## 1 DEFINITIONS

When capitalized, the words and phrases below have the following meanings unless different meanings are clearly required by the context:

1.1 "Account". The records maintained by the Administrator for purposes of accounting for a Participant's interest in the Plan. "Account" may refer to one or all of the following accounts which have been created on behalf of a Participant to hold amounts attributable to specific types of Contributions under the Plan, amounts transferred from the ESOP and amounts transferred from Predecessor Plans in accordance with Section 4.2:

- (a) "Employee Pre-Tax Account". An account created to hold amounts attributable to Employee Pre-Tax Contributions and, if applicable, amounts transferred from the Predecessor Plans as set forth on Appendix A.
- (b) "After-Tax Account". An account created to hold amounts attributable to amounts transferred from the Predecessor Plans as set forth on Appendix A.
- (c) "Rollover Account". An account created to hold amounts attributable to Rollover Contributions and, if applicable, amounts transferred from the Predecessor Plans as set forth on Appendix A.
- (d) "ESOP Transfer Account". An account created to hold amounts attributable to amounts transferred from the ESOP on behalf of participants thereunder pursuant to the diversification requirements of Code section 401(a)(28).
- (e) "Employer Match Account". An account created to hold amounts attributable to Employer Match Contributions (identified as basic Employer Match Contributions in Section 5) and, if applicable, amounts transferred from the Predecessor Plans as set forth on Appendix A.
- (f) "Additional Match Account". An account created to hold amounts attributable to Employer Match Contributions (identified as additional Employer Match Contributions in Section 5) and, if applicable, amounts transferred from the Predecessor Plans as set forth on Appendix A.
- (g) "Discretionary Match Account". An account created to hold amounts attributable to Employer Match Contributions (identified as discretionary Employer Match Contributions in Section 5) and, if applicable, amounts transferred from the Predecessor Plans as set forth on Appendix A.
- (h) "Prior Match Account". An account created to hold amounts attributable to amounts transferred from the Predecessor Plans as set forth on Appendix A.

1.2 "ACP" or "Average Contribution Percentage". The percentage calculated in accordance with Section 12.1.

1.3 "Administrator". The Company, which may delegate all or a portion of the duties of the Administrator under the Plan to a Committee in accordance with Section 15.6.

1.4 "ADP" or "Average Deferral Percentage". The percentage calculated in accordance with Section 12.1.

1.5 "Alternate Payee". Any spouse, former spouse, child or other dependent (as defined in Code section 152) of a Participant who is recognized by a domestic relations order as having a right to receive all, or a portion, of the Participant's Account under the Plan.

1.6 "Beneficiary". The person or persons who is to receive benefits under the Plan after the death of the Participant pursuant to the "Beneficiary Designation" paragraph in Section 11.

1.7 "Code". The Internal Revenue Code of 1986, as amended. Reference to any specific Code section shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.

1.8 "Committee". If applicable, the committee which has been appointed by the Administrator to administer the Plan in accordance with Section 15.6.

1.9 "Company". Century Telephone Enterprises, Inc. or any successor by merger, purchase or otherwise.

1.10 "Company Stock". Shares of voting common stock, \$1.00 par value, issued by the Company.

1.11 "Compensation". The sum of a Participant's Taxable Income and salary reductions, if any, pursuant to Code section 125, 402(e)(3), 402(h)(1)(B), 403(b), 457 or, for Plan Years commencing after December 31, 1996, 408(p)(2)(A)(i).

For purposes of determining benefits under the Plan, Compensation is limited to \$150,000 per Plan Year (as adjusted for cost of living increases pursuant to Code sections 401(a)(17) and 415(d)). For Plan Years commencing before January 1, 1997, for purposes of the preceding sentence, in the case of an HCE who is a 5% Owner or one of the 10 most highly compensated Employees, (i) such HCE and such HCE's family group (as defined below) shall be treated as a single employee and the Compensation of each family group member shall be aggregated with the Compensation of such HCE, and (ii) the limitation on Compensation shall be allocated among such HCE and his or her family group members in proportion to each individual's Compensation before the application of this sentence. For purposes of this Section, the term "family group" shall mean an Employee's spouse and lineal descendants who have not attained age 19 before the close of the year in question.

For purposes of determining HCEs and key employees and for Plan Years commencing after December 31, 1997, for purposes of Section 13.2, Compensation for the entire Plan Year shall be used. For purposes of determining ADP and ACP, Compensation shall be limited to amounts paid to an Eligible Employee while a Participant.

1.12 "Contribution". An amount contributed to the Plan by the Employer or an Eligible Employee, and allocated by contribution type to Participants' Accounts, as described in Section 1.1. Specific types of contribution include:

(a) "Employee Pre-Tax Contribution". An amount contributed by an eligible Participant in conjunction with his or her Code section 401(k) salary deferral election which shall be treated as made by the Employer on the eligible Participant's behalf.

(b) "Rollover Contribution". An amount contributed by an Eligible Employee which originated from another employer's or an Employer's qualified plan.

(c) "Employer Match Contribution". An amount contributed by the Employer on an eligible Participant's behalf based upon the amount contributed by the eligible Participant.

1.13 "Contribution Dollar Limit". The annual limit placed on each Participant's Employee Pre-Tax Contributions, which shall be \$7,000 per calendar year (as adjusted for cost of living increases pursuant to Code sections 402(g)(5) and 415(d)). For purposes of this Section, a Participant's Employee Pre-Tax Contributions shall include (i) any employer contribution under a qualified cash or deferred arrangement (as defined in Code section 401(k)) to the extent not includible in gross income for the taxable year under Code section 402(e)(3) (determined without regard to Code section 402(g)), (ii) any employer contribution to the extent not includible in gross income for the taxable year under Code section 402(h)(1)(B) (determined without regard to Code section 402(g)), (iii) any employer contribution to purchase an annuity contract under Code section 403(b) under a salary reduction agreement (within the meaning of Code section 3121(a)(5)(D)) and (iv) for calendar years commencing after December 31, 1996, any elective employer contribution under Code section 408(p)(2)(A)(i).

1.14 "Conversion Period". The period of converting the prior accounting system of any plan and trust which is merged, in whole or in part, into the Plan and Trust, to the accounting system described in Section 6.

1.15 "Direct Rollover". An Eligible Rollover Distribution that is paid by the Plan directly to an Eligible Retirement Plan for the benefit of a Distributee.

1.16 "Disability" or "Disabled". A medical condition which renders a Participant unable to perform each of the material duties of his or her regular occupation and which is likely to incapacitate the Participant continuously and permanently as evidenced by presentation of medical evidence satisfactory to the Administrator.

1.17 "Disabled Participant". The Plan status of a Participant during any period he or she is Disabled.

1.18 "Distributee". A Participant, a Beneficiary (if he or she is the surviving spouse of a Participant) or an Alternate Payee under a QDRO (if he or she is the spouse or former spouse of a Participant).

1.19 "Effective Date". The date upon which the provisions of this document become effective. This date is January 1, 1998, unless stated otherwise. In general, the provisions of this document only apply to Participants who are Employees on or after the Effective Date. However,

investment and distribution provisions apply to all Participants with Account balances to be invested or distributed after the Effective Date.

1.20 "Eligible Employee". An Employee of an Employer who is recorded as an Employee by the Employer's payroll records, except any Employee:

- (a) whose compensation and conditions of employment are covered by a collective bargaining agreement to which the Employer is a party unless the agreement calls for the Employee's participation in the Plan; or
- (b) who is a temporary Employee hired specifically to fill temporary or occasional needs.

1.21 "Eligible Retirement Plan". An individual retirement account described in Code section 408(a), an individual retirement annuity described in Code section 408(b), an annuity plan described in Code section 403(a), or a qualified trust described in Code section 401(a), that accepts a Distributee's Eligible Rollover Distribution, except that, if the Distributee is the surviving spouse of a Participant, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

1.22 "Eligible Rollover Distribution". A distribution of all or any portion of the balance to the credit of a Distributee, excluding (i) a distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; (ii) a distribution to the extent such distribution is required under Code section 401(a)(9); and (iii) the portion of a distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to Employer securities).

1.23 "Employee". An individual who is:

- (a) a common-law employee of any Related Company, or
- (b) a Leased Employee.

1.24 "Employer". The Company and any other Related Company which adopts the Plan with the approval of the Company.

1.25 "ERISA". The Employee Retirement Income Security Act of 1974, as amended. Reference to any specific ERISA section shall include such section, any valid regulation promulgated thereunder, and any comparable provision of any future legislation amending, supplementing or superseding such section.

1.26 "ESOP". The Century Telephone Enterprises, Inc. Employee Stock Ownership Plan.

1.27 "Former Participant". The Plan status of an individual after he or she is determined to be a Terminated Participant and his or her Account is distributed or forfeited.

1.28 "HCE" or "Highly Compensated Employee". An Employee described as a Highly Compensated Employee in Section 12.

1.29 "Ineligible". The Plan status of an individual who is (1) an Employee of a Related Company which is not then an Employer, (2) an Employee of an Employer, but not an Eligible Employee, or (3) not an Employee.

1.30 "Ineligible Participant". The Plan status of a Participant who is (1) an Employee of a Related Company which is not then an Employer, or (2) an Employee of an Employer, but not an Eligible Employee.

1.31 "Investment Fund". An investment fund as described in Section 16.2. The Investment Funds authorized by the Administrator to be offered under the Plan as of the Effective Date are set forth in Appendix B.

1.32 "Leased Employee". An individual, not otherwise an Employee, who, pursuant to an agreement between a Related Company and a leasing organization, has performed, on a substantially full-time basis, for a period of at least 12 months, services of any type historically performed by Employees in the business field of the Related Company, unless:

- (a) the individual is covered by a money purchase pension plan maintained by the leasing organization and meeting the requirements of Code section 414(n)(5)(B), and
- (b) such individuals do not constitute more than 20% of all Non-Highly Compensated Employees of all Related Companies (within the meaning of Code section 414(n)(5)(C)(ii)).

For Plan Years commencing after December 31, 1996, "services under the primary direction or control of the Related Company" shall be substituted for the preceding reference to "services of any type historically performed by Employees in the business field of the Related

Company".

1.33 "Leave of Absence". A period during which an individual is deemed to be an Employee, but is absent from active employment, provided that the absence:

(a) was authorized by a Related Company; or

(b) was due to military service in the United States armed forces and the individual returns to active employment within the period during which he or she retains employment rights under federal law.

1.34 "Loan Account". The record maintained for purposes of accounting for a Participant's loan and payments of principal and interest thereon.

1.35 "NHCE" or "Non-Highly Compensated Employee". An Employee described as a Non-Highly Compensated Employee in Section 12.

1.36 "Normal Retirement Date". The date of a Participant's 65th birthday.

1.37 "Owner". A person with an ownership interest in the capital, profits, outstanding stock or voting power of a Related Company within the meaning of Code section 318 or 416 (which exclude indirect ownership through a qualified plan).

1.38 "PacifiCorp Stock". Shares of common stock of PacifiCorp, its predecessor(s), or its successors or assigns, or any corporation with or into which said corporation may be merged, consolidated or reorganized, or to which a majority of its assets may be sold.

1.39 "Participant". The Plan status of an Eligible Employee after he or she completes the eligibility requirements and enters the Plan as described in Section 2.1 and any individual for whom assets have been transferred from a predecessor plan merged, in whole or in part, with the Plan. A Participant's participation continues until his or her employment with all Related Companies ends and his or her Account is distributed or forfeited.

1.40 "Pay". The Taxable Income paid to an Eligible Employee by an Employer while he or she is a Participant during the current period plus any salary credit or salary reduction pursuant to Code sections 125 and 402(3)(e) and excluding (i) overtime, (ii) completion bonuses and Christmas bonuses, (iii) restricted stock awards under the Restricted Stock Plan or the Key Employee Incentive Compensation Plan and (iv) reimbursements or other expense allowances, cash and non-cash fringe benefits, moving expenses, deferred compensation and welfare benefits.

Pay is limited to \$150,000 per Plan Year (as adjusted for cost of living increases pursuant to Code sections 401(a)(17) and 415(d)).

1.41 "Plan". The Century Telephone Enterprises, Inc. Dollars & Sense Plan set forth in this document, as from time to time amended.

1.42 "Plan Year". The annual accounting period of the Plan and Trust which ends on each December 31.

1.43 "Predecessor Plans". Plans that have been merged, in whole or in part, into the Plan, which plans, are as follows:

(a) San Marcos Telephone Company, Inc. and SM Telecorp Companies Retirement Plan, a qualified profit sharing plan, as described in Code section 401(a), which included a qualified cash or deferred arrangement, as described in Code section 401(k), merged, in whole, herein effective July 1, 1993; and

(b) PacifiCorp K Plus Employee Savings Plan, a qualified profit sharing plan, as described in Code section 401(a), which includes a qualified cash or deferred arrangement, as described in Code section 401(k), merged, in part, herein effective January 10, 1998.

1.44 "QDRO". A domestic relations order which the Administrator has determined to be a qualified domestic relations order within the meaning of Code section 414(p).

1.45 "Related Company". With respect to any Employer, that Employer and any corporation, trade or business which is, together with that Employer, a member of the same controlled group of corporations, a trade or business under common control, or an affiliated service group within the meaning of Code sections 414(b), (c), (m) or (o), except that for purposes of Section 13 "within the meaning of Code sections 414 (b), (c), (m) or (o), as modified by Code section 415(h)" shall be substituted for the preceding reference to "within the meaning of Code sections 414(b), (c), (m) or (o)".

1.46 "Required Beginning Date". The latest date benefit payments shall commence to a Participant.

(a) For calendar years commencing before January 1, 1997, such date shall mean:

(1) with regard to a Participant who (i) attained age 70 1/2 in 1996, (ii) did not terminate employment with all Related Companies before January 1, 1997, and



(iii) is or was not a 5% Owner, the April 1 that next follows the later of (i) the calendar year in which the Participant attained age 70 1/2, or (ii) if the Participant elects to apply this clause (ii), the calendar year in which the Participant terminates employment with all Related Companies (and any such election must be made prior to January 1, 1998); and

(2) with regard to a Participant who attained age 70 1/2 before January 1, 1996 or, in 1996 if (i) he or she terminated employment with all Related Companies before January 1, 1997 or (ii) is or was a 5% Owner, the April 1 that next follows the calendar year in which the Participant attains age 70 1/2.

A Participant shall be considered a 5% Owner for this purpose if such Participant is a 5% Owner as defined in Code section 416(i) (determined in accordance with Code section 416 but without regard to whether the Plan is top-heavy) at any time during the Plan Year ending with or within the calendar year in which the Participant attains age 66 1/2 or in any subsequent Plan Year.

(b) For calendar years commencing after December 31, 1996, such date shall mean:

(1) with regard to a Participant who attained age 70 1/2 in 1997 or thereafter, the April 1 that next follows the calendar year in which he or she attained age 70 1/2, except that if the Participant (i) did not terminate employment with all Related Companies before January 1 of the calendar year following the calendar year in which he or she attained age 70 1/2, (ii) is not a 5% Owner, such date shall instead mean the April 1 that next follows the later of (i) the calendar year in which the Participant attained age 70 1/2, or (ii) if the Participant elects to apply this clause (ii), the calendar year in which the Participant terminates employment with all Related Companies (and any such election must be made prior to the April 1 of the calendar year following the calendar year in which he or she attained age 70 1/2); and

(2) with regard to a Participant who is a 5% Owner, the April 1 that next follows the calendar year in which the Participant attains age 70 1/2.

A Participant shall be considered a 5% Owner for this purpose if such Participant is a 5% Owner with respect to the Plan Year ending in the calendar year in which the Participant attains age 70 1/2.

1.47 "Settlement Date". For each Trade Date, the Trustee's next business day.

1.48 "Spousal Consent". The written consent given by a spouse to a Participant's Beneficiary designation. The spouse's consent must acknowledge the effect on the spouse of the Participant's designation, and be duly witnessed by a Plan representative or notary public. Spousal Consent shall be valid only with respect to the spouse who signs the Spousal Consent and only for the particular choice made by the Participant which requires Spousal Consent. A Participant may revoke (without Spousal Consent) a prior designation that required Spousal Consent at any time before payments begin. Spousal Consent also means a determination by the Administrator that there is no spouse, the spouse cannot be located, or such other circumstances as may be established under Code section 417(a)(2)(B).

1.49 "Sweep Account". The subsidiary Account for each Participant through which all transactions are processed, which is invested in interest bearing deposits (which may include interest bearing deposits of the Trustee) and/or money market type assets or funds.

1.50 "Sweep Date". The cut off date and time for receiving instructions for transactions to be processed on the next Trade Date.

1.51 "Taxable Income". Compensation in the amount reported by the Employer or a Related Company as "Wages, tips, other compensation" on Form W-2, or any successor method of reporting under Code section 6041(d).

1.52 "Terminated Participant". The Plan status of a Participant who is not an Employee and with respect to whom the Administrator has reported to the Trustee that the Participant's employment has terminated with all Related Companies.

1.53 "Trade Date". Each day the Investment Funds are valued, which is normally every day the assets of such Investment Funds are traded.

1.54 "Trust". The legal entity created by those provisions of this document which relate to the Trustee. The Trust is part of the Plan and holds the Plan assets which are comprised of the aggregate of Participants' Accounts and any unallocated funds invested in interest bearing deposits (which may include interest bearing deposits of the Trustee) and/or money market type assets or funds, pending allocation to Participants' Accounts or disbursement to pay Plan fees and expenses.

1.55 "Trustee". Merrill Lynch Trust Company, FSB, a federal savings bank, chartered under the laws of the United States.

1.56 "USERRA". The Uniformed Services Employment and Reemployment Rights Act of 1994, as amended.

## 2 ELIGIBILITY

### 2.1 Eligibility

All Participants as of January 1, 1998 shall continue their eligibility to participate. Each other Eligible Employee shall become a Participant on

the first day of employment as an Eligible Employee.

## 2.2 Ineligible Employees

If an Employee completes the above eligibility requirements, but is Ineligible at the time participation would otherwise begin (if he or she were not Ineligible), he or she shall become a Participant on the first subsequent date on which he or she is an Eligible Employee.

## 2.3 Ineligible, Terminated or Former Participants

An Ineligible, Terminated or Former Participant may not make or share in any Contributions, other than such Contributions due to be made on his or her behalf after the date he or she became an Ineligible, Terminated or Former Participant for periods prior to such date, nor may an Ineligible or Terminated Participant be eligible for a new Plan loan (except as described in Section 9.1), during the period he or she is an Ineligible or Terminated Participant, but he or she shall continue to participate for all other purposes. An Ineligible, Terminated or Former Participant shall automatically become an active Participant on the date he or she again becomes an Eligible Employee.

# 3 PARTICIPANT CONTRIBUTIONS

## 3.1 Employee Pre-Tax Contribution Election

Upon becoming a Participant, an Eligible Employee may elect to reduce his or her Pay by an amount which does not exceed the Contribution Dollar Limit or the limits described in the Contribution Percentage Limits paragraph of this Section 3, and have such amount contributed to the Plan by the Employer as a Employee Pre-Tax Contribution. The election shall be made in such manner and with such advance notice as prescribed by the Administrator and may be limited to a whole percentage of Pay. In no event shall an Employee's Employee Pre-Tax Contributions under the Plan and comparable contributions to all other plans, contracts or arrangements of all Related Companies exceed the Contribution Dollar Limit for the Employee's taxable year beginning in the Plan Year.

## 3.2 Changing a Contribution Election

A Participant who is an Eligible Employee may change his or her Employee Pre-Tax Contribution election as of any January 1, April 1, July 1 or October 1 in such manner and with such advance notice as prescribed by the Administrator, and such election change shall be effective with the first payroll period commencing after such date. A Participant's Contribution election made as a percentage of Pay shall automatically apply to Pay increases or decreases.

## 3.3 Revoking and Resuming a Contribution Election

A Participant may revoke his or her Employee Pre-Tax Contribution election at any time in such manner and with such advance notice as prescribed by the Administrator, and such revocation shall be effective with the first payroll period commencing after such date.

A Participant who is an Eligible Employee may resume Employee Pre-Tax Contributions by making a new election at the same time in which a Participant may change his or her election in such manner and with such advance notice as prescribed by the Administrator, and such election shall be effective with the first payroll period commencing after such date.

## 3.4 Contribution Percentage Limits

The Administrator may establish and change from time to time, in writing, without the necessity of amending the Plan and Trust, the minimum, if applicable, and maximum Employee Pre-Tax Contribution percentages, prospectively or retrospectively (for the current Plan Year), for all Participants. In addition, the Administrator may establish any lower percentage limits for Highly Compensated Employees as it deems necessary to satisfy the tests described in

Section 12. As of the Effective Date, the Employee Pre-Tax Contribution minimum percentage is 1% and the maximum percentage is 10%.

Irrespective of the limits that may be established by the Administrator in accordance with the paragraph above, in no event shall the Contributions made by or on behalf of a Participant for a Plan Year exceed the maximum allowable under Code section 415.

## 3.5 Refunds When Contribution Dollar Limit Exceeded

A Participant who makes Employee Pre-Tax Contributions for a calendar year to the Plan and comparable contributions to any other qualified defined contribution plan in excess of the Contribution Dollar Limit may notify the Administrator in writing by the following March 1 (or as late as April 14 if allowed by the Administrator) that an excess has occurred. In this event, the amount of the excess specified by the Participant, adjusted for investment gain or loss, shall be refunded to him or her by the April 15 following the year of deferral and shall not be included as an Annual Addition (as defined in Section 13.1) under Code section 415 for the year contributed. The excess amounts shall first be taken from unmatched Employee Pre-Tax Contributions and then from matched Employee Pre-Tax Contributions. Any Employer Match Contributions attributable to refunded excess Employee Pre-Tax Contributions as described in this Section, adjusted for investment gain or loss, shall be forfeited and used to reduce future Contributions to be made by an Employer as soon as administratively feasible. Refunds and

forfeitures shall not include investment gain or loss for the period between the end of the applicable calendar year and the date of distribution or forfeiture.

### 3.6 Timing, Posting and Tax Considerations

Participants' Contributions, other than Rollover Contributions, may only be made through payroll deduction. Such amounts shall be paid to the Trustee in cash and posted to each Participant's Account(s) as soon as such amounts can reasonably be separated from the Employer's general assets and balanced against the specific amount made on behalf of each Participant. In no event, however, shall such amounts be paid to the Trustee more than 15 business days following the end of the month that includes the date amounts are deducted from a Participant's Pay (or as that maximum period may be otherwise extended by ERISA). Employee Pre-Tax Contributions shall be treated as Contributions made by an Employer in determining tax deductions under Code section 404(a).

## 4 ROLLOVER CONTRIBUTIONS AND TRANSFERS FROM AND TO OTHER QUALIFIED PLANS

### 4.1 Rollover Contributions

The Administrator may authorize the Trustee to accept a Rollover Contribution in cash, directly from an Eligible Employee or as a Direct Rollover from another qualified plan on behalf of the Eligible Employee. The Employee shall be responsible for providing satisfactory evidence, in such manner as prescribed by the Administrator, that such Rollover Contribution qualifies as a rollover contribution, within the meaning of Code section 402(c) or 408(d)(3)(A)(ii). Such amounts received directly from an Eligible Employee must be paid to the Trustee in cash within 60 days after the date received by the Eligible Employee from a qualified plan or conduit individual retirement account. Rollover Contributions shall be posted to the Eligible Employee's Rollover Account as of the date received by the Trustee.

If the Administrator later determines that an amount contributed pursuant to the above paragraph did not in fact qualify as a rollover contribution, within the meaning of Code section 402(c) or 408(d)(3)(A)(ii), the balance credited to the Participant's Rollover Account shall immediately be (1) segregated from all other Plan assets, (2) treated as a nonqualified trust established by and for the benefit of the Participant, and (3) distributed to the Participant. Any such amount shall be deemed never to have been a part of the Plan.

### 4.2 Transfers From and To Other Qualified Plans

The Administrator may instruct the Trustee to receive assets in cash or in kind directly from another qualified plan or to transfer assets in cash or in kind directly to another qualified plan; provided that receipt of a transfer shall not be directed if:

- (a) any amounts are not exempted by Code section 401(a)(11)(B) from the annuity requirements of Code section 417 unless the Plan complies with such requirements; or
- (b) any amounts include benefits protected by Code section 411(d)(6) which would not be preserved under applicable Plan provisions.

The Trustee may refuse to receive any such transfer if:

- (a) the Trustee finds the in kind assets unacceptable; or
- (b) instructions for posting amounts to Participants' Accounts are incomplete.

Such amounts shall be posted to the appropriate Accounts of Participants as of the date received by the Trustee. To the extent a receipt of a transfer includes Participant loans, such loans shall continue in effect subject to the terms and conditions in effect as of the date of the transfer or as otherwise agreed to by the Administrator.

Such transfers shall include transfers from the ESOP on behalf of participants thereunder pursuant to the diversification requirements of Code section 401(a)(28), at such times and in accordance with such procedures as prescribed by the Administrator and agreed to by the Trustee, which amounts shall thereafter be subject to the Plan's distribution provisions.

## 5 EMPLOYER CONTRIBUTIONS

### 5.1 Employer Match Contributions

- (a) Frequency and Eligibility.

**Basic Contribution:** For each period for which Participants' Contributions are made, the Employer shall make basic Employer Match Contributions, as described in the following Allocation Method paragraph, on behalf of each Participant who contributed during the period.

**Additional Contribution:** For each Plan Year, the Employer may make additional Employer Match Contributions, as described in the following Allocation Method paragraph, on behalf of each Participant who contributed during the Plan Year and was an Eligible Employee on the last day of the Plan Year.

**Discretionary Contribution:** For each Plan Year, the Employer may make discretionary Employer Match Contributions, as described in the following Allocation Method paragraph, on behalf of each Non-Highly Compensated Employee Participant who contributed during the Plan Year and was an Eligible Employee on the last day of the Plan Year.

(b) Allocation Method.

**Basic Contribution:** The basic Employer Match Contributions for each period shall total 40% of each eligible Participant's Employee Pre-Tax Contributions for the period, provided that no basic Employer Match Contributions shall be made based upon a Participant's Contributions in excess of 6% of his or her Pay and except that "25% of each eligible Participant's Employee Pre-Tax Contributions" shall be substituted for the preceding reference to "40% of each eligible Participant's Employee Pre-Tax Contributions" with regard to an eligible Participant who is a corporate officer of the Employer. The percentage matching rate and percentage of considered Pay as stated in the preceding sentence shall continue in effect until otherwise changed by resolution of the Employer's board of directors.

**Additional Contribution:** The additional Employer Match Contributions for the Plan Year shall be in an amount determined by the Employer and allocated in proportion to each eligible Participant's basic Employer Match Contributions for the Plan Year to the total of all such Contributions for all other Participants eligible for additional Employer Match Contributions.

**Discretionary Contribution:** The discretionary Employer Match Contributions for the Plan Year shall be in an amount determined by the Employer and allocated in proportion to each eligible Participant's basic Employer Match Contributions for the Plan Year to the total of all such Contributions for all other Participants eligible for discretionary Employer Match Contributions.

(c) Timing, Medium and Posting.

**Basic Contribution:** The Employer shall make each period's basic Employer Match Contribution in cash as soon as administratively feasible, and for purposes of deducting such Contribution, not later than the Employer's federal tax filing date, including extensions. Such amounts shall be paid to the Trustee and posted to each Participant's Employer Match Account once the total basic Employer Match Contribution received has been balanced against the specific amount to be credited to each Participant's Employer Match Account.

**Additional Contribution:** If additional Employer Match Contributions are made, the Employer shall make each Plan Year's additional Employer Match Contribution in cash as soon as administratively feasible, and for purposes of deducting such Contribution, not later than the Employer's federal tax filing date, including extensions. Such amounts shall be paid to the Trustee and posted to each Participant's Additional Match Account once the total additional Employer Match Contribution received has been balanced against the specific amount to be credited to each Participant's Additional Match Account.

**Discretionary Contribution:** If discretionary Employer Match Contributions are made, the Employer shall make each Plan Year's discretionary Employer Match Contribution in cash as soon as administratively feasible, and for purposes of deducting such Contribution, not later than the Employer's federal tax filing date, including extensions. Notwithstanding, for purposes of satisfying the tests described in Section 12, discretionary Employer Match Contributions shall be made before the end of the Plan Year following the Plan Year being tested. Such amounts shall be paid to the Trustee and posted to each Participant's Discretionary Match Account once the total discretionary Employer Match Contribution received has been balanced against the specific amount to be credited to each Participant's Discretionary Match Account.

## 6 ACCOUNTING

### 6.1 Individual Participant Accounting

The Administrator shall maintain an individual set of Accounts for each Participant in order to reflect transactions both by type of Account and investment medium. Financial transactions shall be accounted for at the individual Account level by posting each transaction to the appropriate Account of each affected Participant. Participant Account values shall be maintained in shares for the Investment Funds and in dollars for the Sweep and Loan Accounts. At any point in time, the Account value shall be determined using the most recent Trade Date values provided by the Trustee.

### 6.2 Sweep Account is Transaction Account

All transactions related to amounts being contributed to or distributed from the Trust shall be posted to each affected Participant's Sweep Account. Any amount held in the Sweep Account shall be credited with interest up until the date on which it is removed from the Sweep Account.

### 6.3 Trade Date Accounting and Investment Cycle

Participant Account values shall be determined as of each Trade Date. For any transaction to be processed as of a Trade Date, the Trustee must receive instructions for the transaction by the Sweep Date. Such instructions shall apply to amounts held in the Account on that Sweep Date. Financial transactions of the Investment Funds shall be posted to Participants' Accounts as of the Trade Date, based upon the Trade Date values provided by the Trustee, and settled on the Settlement Date.

#### 6.4 Accounting for Investment Funds

Investments in each Investment Fund shall be maintained in shares. The Trustee is responsible for determining the share values of each Investment Fund as of each Trade Date. To the extent an Investment Fund is comprised of collective investment funds offered by the Trustee or any other entity authorized to offer collective investment funds, the share values shall be determined in accordance with the rules governing such collective investment funds, which are incorporated herein by reference. All other share values shall be determined by the Trustee. The share value of each Investment Fund shall be based on the fair market value of its underlying assets.

#### 6.5 Payment of Fees and Expenses

Except to the extent Plan fees and expenses related to Account maintenance, transaction and Investment Fund management and maintenance, set forth below, are paid by the Employer directly, such fees and expenses shall be paid as set forth below.

(a) Account Maintenance: Account maintenance fees and expenses, may include but are not limited to, administrative, Trustee, government annual report preparation, audit, legal, nondiscrimination testing and fees for any other special services. Account maintenance fees shall be charged to Participants on a per Participant basis provided that no fee shall reduce a Participant's Account balance below zero.

(b) Transaction: Transaction fees and expenses, may include but are not limited to, periodic installment payment, Investment Fund election change and loan fees. Transaction fees shall be charged to the Participant's Account involved in the transaction provided that no fee shall reduce a Participant's Account balance below zero.

(c) Investment Fund Management and Maintenance: Management and maintenance fees and expenses related to the Investment Funds shall be charged at the Investment Fund level and reflected in the net gain or loss of each Investment Fund.

The Company may determine that the Employers pay a lower portion of the fees and expenses allocable to the Accounts of Participants who are no longer Employees or who are not Beneficiaries, unless doing so would result in discrimination prohibited under Code section 401(a)(4) or a significant detriment prohibited by Code section 411(a)(11). As of the Effective Date, a breakdown of which Plan fees and expenses shall generally be borne by the Trust (and charged to individual Participants' Accounts or charged at the Investment Fund level and reflected in the net gain or loss of each Investment Fund) and those that shall be paid by the Employer is set forth in Appendix C, which may be changed from time to time by the Company, in writing, without the necessity of amending the Plan and Trust.

The Trustee shall have the authority to pay any such fees and expenses, which remain unpaid by the Employer for 60 days, from the Trust.

#### 6.6 Accounting for Participant Loans

Participant loans shall be held in a separate Loan Account of the Participant and accounted for in dollars as an earmarked asset of the borrowing Participant's Account.

#### 6.7 Error Correction

The Administrator may correct any errors or omissions in the administration of the Plan by restoring any Participant's Account balance with the amount that would be credited to the Account had no error or omission been made. Funds necessary for any such restoration shall be provided through payment made by the Employer, or by the Trustee to the extent the error or omission is attributable to actions or inactions of the Trustee.

#### 6.8 Participant Statements

The Administrator shall provide Participants with statements of their Accounts as soon after the end of each quarter of the Plan Year as administratively feasible.

#### 6.9 Special Accounting During Conversion Period

The Administrator and Trustee may use any reasonable accounting methods in performing their respective duties during any Conversion Period. This includes, but is not limited to, the method for allocating net investment gains or losses and the extent, if any, to which contributions received by and distributions paid from the Trust during this period share in such allocation.

#### 6.10 Accounts for Alternate Payees

A separate Account shall be established for an Alternate Payee entitled to any portion of a Participant's Account under a QDRO as of the date and in accordance with the directions specified in the QDRO. In addition, a separate Account may be established during the period of time the Administrator, a court of competent jurisdiction or other appropriate person is determining whether a domestic relations order qualifies as a QDRO. Such a separate Account shall be valued and accounted for in the same manner as any other Account.

(a) Distributions Pursuant to QDROs. If a QDRO so provides, the portion of a Participant's Account payable to an Alternate Payee may be distributed, in a form permissible under Section 11, to the Alternate Payee at any time beginning as soon as practicable after the QDRO determination is made, regardless of whether the Participant is entitled to a distribution from the Plan at such time. The Alternate Payee shall be provided the notice prescribed by Code section 402(f).

(b) Participant Loans. Except to the extent required by law, an Alternate Payee, on whose behalf a separate Account has been established, shall not be entitled to borrow from such Account. If a QDRO specifies that the Alternate Payee is entitled to any portion of the Account of a Participant who has an outstanding loan balance, all outstanding loans shall generally continue to be held in the Participant's Account and shall not be divided between the Participant's and Alternate Payee's Accounts.

(c) Investment Direction. Where a separate Account has been established on behalf of an Alternate Payee and has not yet been distributed, the Alternate Payee may direct the investment of such Account in the same manner as if he or she were a Participant.

## 7 INVESTMENT FUNDS AND ELECTIONS

### 7.1 Investment Funds

Except for Participants' Sweep and Loan Accounts and any unallocated funds invested in interest bearing deposits (which may include interest bearing deposits of the Trustee) and/or money market type assets or funds, pending allocation to Participants' Accounts or disbursement to pay Plan fees and expenses, the Trust shall be maintained in various Investment Funds. The Administrator shall select the Investment Funds offered to Participants and may change the number or composition of the Investment Funds, subject to the terms and conditions agreed to with the Trustee. As of the Effective Date, a list of the Investment Funds offered under the Plan is set forth in Appendix B, which may be changed from time to time by the Administrator, in writing, and as agreed to by the Trustee, without the necessity of amending the Plan and Trust.

The Administrator may set a maximum percentage of the total election that a Participant may direct into any specific Investment Fund, which maximum, if any, as of the Effective Date is set forth in Appendix B, which may be changed from time to time by the Administrator, in writing, without the necessity of amending the Plan and Trust.

### 7.2 Responsibility for Investment Choice

Each Participant shall direct the investment of all of his or her Accounts except for his or her Employer Match, Additional Match and Discretionary Match Accounts which shall be entirely invested in the Investment Fund specified by the Administrator, which Investment Fund as of the Effective Date is set forth in Appendix B and except that a Participant who has attained age 55 may direct the investment of the balances in these Accounts. Future amounts deposited to his or her Employer Match, Additional Match and Discretionary Match Accounts shall continue to be entirely invested in the Investment Fund specified by the Administrator, until otherwise directed by the Participant.

Each Participant shall be solely responsible for the selection of his or her Investment Fund choices. No fiduciary with respect to the Plan is empowered to advise a Participant as to the manner in which his or her Accounts are to be invested, and the fact that an Investment Fund is offered shall not be construed to be a recommendation for investment.

During any Conversion Period, Trust assets may be held in any investment vehicle permitted by the Plan, as directed by the Administrator, irrespective of prior Participant investment elections.

### 7.3 Investment Fund Elections

A Participant shall provide his or her initial investment election upon becoming a Participant and may change his or her investment election at any time in accordance with procedures established by the Administrator and the Trustee. A Participant shall make his or her investment election in any combination of one or any number of the Investment Funds offered in accordance with the procedures established by the Administrator and Trustee. Investment elections received by the Trustee by the Sweep Date shall be effective on the following Trade Date.

### 7.4 Default if No Valid Investment Election

The Administrator shall specify an Investment Fund for the investment of that portion of a Participant's Account which is not yet held in an Investment Fund and for which no valid investment election is on file. The Investment Fund specified as of the Effective Date is set forth in Appendix B, which may be changed from time to time by the Administrator, in writing, without the necessity of amending the Plan and Trust.

### 7.5 Investment Fund Election Change Fees

A reasonable processing fee may be charged directly to a Participant's Account for Investment Fund election changes in excess of a specified number per year as determined by the Administrator.

## 8 VESTING

### 8.1 Fully Vested Accounts

A Participant shall be fully vested in all Accounts at all times.

## 9 PARTICIPANT LOANS

### 9.1 Participant Loans Permitted

Loans to Participants and Beneficiaries are permitted pursuant to the terms and conditions set forth in this Section, except that a loan shall not be permitted to a Participant who is no longer an Employee or to a Beneficiary, unless such Participant or Beneficiary is otherwise a party in interest (as defined in ERISA section 3(14)).

### 9.2 Loan Application, Note and Security

A Participant shall apply for any loan in such manner and with such advance notice as prescribed by the Administrator. Each loan shall be evidenced by a promissory note, secured only by the portion of the Participant's Account from which the loan is made, and the Plan shall have a lien on this portion of his or her Account.

### 9.3 Spousal Consent

A Participant is not required to obtain Spousal Consent in order to borrow from his or her Account under the Plan.

### 9.4 Loan Approval

The Administrator, or the Trustee, if otherwise authorized by the Administrator and agreed to by the Trustee, is responsible for determining that a loan request conforms to the requirements described in this Section and granting such request.

### 9.5 Loan Funding Limits, Account Sources and Funding Order

The loan amount must meet all of the following limits as determined as of the Sweep Date the loan is processed and shall be funded from the Participant's Accounts as follows:

(a) Plan Minimum Limit. The minimum amount for any loan is \$1,000.

(b) Plan Maximum Limit, Account Sources and Funding Order. Subject to the legal limit described in (c) below, the maximum a Participant may borrow, including the aggregate outstanding balances of existing Plan loans, is 100% of the following of the Participant's Accounts which are fully vested in the priority order as follows:

Employee Pre-Tax Account Rollover Account After-Tax Account

(c) Legal Maximum Limit. The maximum a Participant may borrow, including the aggregate outstanding balances of existing Plan loans, is 50% of his or her vested Account balance, not to exceed \$50,000. However, the \$50,000 maximum is reduced by the Participant's highest aggregate outstanding Plan loan balance during the 12-month period ending on the day before the Sweep Date as of which the loan is made. For purposes of this paragraph, the qualified plans of all Related Companies shall be treated as though they are part of the Plan to the extent it would decrease the maximum loan amount.

### 9.6 Maximum Number of Loans

A Participant may have only one loan outstanding at any given time, except that a Participant may have more than one loan outstanding if all such loans were initiated under a Predecessor Plan.

### 9.7 Source and Timing of Loan Funding

A loan to a Participant shall be made solely from the assets of his or her own Account. The available assets shall be determined first by Account and then within each Account used for funding a loan, amounts shall first be taken from the Sweep Account and then taken by Investment Fund in direct proportion to the market value of the Participant's interest in each Investment Fund as of the Trade Date on which the

loan is processed.

The loan shall be funded on the Settlement Date following the Trade Date as of which the loan is processed. The Trustee shall make payment to the Participant as soon thereafter as administratively feasible.

#### 9.8 Interest Rate

The interest rate charged on Participant loans shall be a fixed reasonable rate of interest, determined from time to time by the Administrator, which provides the Plan with a return commensurate with the prevailing interest rate charged by persons in the business of lending money for loans which would be made under similar circumstances. As of the Effective Date, the interest rate is determined as set forth in Appendix D, which may be changed from time to time by the Administrator, in writing, without the necessity of amending the Plan and Trust.

#### 9.9 Loan Payment

Substantially level amortization shall be required of each loan with payments made at least monthly, generally through payroll deduction. Loans may be prepaid in full or in part at any time. The Participant may choose the loan repayment period, not to exceed five years, except that the repayment period may be for any period not to exceed 10 years if the purpose of the loan is to acquire the Participant's principal residence.

#### 9.10 Loan Payment Hierarchy

Loan principal payments shall be credited to the Participant's Accounts in the inverse of the order used to fund the loan. Loan interest shall be credited to the Participant's Accounts in direct proportion to the principal payment. Loan payments credited to Accounts for which the Participant directs investment as described in Section 7 are credited to the Investment Funds based upon the Participant's current investment election for new Contributions. Loan payments credited to Accounts for which the Participant does not direct investment as described in Section 7 are credited to the Investment Funds specified by the Administrator for such Accounts.

#### 9.11 Repayment Suspension

The Administrator may agree to a suspension of loan payments for up to 12 months for a Participant who is on a Leave of Absence without pay. During the suspension period, interest shall continue to accrue on the outstanding loan balance. At the expiration of the suspension period all outstanding loan payments and accrued interest thereon shall be due unless otherwise agreed upon by the Administrator.

#### 9.12 Loan Default

A loan is treated as in default if a scheduled loan payment is not made at the time required. A Participant shall then have a grace period to cure the default before it becomes final. Such grace period shall be for a period that does not extend beyond the last day of the calendar quarter following the calendar quarter in which the scheduled loan payment was due or such lesser or greater maximum period as may later be authorized by Code section 72(p).

In the event a default is not cured within the grace period, the Administrator may direct the Trustee to report the outstanding principal balance of the loan and accrued interest thereon as a taxable distribution to the Participant. As soon as a Plan withdrawal or distribution to such Participant would otherwise be permitted, the Administrator may instruct the Trustee to execute upon its security interest in the Participant's Account by distributing the note to the Participant.

#### 9.13 Call Feature

The Administrator shall have the right to call any Participant loan once a Participant's employment with all Related Companies has terminated, unless he or she is otherwise a party in interest (as defined in ERISA section 3(14)), or if the Plan is terminated.

### 10 IN-SERVICE WITHDRAWALS

#### 10.1 In-Service Withdrawals Permitted

In-service withdrawals to a Participant who is an Employee are permitted pursuant to the terms and conditions set forth in this Section and pursuant to the terms and conditions set forth in Section 11 with regard to an in-service withdrawal made in accordance with a Participant's Required Beginning Date.

#### 10.2 In-Service Withdrawal Application and Notice

A Participant shall apply for any in-service withdrawal in such manner and with such advance notice as prescribed by the Administrator. The Participant shall be provided the notice prescribed by Code section 402(f).



Code sections 401(a)(11) and 417 do not apply to in-service withdrawals under the Plan. An in-service withdrawal may commence less than 30 days after the aforementioned notice is provided, if:

(a) the Participant is clearly informed that he or she has the right to a period of at least 30 days after receipt of such notice to consider his or her option to elect or not elect a Direct Rollover for all or a portion, if any, of his or her in-service withdrawal which constitutes an Eligible Rollover Distribution; and

(b) the Participant after receiving such notice, affirmatively elects a Direct Rollover for all or a portion, if any, of his or her in-service withdrawal which constitutes an Eligible Rollover Distribution or alternatively elects to have all or a portion made payable directly to him or her, thereby not electing a Direct Rollover for all or a portion thereof.

### 10.3 Spousal Consent

A Participant is not required to obtain Spousal Consent in order to receive an in-service withdrawal under the Plan.

### 10.4 In-Service Withdrawal Approval

The Administrator, or the Trustee, if otherwise authorized by the Administrator and agreed to by the Trustee, is responsible for determining whether an in-service withdrawal request conforms to the requirements described in this Section and granting such request.

### 10.5 Payment Form and Medium

The form of payment for an in-service withdrawal shall be a single lump sum and payment shall be made in cash. With regard to the portion of an in-service withdrawal representing an Eligible Rollover Distribution, a Participant may elect a Direct Rollover for all or a portion of such amount.

### 10.6 Source and Timing of In-Service Withdrawal Funding

An in-service withdrawal to a Participant shall be made solely from the assets of his or her own Account and shall be based on the Account values as of the Trade Date the in-service withdrawal is processed. The available assets shall be determined first by Account and then within each Account used for funding an in-service withdrawal, amounts shall first be taken from the Sweep Account and then taken by Investment Fund in direct proportion to the market value of the Participant's interest in each Investment Fund (which excludes his or her Loan Account balance) as of the Trade Date on which the in-service withdrawal is processed.

The in-service withdrawal shall be funded on the Settlement Date following the Trade Date as of which the in-service withdrawal is processed. The Trustee shall make payment to the Participant or on behalf of the Participant as soon thereafter as administratively feasible.

### 10.7 Hardship Withdrawals

(a) Requirements. A Participant who is an Employee may request the withdrawal of up to the amount necessary to satisfy a financial need including amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the withdrawal. Only requests for withdrawals (1) on account of a Participant's "Deemed Financial Need" and (2) which are "Deemed Necessary" to satisfy the financial need shall be approved.

(b) "Deemed Financial Need". An immediate and heavy financial need relating to:

(1) the payment of unreimbursed medical care expenses (described under Code section 213(d)) incurred (or to be incurred) by the Employee, his or her spouse or dependents (as defined in Code section 152);

(2) the payment of unreimbursed tuition, related educational fees and room and board for up to the next 12 months of post-secondary education for the Employee, his or her spouse or dependents (as defined in Code section 152);

(3) the payment of funeral expenses of an Employee's family member; or

(4) the payment of amounts necessary for the Employee to prevent losing his or her principal residence through eviction or foreclosure on the mortgage.

(c) "Deemed Necessary". A withdrawal is "Deemed Necessary" to satisfy the financial need only if the withdrawal amount does not exceed the financial need and all of these conditions are met:

(1) the Employee has obtained all possible withdrawals (other than hardship withdrawals) and nontaxable loans available from the Plan and all other plans maintained by Related Companies;

(2) the Administrator shall suspend the Employee from making any contributions to the Plan and all other qualified and nonqualified plans of deferred compensation and all stock option or stock purchase plans maintained by Related Companies for 12 months from the date the withdrawal payment is made; and

(3) the Administrator shall reduce the Contribution Dollar Limit for the Employee with regard to the Plan and all other plans maintained by Related Companies, for the calendar year next following the calendar year of the withdrawal by the amount of the Employee's Employee Pre-Tax Contributions for the calendar year of the withdrawal.

(d) Account Sources and Funding Order. All available amounts must first be withdrawn from a Participant's After-Tax Account. The remaining withdrawal shall come from the following of the Participant's fully vested Accounts, in the priority order as follows:

Rollover Account Employee Pre-Tax Account

The amount that may be withdrawn from a Participant's Employee Pre-Tax Account shall not include any amounts attributable to earnings.

(e) Minimum Amount. There is no minimum amount for a hardship withdrawal.

(f) Permitted Frequency. There is no restriction on the number of hardship withdrawals permitted to a Participant.

(g) Suspension from Further Contributions. Upon making a hardship withdrawal, a Participant may not make additional Employee Pre-Tax Contributions (or additional contributions to all other qualified and nonqualified plans of deferred compensation and all stock option or stock purchase plans maintained by Related Companies) for a period of 12 months from the date the withdrawal payment is made.

#### 10.8 After-Tax Account Withdrawals

(a) Requirements. A Participant who is an Employee may make an After-Tax Account withdrawal.

(b) Account Sources and Funding Order. The withdrawal shall come from a Participant's After-Tax Account.

(c) Minimum Amount. There is no minimum amount for an After-Tax Account withdrawal.

(d) Permitted Frequency. There is no restriction on the number of After-Tax Account withdrawals permitted to a Participant.

(e) Suspension from Further Contributions. An After-Tax Account withdrawal shall not affect a Participant's ability to make or be eligible to receive further Contributions.

#### 10.9 Rollover Account Withdrawals

(a) Requirements. A Participant who is an Employee may make a Rollover Account withdrawal.

(b) Account Sources and Funding Order. The withdrawal shall come from a Participant's Rollover Account.

(c) Minimum Amount. There is no minimum amount for a Rollover Account withdrawal.

(d) Permitted Frequency. There is no restriction on the number of Rollover Account withdrawals permitted to a Participant.

(e) Suspension from Further Contributions. A Rollover Account withdrawal shall not affect a Participant's ability to make or be eligible to receive further Contributions.

#### 10.10 Disabled Participant Withdrawals

(a) Requirements. A Participant who is an Employee and a Disabled Participant may make a Disabled Participant withdrawal.

(b) Account Sources and Funding Order. The withdrawal shall come from the following of the Participant's fully vested Accounts, in the priority order as follows, except that the Participant may instead choose to have amounts taken from his or her After-Tax Account first:

Rollover Account Employee Pre-Tax Account Discretionary Match Account Employer Match Account Additional Match Account Prior Match Account ESOP Transfer Account After-Tax Account

(c) Minimum Amount. There is no minimum amount for a Disabled Participant withdrawal.

(d) Permitted Frequency. The maximum number of Disabled Participant withdrawals permitted to a Participant in any three-month period is one.

(e) Suspension from Further Contributions. A Disabled Participant withdrawal shall not affect a Participant's ability to make or be eligible to receive further Contributions.

#### 10.11 Over Age 59 1/2 Withdrawals

(a) Requirements. A Participant who is an Employee and over age 59 1/2 may make an Over Age 59 1/2 withdrawal.

(b) Account Sources and Funding Order. The withdrawal shall come from the following of the Participant's fully vested Accounts, in the priority order as follows, except that the Participant may instead choose to have amounts taken from his or her After-Tax Account first:

Rollover Account Employee Pre-Tax Account Discretionary Match Account Employer Match Account Additional Match Account Prior Match Account ESOP Transfer Account After-Tax Account

(c) Minimum Amount. There is no minimum amount for an Over Age 59 1/2 withdrawal.

(d) Permitted Frequency. There is no restriction on the number of Over Age 59 1/2 withdrawals permitted to a Participant.

(e) Suspension from Further Contributions. An Over Age 59 1/2 withdrawal shall not affect a Participant's ability to make or be eligible to receive further Contributions.

### 11 DISTRIBUTIONS ONCE EMPLOYMENT ENDS OR BY REASON OF A PARTICIPANT'S REQUIRED BEGINNING DATE

#### 11.1 Benefit Information, Notices and Election

A Participant, or his or her Beneficiary in the case of his or her death, shall be provided with information regarding all optional times and forms of distribution available under the Plan, including the notices prescribed by Code sections 402(f) and 411(a)(11). Subject to the other requirements of this Section, a Participant, or his or her Beneficiary in the case of his or her death, may elect, in such manner and with such advance notice as prescribed by the Administrator, to have his or her vested Account balance distributed beginning upon any Settlement Date following the Participant's termination of employment with all Related Companies and a reasonable period of time during which the Administrator shall process, and inform the Trustee of, the Participant's termination or, if earlier, at the time of the Participant's Required Beginning Date.

Notwithstanding, if a Participant's termination of employment with all Related Companies does not constitute a separation from service for purposes of Code section 401(k)(2)(B)(i)(I) or otherwise constitute an event set forth under Code section 401(k)(10)(A)(ii) or (iii) as described in Section 19.3, the portion of a Participant's Account subject to the distribution rules of Code section 401(k) may not be distributed until such time as he or she separates from service for purposes of Code section 401(k)(2)(B)(i)(I) or, if earlier, upon such other event as described in Code section 401(k)(2)(B) and as provided for in the Plan.

Code sections 401(a)(11) and 417 do not apply to distributions under the Plan. A distribution may commence less than 30 days after the aforementioned notices are provided, if:

(a) the Participant is clearly informed that he or she has the right to a period of at least 30 days after receipt of such notices to consider the decision as to whether to elect a distribution and if so to elect a particular form of distribution and to elect or not elect a Direct Rollover for all or a portion, if any, of his or her distribution which constitutes an Eligible Rollover Distribution; and

(b) the Participant after receiving such notices, affirmatively elects a distribution and a Direct Rollover for all or a portion, if any, of his or her distribution which constitutes an Eligible Rollover Distribution or alternatively elects to have all or a portion made payable directly to him or her, thereby not electing a Direct Rollover for all or a portion thereof.

#### 11.2 Spousal Consent

A Participant is not required to obtain Spousal Consent in order to receive a distribution under the Plan.

#### 11.3 Payment Form and Medium

Except to the extent otherwise provided by Section

(a) a single lump sum;

(b) a portion paid in a lump sum, and the remainder paid later (partial payment); or

(c) periodic installments over a period not to exceed 15 years.

Distributions shall be made in cash, except to the extent a distribution consists of a loan call as described in Section 9 and except that a Participant may elect that a distribution in the form of a lump sum be made in the form of (i) whole shares of Company Stock and cash in lieu of fractional shares to the extent the distribution consists of amounts from the Company Stock Fund and/or (ii) whole shares of PacifiCorp Stock and cash in lieu of fractional shares to the extent the distribution consists of amounts from the PacifiCorp Stock Fund. With regard to the portion of a distribution representing an Eligible Rollover Distribution, a Distributee may elect a Direct Rollover for all or a portion of such amount.

#### 11.4 Distribution of Small Amounts

If after a Participant's employment with all Related Companies ends, the Participant's vested Account balance is \$5,000 or less, and if at the time of any prior in-service withdrawal or distribution the Participant's vested Account balance did not exceed \$5,000, the Participant's benefit shall be paid as a single lump sum as soon as administratively feasible in accordance with procedures prescribed by the Administrator.

#### 11.5 Source and Timing of Distribution Funding

A distribution to a Participant shall be made solely from the assets of his or her own Account and shall be based on the Account values as of the Trade Date the distribution is processed. The available assets shall be determined first by Account and then within each Account used for funding a distribution, amounts shall first be taken from the Sweep Account and then taken by Investment Fund in direct proportion to the market value of the Participant's interest in each Investment Fund as of the Trade Date on which the distribution is processed.

The distribution shall be funded on the Settlement Date following the Trade Date as of which the distribution is processed. The Trustee shall make payment to the Participant or on behalf of the Participant as soon thereafter as administratively feasible.

#### 11.6 Latest Commencement Permitted

In addition to any other Plan requirements and unless a Participant elects otherwise, his or her benefit payments shall begin not later than 60 days after the end of the Plan Year in which he or she attains his or her Normal Retirement Date or retires, whichever is later. However, if the amount of the payment or the location of the Participant (after a reasonable search) cannot be ascertained by that deadline, payment shall be made no later than 60 days after the earliest date on which such amount or location is ascertained but in no event later than the Participant's Required Beginning Date. A Participant's failure to elect in such manner as prescribed by the Administrator to have his or her vested Account balance distributed, shall be deemed an election by the Participant to defer his or her distribution but in no event shall his or her benefit payments commence later than his or her Required Beginning Date.

With regard to a Participant who is an Employee and who commenced benefit payments in accordance with Code section 401(a)(9) as in effect prior to January 1, 1997, and who is not a 5% Owner, he or she may, but is not required to, discontinue such benefit payments until he or she is otherwise required to again commence benefit payments in accordance with Code section 401(a)(9) as in effect for calendar years commencing after December 31, 1996. A Participant who elects to discontinue such benefit payments in accordance with the preceding sentence shall thereby render his or her existing payment election and, if applicable, any Spousal Consent to such election, as void and a new election including, if applicable, Spousal Consent to such new election, shall be required subject to the provisions of this Section 11 at the time he or she is required to again commence benefit payments in accordance with Code section 401(a)(9) as in effect for calendar years commencing after December 31, 1996.

If benefit payments cannot begin at the time required because the location of the Participant cannot be ascertained (after a reasonable search), the Administrator may, at any time thereafter, treat such person's Account as forfeited subject to the provisions of Section 18.6.

#### 11.7 Payment Within Life Expectancy

The Participant's payment election must be consistent with the requirement of Code section 401(a)(9) that all payments are to be completed within a period not to exceed the lives or the joint and last survivor life expectancy of the Participant and his or her Beneficiary. The life expectancies of a Participant and his or her Beneficiary may not be recomputed annually.

#### 11.8 Incidental Benefit Rule

The Participant's payment election must be consistent with the requirement that, if the Participant's spouse is not his or her sole primary Beneficiary, the minimum annual distribution for each calendar year, beginning with the calendar year preceding the calendar year that includes the Participant's Required Beginning Date, shall not be less than the quotient obtained by dividing (a) the Participant's vested Account balance as of the last Trade Date of the preceding year by (b) the applicable divisor as determined under the incidental benefit requirements of Code section 401(a)(9).

## 11.9 Payment to Beneficiary

Payment to a Beneficiary must either (i) be completed by the end of the calendar year that contains the fifth anniversary of the Participant's death or (ii) begin by the end of the calendar year that contains the first anniversary of the Participant's death and be completed within the period of the Beneficiary's life or life expectancy, except that:

- (a) If the Participant dies after his or her Required Beginning Date, payment to his or her Beneficiary must be made at least as rapidly as provided in the Participant's distribution election;
- (b) If the surviving spouse is the Beneficiary, payments need not begin until the later of (i) the end of the calendar year that includes the first anniversary of the Participant's death, or (ii) the end of the calendar year in which the Participant would have attained age 70 1/2 and must be completed within the spouse's life or life expectancy; and
- (c) If the Participant and the surviving spouse who is the Beneficiary die (i) before the Participant's Required Beginning Date and (ii) before payments have begun to the spouse, the spouse shall be treated as the Participant in applying these rules.

## 11.10 Beneficiary Designation

Each Participant may complete a beneficiary designation form indicating the Beneficiary who is to receive the Participant's remaining Plan interest at the time of his or her death and such designation may be changed at any time. However, a Participant's spouse shall be the sole primary Beneficiary unless the designation includes Spousal Consent for another Beneficiary. If no proper designation is in effect at the time of a Participant's death or if the Beneficiary does not survive the Participant, the Beneficiary shall be, in the order listed, the:

- (a) Participant's surviving spouse,
- (b) Participant's children, in equal shares, (or if a child does not survive the Participant, and that child leaves issue, the issue shall be entitled to that child's share, by right of representation) or
- (c) Participant's estate.

## 12 ADP AND ACP TESTS

### 12.1 Contribution Limitation Definitions

The following definitions are applicable to this Section 12 (where a definition is contained in both Sections 1 and 12, for purposes of Section 12 the Section 12 definition shall be controlling):

- (a) "ACP" or "Average Contribution Percentage". The Average Percentage calculated using Contributions allocated to Participants as of a date within the Plan Year.
- (b) "ACP Test". The determination of whether the ACP is in compliance with the Basic or Alternative Limitation for a Plan Year (as defined in Section 12.2).
- (c) "ADP" or "Average Deferral Percentage". The Average Percentage calculated using Deferrals allocated to Participants as of a date within the Plan Year.
- (d) "ADP Test". The determination of whether the ADP is in compliance with the Basic or Alternative Limitation for a Plan Year (as defined in Section 12.2).
- (e) "Average Percentage". The average of the calculated percentages for Participants within the specified group. The calculated percentage refers to either the "Deferrals" or "Contributions" (as defined in this Section) made on each Participant's behalf for the Plan Year, divided by his or her Compensation. (Employee Pre-Tax Contributions to the Plan or comparable contributions to plans of Related Companies which must be refunded solely because they exceed the Contribution Dollar Limit are included in the percentage for the HCE Group but not for the NHCE Group.)
- (f) "Contributions" (i) shall include Employer Match Contributions and (ii) may include Employee Pre-Tax Contributions, but with regard to (ii), only to the extent that (1) the Administrator elects to use them, (2) they are not used or counted in the ADP Test and (3) they otherwise satisfy the requirements as prescribed under Code section 401(m) permitting treatment as Contributions for purposes of the ACP Test.
- (g) "Current Year Testing Method". The use of the Plan Year's ADP for the Plan Year's NHCE Group for purposes of performing the Plan Year's ADP Test and/or the use of the Plan Year's ACP for the Plan Year's NHCE Group for purposes of performing the Plan Year's ACP Test.

(h) "Deferrals" (i) shall include Employee Pre-Tax Contributions and (ii) may include Employer Match Contributions, but with regard to (ii), only to the extent that (1) the Administrator elects to use them, (2) they are not used or counted in the ACP Test, (3) they are fully vested when made, not withdrawable by an Employee before he or she attains age 59 1/2 and (4) they otherwise satisfy the requirements as prescribed under Code section 401(k) permitting treatment as Deferrals for purposes of the ADP Test.

(i) "HCE" or "Highly Compensated Employee". For Plan Years commencing after December 31, 1996, with respect to all Related Companies, an Employee who (in accordance with Code section 414(q)):

(1) Was a more than 5% Owner (within the meaning of Code section 414(q)(2)) at any time during the Plan Year or the preceding Plan Year; or

(2) Received Compensation during the preceding Plan Year in excess of \$80,000 (as adjusted for such Year pursuant to Code sections 414(q)(1) and 415(d)) or, if the Company elects for such preceding Plan Year, "in excess of \$80,000 (as adjusted for such Year pursuant to Code sections 414(q)(1) and 415(d)) and was a member of the "top-paid group" (within the meaning of Code section 414(q)(3)) for such preceding Plan Year" shall be substituted for the preceding reference to "in excess of \$80,000 (as adjusted for such Year pursuant to Code sections 414(q)(1) and 415(d))".

A former Employee shall be treated as an HCE if (1) such former Employee was an HCE when he or she separated from service, or (2) such former Employee was an HCE in service at any time after attaining age 55.

The determination of who is an HCE and the determination of the number and identity of Employees in the top-paid group shall be made in accordance with Code section 414(q).

(j) "HCE Group" and "NHCE Group". With respect to all Related Companies, the respective group of HCEs and NHCEs who are eligible to have amounts contributed on their behalf for the respective Plan Year, including Employees who would be eligible but for their election not to participate or to contribute, or because their Pay is greater than zero but does not exceed a stated minimum. For Plan Years commencing after December 31, 1998, with respect to all Related Companies, if the Plan permits participation prior to an Eligible Employee's satisfaction of the minimum age and service requirements of Code section 410(a)(1)(A), Eligible Employees who have not met the minimum age and service requirements of Code section 410(a)(1)(A) may be excluded in the determination of the NHCE Group, but not in the determination of the HCE Group, for purposes of (i) the ADP Test, if Code section 410(b)(4)(B) is applied in determining whether the 401(k) portion of the Plan meets the requirements of Code section 410(b), or (ii) the ACP Test, if Code section 410(b)(4)(B) is applied in determining whether the 401(m) portion of the Plan meets the requirements of Code section 410(b).

(1) If the Related Companies maintain two or more plans which are subject to the ADP or ACP Test and are considered as one plan for purposes of Code sections 401(a)(4) or 410(b), all such plans shall be aggregated and treated as one plan for purposes of meeting the ADP and ACP Tests, provided that the plans may only be aggregated if they have the same plan year.

(2) If an HCE is covered by more than one cash or deferred arrangement, or more than one arrangement permitting employee or matching contributions, maintained by the Related Companies, all such plans shall be aggregated and treated as one plan (other than those plans that may not be permissively aggregated) for purposes of calculating the separate percentage for the HCE which is used in the determination of the Average Percentage. For purposes of the preceding sentence, if such plans have different plan years, the plans are aggregated with respect to the plan years ending with or within the same calendar year.

(k) "Multiple Use Test". The test described in Section 12.4 which a Plan must meet where the Alternative Limitation (described in Section 12.2) is used to meet both the ADP and ACP Tests.

(l) "NHCE" or "Non-Highly Compensated Employee". An Employee who is not an HCE.

(m) "Prior Year Testing Method". The use of the preceding Plan Year's ADP for the preceding Plan Year's NHCE Group for purposes of performing the Plan Year's ADP Test and/or the use of the preceding Plan Year's ACP for the preceding Plan Year's NHCE Group for purposes of performing the Plan Year's ACP Test.

## 12.2 ADP and ACP Tests

For Plan Years commencing after December 31, 1996, for each Plan Year, the Prior Year Testing Method shall be used and the ADP and ACP for the HCE Group must meet either the Basic or Alternative Limitation when compared to the respective preceding Plan Year's ADP and ACP for the preceding Plan Year's NHCE Group, defined as follows:

(a) Basic Limitation. The HCE Group Average Percentage may not exceed 1.25 times the NHCE Group Average Percentage.

(b) Alternative Limitation. The HCE Group Average Percentage is limited by reference to the NHCE Group Average Percentage as follows:

If the NHCE Group  
Average Percentage is:

Then the Maximum HCE  
Group Average Percentage is:

Less than 2%	2 times NHCE Group Average %
2% to 8%	NHCE Group Average % plus 2%
More than 8%	NA - Basic Limitation applies

Alternatively, the Company may elect to use the Current Year Testing Method and the ADP and/or ACP for the HCE Group must meet either the Basic or Alternative Limitation as defined above when compared to the respective Plan Year's ADP and/or ACP for the Plan Year's NHCE Group. If a Current Year Testing Method election is made, such election may not be changed except as provided by the Code.

### 12.3 Correction of ADP and ACP Tests for Plan Years Commencing After December 31, 1996

For Plan Years commencing after December 31, 1996, for each Plan Year, if the ADP or ACP Tests are not met, the Administrator shall determine, no later than the end of the next Plan Year, a maximum percentage to be used in place of the calculated percentage for all HCEs that would reduce the ADP and/or ACP for the HCE Group by a sufficient amount to meet the ADP and ACP Tests.

With regard to each HCE whose Deferral percentage and/or Contribution percentage is in excess of the maximum percentage, a dollar amount of excess Deferrals and/or excess Contributions shall then be determined by (i) subtracting the product of such maximum percentage for the ADP and the HCE's Compensation from the HCE's actual Deferrals and (ii) subtracting the product of such maximum percentage for the ACP and the HCE's Compensation from the HCE's actual Contributions. Such amounts shall then be aggregated to determine the total dollar amount of excess Deferrals and/or excess Contributions. ADP and/or ACP corrections shall be made in accordance with the leveling method as described below.

(a) ADP Correction. The HCE with the highest Deferral dollar amount shall have his or her Deferral dollar amount reduced in an amount equal to the lesser of the dollar amount of excess Deferrals for all HCEs or the dollar amount that would cause his or her Deferral dollar amount to equal that of the HCE with the next highest Deferral dollar amount. The process shall be repeated until the total of the Deferral dollar amount reductions equals the dollar amount of excess Deferrals for all HCEs.

To the extent an HCE's Deferrals were determined to be reduced as described in the paragraph above, Employee Pre-Tax Contributions shall, by the end of the next Plan Year, be refunded to the HCE, except that such amount to be refunded shall be reduced by Employee Pre-Tax Contributions previously refunded because they exceeded the Contribution Dollar Limit. The excess amounts shall first be taken from unmatched Employee Pre-Tax Contributions and then from matched Employee Pre-Tax Contributions. Any Employer Match Contributions attributable to refunded excess Employee Pre-Tax Contributions as described in this Section, adjusted for investment gain or loss for the Plan Year to which the excess Employee Pre-Tax Contributions relate, shall be forfeited and used to reduce future Contributions to be made by an Employer as soon as administratively feasible.

(b) ACP Correction. The HCE with the highest Contribution dollar amount shall have his or her Contribution dollar amount reduced in an amount equal to the lesser of the dollar amount of excess Contributions for all HCEs or the dollar amount that would cause his or her Contribution dollar amount to equal that of the HCE with the next highest Contribution dollar amount. The process shall be repeated until the total of the Contribution dollar amount reductions equals the dollar amount of excess Contributions for all HCEs.

To the extent an HCE's Contributions were determined to be reduced as described in the paragraph above, Employer Match Contributions shall, by the end of the next Plan Year, be refunded to the HCE.

(c) Investment Fund Sources. Once the amount of excess Deferrals and/or Contributions is determined, within each Account from which amounts are refunded or forfeited, amounts shall first be taken from the Sweep Account and then taken by Investment Fund in direct proportion to the market value of the Participant's interest in each Investment Fund (which excludes his or her Loan Account balance) as of the Trade Date on which the correction is processed.

### 12.4 Multiple Use Test

If the Alternative Limitation (defined in Section 12.2) is used to meet both the ADP and ACP Tests, the ADP and ACP for the HCE Group must also comply with the requirements of Code section 401(m)(9). Such Code section requires that the sum of the ADP and ACP for the HCE Group (as determined after any corrections needed to meet the ADP and ACP Tests have been made) not exceed the sum (which produces the most favorable result) of:

- (a) the Basic Limitation (defined in Section 12.2) applied to either the ADP or ACP for the NHCE Group, and
- (b) the Alternative Limitation applied to the other NHCE Group percentage.

### 12.5 Correction of Multiple Use Test

If the multiple use limit is exceeded, the Administrator shall determine a maximum percentage to be used in place of the calculated percentage for all HCEs that would reduce either or both the ADP or ACP for the HCE Group by a sufficient amount to meet the multiple use limit. Any excess shall be corrected in the same manner that excess Deferrals or Contributions are corrected.

## 12.6 Adjustment for Investment Gain or Loss

Any excess Deferrals or Contributions to be refunded to a Participant in accordance with this Section 12 shall be adjusted for investment gain or loss. Refunds shall not include investment gain or loss for the period between the end of the applicable Plan Year and the date of distribution.

## 12.7 Testing Responsibilities and Required Records

The Administrator shall be responsible for ensuring that the Plan meets the ADP Test, the ACP Test and the Multiple Use Test, and that the Contribution Dollar Limit is not exceeded. The Administrator shall maintain records which are sufficient to demonstrate that the ADP Test, the ACP Test and the Multiple Use Test, have been met for each Plan Year for at least as long as the Employer's corresponding tax year is open to audit.

## 12.8 Separate Testing

(a) Multiple Employers: The determination of HCEs, NHCEs, and the performance of the ADP Test, the ACP Test and the Multiple Use Test, and any corrective action resulting therefrom, shall be conducted separately with regard to the Employees of each Employer (and its Related Companies) that is not a Related Company with respect to the other Employer(s).

(b) Collective Bargaining Units: The performance of the ADP Test, and if applicable, the ACP Test and the Multiple Use Test, and any corrective action resulting therefrom, shall be conducted separately with regard to Employees who are eligible to participate in the Plan as a result of a collective bargaining agreement.

In addition, testing may be conducted separately, at the discretion of the Administrator and to the extent permitted under Treasury regulations, with regard to any group of Employees for whom separate testing is permissible under such regulations.

## 13 MAXIMUM CONTRIBUTION AND BENEFIT LIMITATIONS

### 13.1 "Annual Addition" Defined

The sum for a Plan Year of all (i) contributions (excluding rollover contributions) and forfeitures allocated to the Participant's Account and his or her account in all other defined contribution plans maintained by any Related Company, (ii) amounts allocated to the Participant's individual medical account (within the meaning of Code section 415(l)(2)) which is part of a defined benefit plan maintained by any Related Company, and (iii) if the Participant is a key employee (within the meaning of Code section 419A(d)(3)) for the applicable or any prior Plan Year, amounts attributable to post-retirement medical benefits allocated to his or her separate account under a welfare benefit fund (within the meaning of Code section 419(e)) maintained by any Related Company. The Plan Year refers to the year to which the allocation pertains, regardless of when it was allocated. The Plan Year shall be the Code section 415 limitation year.

### 13.2 Maximum Annual Addition

A Participant's Annual Addition for any Plan Year shall not exceed the lesser of (i) 25% of his or her Compensation or (ii) \$30,000 (as adjusted for cost of living increases pursuant to Code section 415(d)); provided, however, that clause (i) shall not apply to Annual Additions described in clauses (ii) and (iii) of Section 13.1.

### 13.3 Avoiding an Excess Annual Addition

If, at any time during a Plan Year, the allocation of any additional Contributions would produce an excess Annual Addition for such year, Contributions to be made for the remainder of the Plan Year shall be limited to the amount needed for each affected Participant to receive the maximum Annual Addition.

### 13.4 Correcting an Excess Annual Addition

Upon the discovery of an excess Annual Addition to a Participant's Account (resulting from a reasonable error in determining a Participant's compensation or the maximum permissible amount of his or her elective deferrals (within the meaning of Code section 402(g)(3)), or other facts and circumstances acceptable to the Internal Revenue Service), the excess amount (adjusted to reflect investment gains) shall first be returned to the Participant to the extent of his or her Employee Pre-Tax Contributions (however to the extent Employee Pre-Tax Contributions were matched, the applicable Employer Match Contributions shall be forfeited in proportion to the returned matched Employee Pre-Tax Contributions) and the remaining excess, if any, shall be forfeited by the Participant and together used to reduce future Contributions to be made by an Employer as soon as administratively feasible.

### 13.5 Correcting a Multiple Plan Excess

If a Participant, whose Account is credited with an excess Annual Addition, received allocations to more than one defined contribution plan,



the excess shall be corrected by reducing the Annual Addition to the Plan only after all possible reductions have been made to the other defined contribution plans.

13.6 "Defined Benefit Fraction" Defined

The fraction, for any Plan Year, where the numerator is the "projected annual benefit" and the denominator is the greater of 125% of the "protected current accrued benefit" or the normal limit which is the lesser of (i) 125% of the dollar limitation in effect under Code section 415(b)(1)(A) for the Plan Year or (ii) 140% of the amount which may be taken into account under Code section 415(b)(1)(B) for the Plan Year, where a Participant's:

- (a) "projected annual benefit" is the annual benefit provided by the plan determined pursuant to Code section 415(e)(2)(A), and
- (b) "protected current accrued benefit" in a defined benefit plan in existence (1) on July 1, 1982, shall be the accrued annual benefit provided for under Public Law 97-248, section 235(g)(4), as amended, or (2) on May 6, 1986, shall be the accrued annual benefit provided for under Public Law 99-514, section 1106(i)(3).

13.7 "Defined Contribution Fraction" Defined

The fraction where the numerator is the sum of the Participant's Annual Addition for each Plan Year to date and the denominator is the sum of the "annual amounts" for each year in which the Participant has performed service with a Related Company. The "annual amount" for any Plan Year is the lesser of (i) 125% of the dollar limitation in effect under Code section 415(c)(1)(A) (determined without regard to subsection (c)(6)) for the Plan Year or (ii) 140% of the amount which may be taken into account under Code section 415(c)(1)(B) for the Plan Year, where:

- (a) each Annual Addition is determined pursuant to the Code section 415(c) rules in effect for such Plan Year, and
- (b) the numerator is adjusted pursuant to Public Law 97-248, section 235(g)(3), as amended, or Public Law 99-514, section 1106(i)(4).

13.8 Combined Plan Limits and Correction

The sum of a Participant's Defined Benefit Fraction and Defined Contribution Fraction for any Plan Year may not exceed 1.0. If the combined fraction exceeds 1.0 for any Plan Year, the Participant's benefit under any defined benefit plan (to the extent it has not been distributed or used to purchase an annuity contract) shall be limited so that the combined fraction does not exceed 1.0 before any defined contribution limits shall be enforced.

For Plan Years commencing after December 31, 1999, the provisions of the preceding paragraph shall no longer be effective.

14 TOP HEAVY RULES

14.1 Top Heavy Definitions

When capitalized, the following words and phrases have the following meanings when used in this Section:

- (a) "Aggregation Group". The group consisting of each qualified plan of the Related Companies (1) in which a Key Employee is a participant or was a participant during the determination period (regardless of whether such plan has terminated), or (2) which enables another plan in the group to meet the requirements of Code sections 401(a)(4) or 410(b). The Administrator may also treat any other qualified plan of the Related Companies as part of the group if the resulting group would continue to meet the requirements of Code sections 401(a)(4) and 410(b) with such plan being taken into account.
- (b) "Determination Date". For any Plan Year, the last Trade Date of the preceding Plan Year or, in the case of the Plan's first Plan Year, the last Trade Date of that Plan Year.
- (c) "Key Employee". A current or former Employee (or his or her Beneficiary) who at any time during the five year period ending on the Determination Date was:

(1)	an officer of a Related Company whose Compensation (i) exceeds 50% of the amount in effect under Code section 415(b)(1)(A) and (ii) places him or her within the following highest paid group of officers:	
	Number of Employees not Excluded Under Code Section 414(q)(5)	Number of Highest Paid Officers Included
	-----	-----
	Less than 30	3

30 to 500

10% of the number of  
Employees not excluded  
under Code section  
414(q)(5)  
50

More than 500

(2) a more than 5% Owner,

(3) a more than 1% Owner whose Compensation exceeds  
\$150,000, or

(4) a more than 0.5% Owner who is among the 10 Employees owning the largest interest in a Related Company and whose Compensation exceeds the amount in effect under Code section 415(c)(1)(A).

(d) "Plan Benefit". The sum as of the Determination Date of

(1) an Employee's Account, (2) the present value of his or her other accrued benefits provided by all qualified plans within the Aggregation Group, and (3) the aggregate distributions made within the five year period ending on such Date. For this purpose, the present value of the Employee's accrued benefit in a defined benefit plan shall be determined by the method that is used for benefit accrual purposes under all such plans maintained by the Related Companies or, if there is no such single method used under all such plans, as if the benefit accrues no more rapidly than the slowest rate permitted by the fractional accrual rule in Code section 411(b)(1)(C). Plan Benefits shall exclude rollover contributions and similar transfers made after December 31, 1983 as provided in Code section 416(g)(4)(A).

(e) "Top Heavy". The Plan's status when the Plan Benefits of Key Employees account for more than 60% of the Plan Benefits of all Employees who have performed services at any time during the five year period ending on the Determination Date. The Plan Benefits of Employees who were, but are no longer, Key Employees (because they have not been an officer or Owner during the five year period), are excluded in the determination.

#### 14.2 Special Contributions

(a) Minimum Contribution Requirement. For each Plan Year in which the Plan is Top Heavy, the Employer shall not allow any contributions (other than a Rollover Contribution from a plan maintained by a non Related Company) to be made by or on behalf of any Key Employee unless the Employer makes a contribution (other than contributions made by an Employer in accordance with a Participant's salary deferral election or contributions made by an Employer based upon the amount contributed by a Participant) on behalf of all Participants who were Eligible Employees as of the last day of the Plan Year in an amount equal to at least 3% of each such Participant's Taxable Income.

(b) Overriding Minimum Benefit. Notwithstanding, contributions shall be permitted on behalf of Key Employees if the Employer also maintains a defined benefit plan which automatically provides a benefit which satisfies the Code section 416(c)(1) minimum benefit requirements, including the adjustment provided in Code section 416(h)(2)(A), if applicable. If the Plan is part of an Aggregation Group under which a Key Employee is receiving a benefit and no minimum contribution is provided under any other plan, a minimum contribution of at least 3% of Taxable Income shall be provided to the Participants specified in the preceding paragraph. In addition, the Employer may offset a defined benefit minimum by contributions (other than contributions made by an Employer in accordance with a Participant's salary deferral election or contributions made by an Employer based upon the amount contributed by a Participant) made to the Plan.

#### 14.3 Adjustment to Combined Limits for Different Plans

For each Plan Year in which the Plan is Top Heavy, 100% shall be substituted for 125% in determining the Defined Benefit Fraction and the Defined Contribution Fraction. For Plan Years commencing after December 31, 1999, the provisions of the preceding sentence shall no longer be effective.

### 15 PLAN ADMINISTRATION

#### 15.1 Plan Delineates Authority and Responsibility

Plan fiduciaries include the Company, the Administrator, the Committee and/or the Trustee, as applicable, whose specific duties are delineated in the Plan and Trust. In addition, Plan fiduciaries also include any other person to whom fiduciary duties or responsibilities are delegated with respect to the Plan. Any person or group may serve in more than one fiduciary capacity with respect to the Plan. To the extent permitted under ERISA section 405, no fiduciary shall be liable for a breach by another fiduciary.

#### 15.2 Fiduciary Standards

Each fiduciary shall:

(a) discharge his or her duties in accordance with the Plan and Trust to the extent they are consistent with ERISA;

(b) use that degree of care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use

in the conduct of an enterprise of a like character and with like aims;

(c) act with the exclusive purpose of providing benefits to Participants and their Beneficiaries, and defraying reasonable expenses of administering the Plan;

(d) diversify Plan investments, to the extent such fiduciary is responsible for directing the investment of Plan assets, so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so; and

(e) treat similarly situated Participants and Beneficiaries in a uniform and nondiscriminatory manner.

### 15.3 Company is ERISA Plan Administrator

The Company is the administrator of the Plan (within the meaning of ERISA section 3(16)) and is responsible for compliance with all reporting and disclosure requirements, except those that are explicitly the responsibility of the Trustee under applicable law. The Administrator and/or Committee shall have any necessary authority to carry out such functions through the actions of the Administrator, duly appointed officers of the Company and/or the Committee.

### 15.4 Administrator Duties

The Administrator shall have the discretionary authority to construe the Plan and Trust, other than the provisions which relate to the Trustee, and to do all things necessary or convenient to effect the intent and purposes thereof, whether or not such powers are specifically set forth in the Plan and Trust. Actions taken in good faith by the Administrator shall be conclusive and binding on all interested parties, and shall be given the maximum possible deference allowed by law. In addition to the duties listed elsewhere in the Plan and Trust, the Administrator's authority shall include, but not be limited to, the discretionary authority to:

(a) determine who is eligible to participate, if a contribution qualifies as a rollover contribution, the allocation of Contributions, and the eligibility for loans, in-service withdrawals and distributions;

(b) provide each Participant with a summary plan description no later than 90 days after he or she has become a Participant (or such other period permitted under ERISA section 104(b)(1)), as well as informing each Participant of any material modification to the Plan in a timely manner;

(c) make a copy of the following documents available to Participants during normal work hours: the Plan and Trust (including subsequent amendments), all annual and interim reports of the Trustee related to the entire Plan, the latest annual report and the summary plan description;

(d) determine the fact of a Participant's death and of any Beneficiary's right to receive the deceased Participant's interest based upon such proof and evidence as it deems necessary;

(e) establish and review at least annually a funding policy bearing in mind both the short-run and long-run needs and goals of the Plan and to the extent Participants may direct their own investments, the funding policy shall focus on which Investment Funds are available for Participants to use; and

(f) adjudicate claims pursuant to the claims procedure described in Section 18.

### 15.5 Advisors May be Retained

The Administrator may retain such agents and advisors (including attorneys, accountants, actuaries, consultants, record keepers, investment counsel and administrative assistants) as it considers necessary to assist it in the performance of its duties. The Administrator shall also comply with the bonding requirements of ERISA section 412.

### 15.6 Delegation of Administrator Duties

The Company, as Administrator of the Plan, has appointed a Committee to administer the Plan on its behalf. The Company shall provide the Trustee with the names and specimen signatures of any persons authorized to serve as Committee members and act as or on its behalf. Any Committee member appointed by the Company shall serve at the pleasure of the Company, but may resign by written notice to the Company. Committee members shall serve without compensation from the Plan for such services. Except to the extent that the Company otherwise provides, any delegation of duties to the Committee shall carry with it the full discretionary authority of the Administrator to complete such duties.

### 15.7 Committee Operating Rules

(a) Actions of Majority. Any act delegated by the Company to the Committee may be done by a majority of its members. The majority may be

expressed by a vote at a meeting or in writing without a meeting, and a majority action shall be equivalent to an action of all Committee members.

(b) Meetings. The Committee shall hold meetings upon such notice, place and times as it determines necessary to conduct its functions properly.

(c) Reliance by Trustee. The Committee may authorize one or more of its members to execute documents on its behalf and may authorize one or more of its members or other individuals who are not members to give written direction to the Trustee in the performance of its duties. The Committee shall provide such authorization in writing to the Trustee with the name and specimen signatures of any person authorized to act on its behalf. The Trustee shall accept such direction and rely upon it until notified in writing that the Committee has revoked the authorization to give such direction. The Trustee shall not be deemed to be on notice of any change in the membership of the Committee, parties authorized to direct the Trustee in the performance of its duties, or the duties delegated to and by the Committee until notified in writing.

## 16 MANAGEMENT OF INVESTMENTS

### 16.1 Trust Agreement

All Plan assets shall be held by the Trustee in trust, in accordance with those provisions of the Plan and Trust which relate to the Trustee, for use in providing Plan benefits and paying Plan fees and expenses not paid directly by the Employer. Plan benefits shall be drawn solely from the Trust and paid by the Trustee as directed by the Administrator. Notwithstanding, the Company may appoint, with the approval of the Trustee, another trustee to hold and administer Plan assets which do not meet the requirements of Section 16.2.

### 16.2 Investment Funds

The Administrator is hereby granted authority to direct the Trustee to invest Trust assets in one or more Investment Funds. The number and composition of Investment Funds may be changed from time to time, without the necessity of amending the Plan and Trust. The Trustee may establish reasonable limits on the number of Investment Funds as well as the acceptable assets for any such Investment Fund. Each of the Investment Funds may be comprised of any of the following:

- (a) shares of a registered investment company, whether or not the Trustee or any of its affiliates is an advisor to, or other service provider to, such company;
- (b) collective investment funds maintained by the Trustee, or any other fiduciary to the Plan, which are available for investment by trusts which are qualified under Code sections 401(a) and 501(a);
- (c) individual equity and fixed income securities which are readily tradable on the open market;
- (d) synthetic guaranteed investment contracts and guaranteed investment contracts issued by an insurance company and/or synthetic guaranteed investment contracts and bank investment contracts issued by a bank;
- (e) interest bearing deposits (which may include interest bearing deposits of the Trustee);
- (f) PacifiCorp Stock, subject to the conditions described in Appendix A; and
- (g) Company Stock.

Any Investment Fund assets invested in a collective investment fund, shall be subject to all the provisions of the instruments establishing and governing such fund. These instruments, including any subsequent amendments, are incorporated herein by reference.

### 16.3 Authority to Hold Cash

The Trustee shall have the authority to cause the investment manager of each Investment Fund to maintain sufficient deposit or money market type assets in each Investment Fund to handle the Investment Fund's liquidity and disbursement needs. Each Participant's and Beneficiary's Sweep Account, which is used to hold assets pending investment or disbursement, shall consist of interest bearing deposits (which may include interest bearing deposits of the Trustee) and/or money market type assets or funds.

### 16.4 Trustee to Act Upon Instructions

The Trustee shall carry out instructions to invest assets in the Investment Funds as soon as practicable after such instructions are received from the Administrator, Participants or Beneficiaries. Such instructions shall remain in effect until changed by the Administrator, Participants or Beneficiaries.

## 16.5 Administrator Has Right to Vote Registered Investment Company Shares

The Administrator shall be entitled to vote proxies or exercise any shareholder rights relating to shares held on behalf of the Plan in a registered investment company. Notwithstanding, the authority to vote proxies and exercise shareholder rights related to such shares held in a Custom Fund is vested as provided otherwise in Section 16.

## 16.6 Custom Fund Investment Management

The Administrator may designate, with the consent of the Trustee, an investment manager for any Investment Fund established by the Trustee solely for Participants of the Plan and, subject to Section 16.7, any other qualified plan of the Company or a Related Company (a "Custom Fund"). The investment manager may be the Administrator, Trustee or an investment manager pursuant to ERISA section 3(38). The Administrator shall advise the Trustee in writing of the appointment of an investment manager and shall cause the investment manager to acknowledge to the Trustee in writing that the investment manager is a fiduciary to the Plan.

A Custom Fund shall be subject to the following:

(a) Guidelines. Written guidelines, acceptable to the Trustee, shall be established for a Custom Fund. If a Custom Fund consists solely of collective investment funds or shares of a registered investment company (and sufficient deposit or money market type assets to handle the Custom Fund's liquidity and disbursement needs), its underlying instruments shall constitute the guidelines.

(b) Authority of Investment Manager. The investment manager of a Custom Fund shall have the authority to vote or execute proxies, exercise shareholder rights, manage, acquire, and dispose of Trust assets. Notwithstanding, if the Company provides for a Company Stock Fund, the authority to vote proxies and exercise shareholder rights related to shares of Company Stock held in the Company Stock Fund is vested as provided otherwise in Section 16.

(c) Custody and Trade Settlement. Unless otherwise agreed to by the Trustee, the Trustee shall maintain custody of all Custom Fund assets and be responsible for the settlement of all Custom Fund trades. For purposes of this Section, shares of a collective investment fund, shares of a registered investment company and synthetic guaranteed investment contracts and guaranteed investment contracts issued by an insurance company and/or synthetic guaranteed investment contracts and bank investment contracts issued by a bank, shall be regarded as the Custom Fund assets instead of the underlying assets of such instruments.

(d) Limited Liability of Co-Fiduciaries. Neither the Administrator nor the Trustee shall be obligated to invest or otherwise manage any Custom Fund assets for which the Trustee or Administrator is not the investment manager nor shall the Administrator or Trustee be liable for acts or omissions with regard to the investment of such assets except to the extent required by ERISA.

## 16.7 Master Custom Fund

The Trustee may establish, at the direction of the Administrator, a single Custom Fund (the "Master Custom Fund"), for the benefit of the Plan and any other qualified plan of the Company or a Related Company for which the Trustee acts as trustee pursuant to a plan and trust document that contains a provision substantially identical to this provision. The assets of the Plan, to the extent invested in the Master Custom Fund, shall consist only of that percentage of the assets of the Master Custom Fund represented by the shares held by the Plan.

## 16.8 Authority to Segregate Assets

The Administrator may direct the Trustee to split an Investment Fund into two or more funds in the event any assets in the Investment Fund are illiquid or the value is not readily determinable. In the event of such segregation, the Administrator shall give instructions to the Trustee on what value to use for the split-off assets, and the Trustee shall not be responsible for confirming such value.

## 16.9 Investment in Company Stock

If the Company provides for a Company Stock Fund, directly or through a Master Custom Fund, the Company Stock Fund shall be comprised of Company Stock and sufficient deposit or money market type assets to handle the Company Stock Fund's liquidity and disbursement needs. The Company Stock Fund may be as large as necessary to comply with Participants' and Beneficiaries' investment elections as well the total investment of Participants' and Beneficiaries' Employer Match, Additional Match and Discretionary Match Accounts to the extent such Accounts are not otherwise invested in accordance with Section 7.

## 16.10 Voting, Tendering and Exchanging Company Stock

Each Participant in the Plan (or, in the event of the Participant's death, the Participant's Beneficiary) is, for purposes of this Section 16.10, hereby designated a "named fiduciary" within the meaning of ERISA section 403(a)(1).

(a) Instructed Share Voting. Each Participant (or, if applicable, Beneficiary), as a named fiduciary, shall be entitled to direct the Plan and Trustee as to the manner in which Company Stock attributable to such Participant's (or Beneficiary's) Account in the Company Stock Fund is to

be voted on each matter brought before an annual or special stockholders' meeting of the Company. Before each such meeting of stockholders, the Trustee shall cause to be furnished to each Participant (or, if applicable, Beneficiary) a copy of the proxy solicitation material, together with a form requesting confidential directions on how such shares of Company Stock allocated to such Participant's (or Beneficiary's) Account in the Company Stock Fund shall be voted on each such matter. Upon timely receipt of such directions, the Trustee shall on each such matter, vote as directed the number of votes attributable to such Participant (or Beneficiary).

The number of votes attributable to each Participant (or, if applicable, Beneficiary) shall be determined as follows:

(1) first, the total number of votes attributable to Company Stock held in the Company Stock Fund shall be determined;

(2) second, the number of votes determined under (1), above, shall be attributed to each Participant (or, if applicable, Beneficiary), in the ratio which the number of shares of Company Stock allocated to such Participant's Account in the Company Stock Fund as of the record date bears to the total number of shares of Company Stock held in the Company Stock Fund as of such date.

Each Participant (or, if applicable, Beneficiary), as a named fiduciary, shall be entitled to separately direct the vote of a portion of the number of votes with respect to which a signed voting-direction instrument is not timely received from other Participants (or, if applicable, Beneficiaries) ("Undirected Votes"). Such direction with respect to each Participant (or, if applicable, Beneficiary) who timely elects to direct the vote of Undirected Votes as a named fiduciary shall be with respect to a number of Undirected Votes equal to the total number of Undirected Votes multiplied by a fraction, the numerator of which is the total number of votes attributable to such Participant (or Beneficiary) and the denominator of which is the total number of votes attributable to all Participants (or, if applicable, Beneficiaries) who timely elect to vote Undirected Votes as a named fiduciary.

(b) Responding to Tender and Exchange Offers. Each Participant (or, if applicable, Beneficiary), as a named fiduciary, shall have the right, to the extent of the number of shares of Company Stock attributable to such Participant's (or Beneficiary's) Account in the Company Stock Fund, to direct the Trustee in writing as to the manner in which to respond to such tender or exchange offer with respect to shares of Company Stock. The Trustee shall use its best efforts to timely distribute or cause to be distributed to each Participant (or, if applicable, Beneficiary) such information as will be distributed to stockholders of the Company in connection with any such tender or exchange offer. Upon timely receipt of such instructions, the Trustee shall respond as instructed with respect to shares of Company Stock allocated to such Participant's Account in the Company Stock Fund. If the Trustee shall not receive timely instructions from a Participant (or, if applicable, Beneficiary) as to the manner in which to respond to such a tender or exchange offer, the Trustee shall not tender or exchange any shares of Company Stock with respect to which such Participant (or Beneficiary) has the right of direction. In effecting the foregoing, to the extent possible, the Trustee shall tender or exchange shares of Company Stock entitled to one vote per share prior to shares of Company Stock having greater than one vote per share.

Any instructions received by the Trustee from Participants (or, if applicable, Beneficiaries) pursuant to this Section 16.10 shall be held by the Trustee in strict confidence and shall not be divulged or released to any person, including officers or Employees of the Company or a Related Company; provided, however, that to the extent necessary for the operation of the Plan, such instructions may be relayed by the Trustee to a recordkeeper, auditor or other person providing services to the Plan if such person (i) is not the Company, a Related Company or any Employee, officer or director thereof, and (ii) agrees not to divulge such directions to any other person, including Employees, officers and directors of the Company and its Related Companies.

#### 16.11 Registration and Disclosure for Company Stock

The Administrator shall be responsible for determining the applicability (and, if applicable, complying with) the requirements of the Securities Act of 1933, as amended, the California Corporate Securities Law of 1968, as amended, and any other applicable blue sky law. The Administrator shall also specify what restrictive legend or transfer restriction, if any, is required to be set forth on the certificates for the securities and the procedure to be followed by the Trustee to effectuate a resale of such securities.

### 17 TRUST ADMINISTRATION

#### 17.1 Trustee to Construe Trust

The Trustee shall have the discretionary authority to construe those provisions of the Plan and Trust which relate to the Trustee and to do all things necessary or convenient to the administration of the Trust, whether or not such powers are specifically set forth in the Plan and Trust. Actions taken in good faith by the Trustee shall be conclusive and binding on all interested parties, and shall be given the maximum possible deference allowed by law.

#### 17.2 Trustee To Act As Owner of Trust Assets

Subject to the specific conditions and limitations set forth in the Plan and Trust, the Trustee shall have all the power, authority, rights and privileges of an absolute owner of the Trust assets and, not in limitation but in amplification of the foregoing, may:

(a) receive, hold, manage, invest and reinvest, sell, tender, exchange, dispose of, encumber, hypothecate, pledge, mortgage, lease, grant options respecting, repair, alter, insure, or distribute any and all property in the Trust;

(b) borrow money, participate in reorganizations, pay calls and assessments, vote or execute proxies, exercise subscription or conversion privileges, exercise options and register any securities in the Trust in the name of the nominee, in federal book entry form or in any other form as shall permit title thereto to pass by delivery;

(c) renew, extend the due date, compromise, arbitrate, adjust, settle, enforce or foreclose, by judicial proceedings or otherwise, or defend against the same, any obligations or claims in favor of or against the Trust; and

(d) lend, through a collective investment fund, any securities held in such collective investment fund to brokers, dealers or other borrowers and to permit such securities to be transferred into the name and custody and be voted by the borrower or others.

### 17.3 United States Indicia of Ownership

The Trustee shall not maintain the indicia of ownership of any Trust assets outside the jurisdiction of the United States, except as authorized under ERISA section 404(b).

### 17.4 Tax Withholding and Payment

(a) Withholding. The Trustee shall calculate and withhold federal (and, if applicable, state) income taxes with regard to any Eligible Rollover Distribution that is not paid as a Direct Rollover in accordance with the Participant's withholding election or as required by law if no election is made or the election is less than the amount required by law. With regard to any taxable distribution that is not an Eligible Rollover Distribution, the Trustee shall calculate and withhold federal (and, if applicable, state) income taxes in accordance with the Participant's withholding election or as required by law if no election is made.

(b) Taxes Due From Investment Funds. The Trustee shall pay from the Investment Fund any taxes or assessments imposed by any taxing or governmental authority on such Investment Fund or its income, including related interest and penalties.

### 17.5 Trust Accounting

(a) Annual Report. Within 60 days (or other reasonable period) following the close of the Plan Year, the Trustee shall provide the Administrator with an annual accounting of Trust assets and information to assist the Administrator in meeting ERISA's annual reporting and audit requirements.

(b) Periodic Reports. The Trustee shall maintain records and provide sufficient reporting to allow the Administrator to properly monitor the Trust's assets and activity.

(c) Administrator Approval. Approval of any Trustee accounting shall automatically occur 90 days after such accounting has been received by the Administrator, unless the Administrator files a written objection with the Trustee within such time period. Such approval shall be final as to all matters and transactions stated or shown therein and binding upon the Administrator.

### 17.6 Valuation of Certain Assets

If the Trustee determines the Trust holds any asset which is not readily tradable and listed on a national securities exchange registered under the Securities Exchange Act of 1934, as amended, the Trustee may engage a qualified independent appraiser to determine the fair market value of such property, and the appraisal fees shall be paid from the Investment Fund containing the asset.

### 17.7 Legal Counsel

The Trustee may consult with legal counsel of its choice, including counsel for the Employer or counsel of the Trustee, upon any question or matter arising under the Plan and Trust. When relied upon by the Trustee, the opinion of such counsel shall be evidence that the Trustee has acted in good faith.

### 17.8 Fees and Expenses

The Trustee's fees for its services as Trustee shall be such as may be mutually agreed upon by the Company and the Trustee. Trustee fees and all reasonable expenses of counsel and advisors retained by the Trustee shall be paid in accordance with Section 6.

### 17.9 Trustee Duties and Limitations

The Trustee's duties, unless otherwise agreed to by the Trustee, shall be confined to construing the terms of the Plan and Trust as they relate to the Trustee, receiving funds on behalf of and making payments from the Trust, safeguarding and valuing Trust assets, investing and reinvesting Trust assets in the Investment Funds as directed by the Administrator, Participants or Beneficiaries, and those duties as described in this Section 17.

The Trustee shall have no duty or authority to ascertain whether Contributions are in compliance with the Plan, to enforce collection or to compute or verify the accuracy or adequacy of any amount to be paid to it by the Employer. The Trustee shall not be liable for the proper application of any part of the Trust with respect to any disbursement made at the direction of the Administrator.

## 18 RIGHTS, PROTECTION, CONSTRUCTION AND JURISDICTION

### 18.1 Plan Does Not Affect Employment Rights

The Plan does not provide any employment rights to any Employee. The Employer expressly reserves the right to discharge an Employee at any time, with or without cause, without regard to the effect such discharge would have upon the Employee's interest in the Plan.

### 18.2 Compliance With USERRA

Notwithstanding any provision of the Plan to the contrary, with regard to an Employee who after serving in the uniformed services is reemployed on or after December 12, 1994, within the time required by USERRA, contributions shall be made and benefits and service credit shall be provided under the Plan with respect to his or her qualified military service (as defined in Code section 414(u)(5)) in accordance with Code section 414(u). Furthermore, notwithstanding any provision of the Plan to the contrary, Participant loan payments may be suspended during a period of qualified military service.

### 18.3 Limited Return of Contributions

Except as provided in this Section 18.3, (i) Plan assets shall not revert to the Employer nor be diverted for any purpose other than the exclusive benefit of Participants and Beneficiaries and defraying reasonable expenses of administering the Plan; and (ii) a Participant's vested interest shall not be subject to divestment. As provided in ERISA section 403(c)(2), the actual amount of a Contribution or portion thereof made by the Employer (or the current value of such if a net loss has occurred) may revert to the Employer if:

- (a) such Contribution or portion thereof is made by reason of a mistake of fact;
- (b) a determination with respect to the initial qualification of the Plan under Code section 401(a) is not received and a request for such determination is made within the time prescribed under Code section 401(b) (the existence of and Contributions under the Plan are hereby conditioned upon such initial qualification); or
- (c) such Contribution or portion thereof is not deductible under Code section 404 (such Contributions are hereby conditioned upon such deductibility) in the taxable year of the Employer for which the Contribution is made.

The reversion to the Employer must be made (if at all) within one year of the mistaken payment, the date of denial of qualification, or the date of disallowance of deduction, as the case may be. A Participant shall have no rights under the Plan with respect to any such reversion.



18.4 Assignment and Alienation

As provided by Code section 401(a)(13) and to the extent not otherwise required by law, no benefit provided by the Plan may be anticipated, assigned or alienated, except:

- (a) to create, assign or recognize a right to any benefit with respect to a Participant pursuant to a QDRO; or
- (b) to use a Participant's vested Account balance as security for a loan from the Plan which is permitted pursuant to Code section 4975.

18.5 Facility of Payment

If a Plan benefit is due to be paid to a minor or if the Administrator reasonably believes that any payee is legally incapable of giving a valid receipt and discharge for any payment due him or her, the Administrator shall have the payment of the benefit, or any part thereof, made to the person (or persons or institution) whom it reasonably believes is caring for or supporting the payee, unless it has received due notice of claim therefor from a duly appointed guardian or conservator of the payee. Any payment shall to the extent thereof, be a complete discharge of any liability under the Plan to the payee.

18.6 Reallocation of Lost Participant's Accounts

If the Administrator cannot locate a person entitled to payment of a Plan benefit after a reasonable search, the Administrator may at any time thereafter treat such person's Account as forfeited and use such amount to reduce future Contributions to be made by an Employer as soon as administratively feasible. If such person subsequently presents the Administrator with a valid claim for the benefit, such person shall be paid the amount treated as forfeited, plus the interest that would have been earned in the Sweep Account to the date of determination. The Administrator shall pay the amount through an additional amount contributed by the Employer.

18.7 Suspension of Certain Plan Provisions During Conversion Period

Notwithstanding any provision of the Plan to the contrary, during any Conversion Period, in accordance with procedures established by the Administrator and the Trustee, the Administrator may temporarily suspend, in whole or in part, certain provisions under the Plan, which may include, but are not limited to, a Participant's right to change his or her Contribution election, a Participant's right to change his or her investment election and a Participant's right to borrow or withdraw from his or her Account or obtain a distribution from his or her Account.

18.8 Suspension of Certain Plan Provisions During Other Periods

Notwithstanding any provision of the Plan to the contrary, in accordance with procedures established by the Administrator and the Trustee, the Administrator may temporarily suspend a Participant's right to borrow or withdraw from his or her Account or obtain a distribution from his or her Account, if (i) the Administrator receives a domestic relations order and the Participant's Account is a source of the payment for such domestic relations order, or (ii) if the Administrator receives notice that a domestic relations order is being sought by the Participant, his or her spouse, former spouse, child or other dependent (as defined in Code section 152) and the Participant's Account is a source of the payment for such domestic relations order. Such suspension may continue for a reasonable period of time (as determined by the Administrator) which may include the period of time the Administrator, a court of competent jurisdiction or other appropriate person is determining whether the domestic relations order qualifies as a QDRO.

18.9 Claims Procedure

- (a) Right to Make Claim. An interested party who disagrees with the Administrator's determination of his or her right to Plan benefits must submit a written claim and exhaust this claim procedure before legal recourse of any type is sought. The claim must include the important issues the interested party believes support the claim. The Administrator, pursuant to the authority provided in the Plan, shall either approve or deny the claim.
- (b) Process for Denying a Claim. The Administrator's partial or complete denial of an initial claim must include an understandable, written response covering (1) the specific reasons why the claim is being denied (with reference to the pertinent Plan provisions) and (2) the steps necessary to perfect the claim and obtain a final review.
- (c) Appeal of Denial and Final Review. The interested party may make a written appeal of the Administrator's initial decision, and the Administrator shall respond in the same manner and form as prescribed for denying a claim initially.
- (d) Time Frame. The initial claim, its review, appeal and final review shall be made in a timely fashion, subject to the following time table:

Action	Days to Respond From Last Action
-----	-----

Administrator determines benefit	NA
Interested party files initial request	60 days
Administrator's initial decision	90 days
Interested party requests final review	60 days
Administrator's final decision	60 days

However, the Administrator may take up to twice the maximum response time for its initial and final review if it provides an explanation within the normal period of why an extension is needed and when its decision shall be forthcoming.

#### 18.10 Construction

Headings are included for reading convenience. The text shall control if any ambiguity or inconsistency exists between the headings and the text. The singular and plural shall be interchanged wherever appropriate. References to Participant shall include Alternate Payee and/or Beneficiary when appropriate and even if not otherwise already expressly stated.

#### 18.11 Jurisdiction and Severability

The Plan and Trust shall be construed, regulated and administered under ERISA and other applicable federal laws and, where not otherwise preempted, by the laws of the State of New Jersey. If any provision of the Plan and Trust is or becomes invalid or otherwise unenforceable, that fact shall not affect the validity or enforceability of any other provision of the Plan and Trust. All provisions of the Plan and Trust shall be so construed as to render them valid and enforceable in accordance with their intent.

#### 18.12 Indemnification by Employer

The Employers hereby agree to indemnify all Plan fiduciaries against any and all liabilities resulting from any action or inaction, (including a Plan termination in which the Company fails to apply for a favorable determination from the Internal Revenue Service with respect to the qualification of the Plan upon its termination), in relation to the Plan or Trust (i) including (without limitation) expenses reasonably incurred in the defense of any claim relating to the Plan or its assets, and amounts paid in any settlement relating to the Plan or its assets, but (ii) excluding liability resulting from actions or inactions made in bad faith, or resulting from the negligence or willful misconduct of the Trustee. The Company shall have the right, but not the obligation, to conduct the defense of any action to which this Section applies. The Plan fiduciaries are not entitled to indemnity from the Plan assets relating to any such action.

### 19 AMENDMENT, MERGER, DIVESTITURES AND TERMINATION

#### 19.1 Amendment

The Company reserves the right to amend the Plan and Trust at any time, to any extent and in any manner it may deem necessary or appropriate. The Company (and not the Trustee) shall be responsible for adopting any amendments necessary to maintain the qualified status of the Plan and Trust under Code sections 401(a) and 501(a). If the Committee is acting as the Administrator in accordance with Section 15.6, it shall have the authority to adopt Plan and Trust amendments which have no substantial adverse financial impact upon any Employer or the Plan. All interested parties shall be bound by any amendment, provided that no amendment shall:

- (a) become effective unless it has been adopted in accordance with the procedures set forth in Section 19.5;
- (b) except to the extent permissible under ERISA and the Code, make it possible for any portion of the Trust assets to revert to an Employer or to be used for, or diverted to, any purpose other than for the exclusive benefit of Participants and Beneficiaries entitled to Plan benefits and to defray reasonable expenses of administering the Plan;
- (c) decrease the rights of any Participant to benefits accrued (including the elimination of optional forms of benefits) to the date on which the amendment is adopted, or if later, the date upon which the amendment becomes effective, except to the extent permitted under ERISA and the Code; nor
- (d) permit a Participant to be paid any portion of his or her Account subject to the distribution rules of Code section 401(k) unless the payment would otherwise be permitted under Code section 401(k).

#### 19.2 Merger

The Plan and Trust may not be merged or consolidated with, nor may its assets or liabilities be transferred to, another plan unless each Participant and Beneficiary would, if the resulting plan were then terminated, receive a benefit just after the merger, consolidation or transfer which is at least equal to the benefit which would be received if either plan had terminated just before such event.

#### 19.3 Divestitures

In the event of a sale by an Employer which is a corporation of:

(i) substantially all of the Employer's assets used in a trade or business to an unrelated corporation, or (ii) a sale of such Employer's interest in a subsidiary to an unrelated entity or individual, lump sum distributions shall be permitted from the Plan, except as provided below, to Participants with respect to Employees who continue employment with the corporation acquiring such assets or who continue employment with such subsidiary, as applicable.

Notwithstanding, distributions shall not be permitted if the purchaser agrees, in connection with the sale, to be substituted as the Company as the sponsor of the Plan or to accept a transfer in a transaction subject to Code section 414(l)(1) of the assets and liabilities representing the Participants' benefits into a plan of the purchaser or a plan to be established by the purchaser.

#### 19.4 Plan Termination and Complete Discontinuance of Contributions

The Company may, at any time and for any reason, terminate the Plan in accordance with the procedures set forth in Section 19.5, or completely discontinue contributions.

In the event of the Plan's termination, if no successor plan is established or maintained, lump sum distributions shall be made in accordance with the terms of the Plan as in effect at the time of the Plan's termination or as thereafter amended, provided that a post-termination amendment shall not be effective to the extent that it violates Section 19.1 unless it is required in order to maintain the qualified status of the Plan upon its termination. The Trustee's and Employer's authority shall continue beyond the Plan's termination date until all Trust assets have been liquidated and distributed.

#### 19.5 Amendment and Termination Procedures

The following procedural requirements shall govern the adoption of any amendment or termination (a "Change") of the Plan and Trust:

- (a) The Company may adopt any Change by action of its board of directors in accordance with its normal procedures.
- (b) The Committee, if acting as Administrator in accordance with Section 15.6, may adopt any Change within the scope of its authority provided under Section 19.1 and in the manner specified in Section 15.7 (a).
- (c) Any Change must be (1) set forth in writing, and (2) signed and dated by a corporate officer of the Company or, in the case of a Change adopted by the Committee, at least one of its members.
- (d) If the effective date of any Change is not specified in the document setting forth the Change, it shall be effective as of the date it is signed by the last person whose signature is required under clause (2) above, except to the extent that another effective date is necessary to maintain the qualified status of the Plan and Trust under Code sections 401(a) and 501(a).
- (e) No Change shall become effective until it is accepted and signed by the Trustee (which acceptance shall not unreasonably be withheld).

#### 19.6 Termination of Employer's Participation

Any Employer may, at any time and for any reason, terminate its Plan participation by action of its board of directors in accordance with its normal procedures. Written notice of such action shall be signed and dated by a corporate officer of the Employer and delivered to the Company. If the effective date of such action is not specified, it shall be effective on, or as soon as reasonably practicable after, the date of delivery. Upon the Employer's request, the Company may instruct the Trustee and Administrator to spin off all affected Accounts and underlying assets into a separate qualified plan under which the Employer shall assume the powers and duties of the Company. Alternatively, the Company may continue to maintain the Accounts under the Plan.

#### 19.7 Replacement of the Trustee

The Trustee may resign as Trustee under the Plan and Trust or may be removed by the Company at any time upon at least 90 days written notice (or less if agreed to by both parties). In such event, the Company shall appoint a successor trustee by the end of the notice period. The successor trustee shall then succeed to all the powers and duties of the Trustee under the Plan and Trust. If no successor trustee has been named by the end of the notice period, the Company's chief executive officer shall become the trustee, or if he or she declines, the Trustee may petition the court for the appointment of a successor trustee.

#### 19.8 Final Settlement and Accounting of Trustee

(a) Final Settlement. As soon as administratively feasible after its resignation or removal as Trustee, the Trustee shall transfer to the successor trustee all property currently held by the Trust. However, the Trustee is authorized to reserve such sum of money as it may deem advisable for payment of its accounts and expenses in connection with the settlement of its accounts or other fees or expenses payable by the Trust. Any balance remaining after payment of such fees and expenses shall be paid to the successor trustee.

(b) Final Accounting. The Trustee shall provide a final accounting to the Administrator within 90 days of the date Trust assets are transferred to the successor trustee.

(c) Administrator Approval. Approval of the final accounting shall automatically occur 90 days after such accounting has been received by the Administrator, unless the Administrator files a written objection with the Trustee within such time period. Such approval shall be final as to all matters and transactions stated or shown therein and binding upon the Administrator.

APPENDIX A - MAPPING OF ACCOUNTS

CENTURY TELEPHONE ENTERPRISES, INC. DOLLARS & SENSE PLAN AND TRUST

Predecessor Plan Name/ Name of Accounts	Date of Transfer	Employee Pre-Tax	After-Tax	Rollover	ESOP Transfer	Employer Match	Additional Match	Discretionary Match	Prior Match
San Marcos Telephone Company, Inc. and SM Telecorp Companies Retirement Plan:	07/01/93	x							
X  Pre-Tax			x						
X  After-Tax				x					
X  Rollover									x
X  Prior Match									
PacifiCorp K Plus Employee Savings Plan:1	01/10/98	x							
X  Pre-Tax									
X  After-Tax			x						
X  Rollover				x					
X  Company Match 2									x

- 1 Account Names were provided by the recordkeeper and not specifically identified in plan document for the PacifiCorp K Plus Employee Savings Plan.
- 2 A former PacifiCorp K Plus Employee Savings Plan participant's interest in the PacifiCorp K Plus Employee Stock Ownership Plan was liquidated and deposited to his or her Company Match Account under the plan prior to the date of transfer to the Plan.

APPENDIX B - INVESTMENT FUNDSAPPENDIX B - INVESTMENT FUNDS

I. Investment Funds Available

The Investment Funds offered under the Plan as of the Effective Date include this set of daily valued funds:

Category -----	Funds -----
Money Market -----	Money Market -----
Income -----	Bond Index -----
Balanced -----	Asset Allocation -----
Equity -----	Company Stock ----- Growth Stock ----- S&P 500 Stock -----
Combination -----	LifePath Series -----

Effective January 10, 1998 assets from the PacifiCorp K Plus Employee Savings Plan shall be transferred to the Plan attributable to the account balances of certain participants thereunder who as of the date of transfer are Participants in the Plan. Such assets shall include cash and PacifiCorp Stock to the extent of each such participant's investment in the "Company Stock Fund" under such plan. A PacifiCorp Stock Fund shall be established under the Plan to hold such assets. The PacifiCorp Stock Fund shall be comprised of PacifiCorp Stock and sufficient deposit or money market type assets to handle the PacifiCorp Stock Fund's liquidity and disbursement needs. A Participant's existing investment in the PacifiCorp Stock Fund as of the date of transfer and earnings thereon may continue to be invested in the PacifiCorp Stock Fund until the Participant directs otherwise or, if earlier, the date the Fund is liquidated in accordance with the direction of the Administrator. The PacifiCorp Stock Fund is not otherwise designated as available for investment by Participants or Beneficiaries.

Each Participant (or, in the event of the Participant's death, the Participant's Beneficiary) shall be entitled to instruct the Trustee as to the voting

or tendering of any full or partial shares of PacifiCorp Stock held on his or her behalf in the PacifiCorp Stock Fund. Prior to such voting or tendering of PacifiCorp Stock, each Participant (or, if applicable, Beneficiary) shall receive a copy of the proxy solicitation or other material relating to such vote or tender decision and a form for the Participant (or, if applicable, Beneficiary) to complete which confidentially instructs the Trustee to vote or tender such shares in the manner indicated by the Participant (or, if applicable, Beneficiary). Upon receipt of such instructions, the Trustee shall act with respect to such shares as instructed.

With regard to shares for which the Trustee receives no voting or tendering instructions from Participants (or, if applicable, Beneficiaries), the Administrator shall instruct the Trustee with respect to how to vote or tender such shares and the Trustee shall act with respect to such shares as instructed.

## **II. Default Investment Fund**

The default Investment Fund as of the Effective Date is the Money Market Fund.

## **III. Accounts For Which Investment is Restricted**

A Participant may direct the investment of his or her entire Account except for his or her Employer Match, Additional Match and Discretionary Match Accounts, and except as otherwise provided in Section 7, which as of the Effective Date shall be invested in the Company Stock Fund.

## **IV. Maximum Percentage Restrictions Applicable to Certain Investment Funds**

As of the Effective Date, there are no maximum percentage restrictions applicable to any Investment Funds.

## **APPENDIX C - PAYMENT OF PLAN FEES AND EXPENSES**

As of the Effective Date, payment of Plan fees and expenses shall be as follows:

**I. Investment Management Fees:** These are paid by Participants in that management fees reduce the investment return reported and credited to Participants, except that the Employer shall pay the fees related to the Company Stock Fund and the PacifiCorp Stock Fund. These are paid by the Employer on a quarterly basis.

**II. Recordkeeping Fees:** These are paid by the Employer on a quarterly basis, except that with regard to a Participant who is no longer an Employee or a Beneficiary, these are paid by the Participant and are assessed monthly and billed/collected from Accounts quarterly.

**III. Loan Fees:** A \$3.50 per month fee is assessed and billed/collected quarterly from the Account of each Participant who has an outstanding loan balance, except with regard to a Participant who has an outstanding loan balance attributable to a loan transferred from the PacifiCorp K Plus Employee Savings Plan.

**IV. Investment Fund Election Changes:** For each Investment Fund election change by a Participant, in excess of four changes per year, a \$10 fee shall be assessed and billed/collected quarterly from the Participant's Account.

**V. Periodic Installment Payment Fees:** A \$3.00 per check fee shall be assessed and billed/collected quarterly from the Account of each Participant for whom a check representing a periodic installment payment is issued.

**VI. Additional Fees Paid by Employer:** All other Plan related fees and expenses shall be paid by the Employer. To the extent that the Administrator later elects that any such fees shall be borne by Participants, estimates of the fees shall be determined and reconciled, at least annually, and the fees shall be assessed monthly and billed/collected from Accounts quarterly.

## **APPENDIX D - LOAN INTEREST RATE**

As of the Effective Date, the interest rate charged on Participant loans shall be equal to the prime rate published in The Wall Street Journal at the time the loan is processed, plus 3%. If multiple prime rates are published in The Wall Street Journal, the prime rate selected shall be the rate closest to the last prime rate used for this purpose.

**Exhibit 10.1(c)**  
**CENTURY TELEPHONE ENTERPRISES, INC.**

**DOLLARS & SENSE PLAN AND TRUST**

**ESTABLISHMENT OF MAXIMUM PRE-TAX  
CONTRIBUTION PERCENTAGE**

Pursuant to Section 3.4 of the Century Telephone Enterprises, Inc. Dollars & Sense Plan and Trust, the maximum Employee Pre-Tax Contribution percentage for Participants is hereby changed to 12%, effective for as of the first pay period beginning on or about January 1, 1999.

Thus done and signed this 29th day of December, 1998.  
CENTURY TELEPHONE ENTERPRISES, INC.

*By:           /s/ R. Stewart Ewing, Jr.*  
*R. Stewart Ewing, Jr.*  
*Senior Vice President and*  
  
*Chief Financial Officer*

**Exhibit 10.1(q)**

**CENTURY TELEPHONE ENTERPRISES, INC.  
SUPPLEMENTAL DOLLARS & SENSE PLAN**

**1998 RESTATEMENT**

**I. Purpose of the Plan**

This Supplemental Dollars & Sense Plan was established by Century Telephone Enterprises, Inc. (the "Company") and its subsidiaries and designated affiliates to provide to certain select management employees the opportunity to defer a portion of their compensation in excess of the deferrals permissible under the terms of the Century Telephone Enterprises, Inc. Dollars & Sense Plan and Trust (the "Dollars & Sense Plan") maintained by the Company and to allow the Company to make matching contributions based on such deferrals in excess of those permissible under such plan. This Plan is not intended to constitute a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is designed to be exempt from the participation, vesting, funding and fiduciary responsibility rules of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

**II. Definitions**

As used in this Plan, the following terms shall have the meanings indicated, unless the context otherwise specifies or requires:

2.01 "ACCOUNT" shall mean the account established under this Plan in accordance with Section 4.01.

2.02 "ACCOUNT BALANCE", as of a given date, shall mean the fair market value of a Participant's Account, as determined by the Committee.

2.03 "BENEFICIARY" shall mean the person or persons designated by the Participant to receive benefits after the death of the Participant.

2.04 "BOARD OF DIRECTORS" shall mean not less than a quorum of the whole Board of Directors of the Company.

2.05 "COMMITTEE" shall mean three or more members of the Board of Directors of the Company as described in Section 11.01 of the Plan, or the Board if no Committee has been appointed.

2.06 "DISABILITY" shall mean a condition which makes a Participant unable to perform each of the material duties of his regular occupation where he is likely to remain thus incapacitated continuously and permanently.

2.07 "EFFECTIVE DATE" of this Plan shall mean the first day of the first payroll period commencing on or after January 1, 1995. The effective date of this Restatement shall mean the first day of the first payroll period commencing on or after January 1, 1999.

2.08 "EMPLOYER" shall mean the Company, any Subsidiary thereof, and any affiliate designated by the Company as a participating employer under this Plan.

2.09 "EXCESS SALARY" shall mean the amount of a Participant's compensation upon which the Participant can no longer make deferral contributions under the Dollars & Sense Plan due to the application of either Code Section 401(a)(17) or 402(g).

2.10 "INCENTIVE COMPENSATION" shall mean the stock portion of any amount awarded to a Participant under the Company's Key Employee Incentive Compensation Program or other executive incentive compensation arrangement maintained by the Company. The stock portion of the award shall be considered Incentive Compensation in an amount equal to its cash equivalent at the time of conversion of the award from cash to stock. A Participant's Incentive Compensation shall be determined on an annual basis and shall, for purposes of this Plan, be allocated to the year in which the award is paid to the Participant.

2.11 "LEAVE OF ABSENCE" shall mean any extraordinary absence authorized by the Employer under the Employer's standard personnel practices.

2.12 "NORMAL RETIREMENT AGE" shall mean age sixty-five (65).

2.13 "NORMAL RETIREMENT DATE" shall mean the first day of the month coincident with or next following a Participant's sixty-fifth (65th) birthday.

2.14 "PARTICIPANT" shall mean any officer of the Company, any Subsidiary thereof, and any designated affiliate, who is granted participation in the Plan in accordance with the provisions of Article III.

2.15 "PLAN" shall mean the Century Telephone Enterprises, Inc. Supplemental Dollars & Sense Plan, as amended and restated herein.

2.16 "PLAN YEAR" shall mean the calendar year.

2.17 "SUBSIDIARY" shall mean any corporation in which the Company owns, directly or indirectly through subsidiaries, at least fifty percent (50%) of the combined voting power of all classes of stock.

### III. Participation

3.01 Any officer who is either one of the key employees of the Employer in a position to contribute materially to the continued growth and future financial success of the Employer, or one who has made a significant contribution to the Employer's operations, thereby meriting special recognition, shall be eligible to participate provided the following requirements are met:

- a. The officer is employed on a full-time basis by the Company, any Subsidiary thereof, or any designated affiliate;
- b. The officer is compensated for full-time employment by a regular salary;
- c. The coverage of the officer is duly approved by the Committee.

It is intended that participation in this Plan shall be extended only to those officers who are members of a select group of management and highly compensated employees, as determined by the Committee.

### IV. Accounts and Investments

4.01 An Account shall be established on behalf of each Participant who receives an allocation pursuant to Article VI hereof. Each Participant's Account shall be credited with such allocation, and earnings and gains on his Account Balance, and shall be debited with distributions, losses, and any expenses properly chargeable thereto.

4.02 Each Participant shall have the same rights with respect to investment of amounts in his Account hereunder as are available from time to time under the Dollars & Sense Plan, as to permissible investment funds, except as provided below. Investment in the Century Stock Fund and the Stagecoach Bond Index Fund will not be available under the Plan. The investment rights of each Participant hereunder shall extend to all amounts in his Account, including deferral contributions and matching contributions.

4.03 The Accounts of Participants in the Plan shall be revalued as of the last day of each calendar quarter, and each Participant shall be furnished with a statement of his Account, in such form as the Committee shall determine, within a reasonable period of time after the end of each quarter.

### V. Participant Salary Deferrals

5.01 Each Participant shall make separate written elections, prior to the first day of each Plan Year (or, as to Participants who first become Participants as of a day other than January 1, prior to such date) to defer a portion of his (i) Excess Salary and/or (ii) Incentive Compensation. The amount of allowable deferral pursuant to each of the Participant's elections shall be a whole percentage, not to exceed twelve percent (12%). An election to defer Excess Salary shall provide for a deferral to be made from each paycheck. An election to defer Incentive Compensation shall provide for a deferral to be made from the bonus check representing the cash portion of such award.

5.02 Any agreement made under the terms of Section 5.01 shall be irrevocable until the succeeding January 1, except that a salary deferral election under the terms of this Plan may be changed, amended or suspended at the same time and in the same manner as elections under the Dollars & Sense Plan.

5.03 If a Participant does not make new elections for a succeeding Plan Year under Section 5.01, his elections in effect for the current Plan Year shall be deemed to continue in force and effect as if made for such succeeding Plan Year.

### VI. Allocations to Participant's Accounts

6.01 The Employer shall allocate to each Participant's Account the amount of Excess Salary and/or Incentive Compensation deferred by such Participant pursuant to an election made under Section 5.01. The allocation hereunder shall be made as of the date of the paycheck or bonus check to which the deferral by the Participant relates.

6.02 The Employer shall allocate a matching contribution to each Participant's Account under this Plan each Plan Year equal to the total matching percentage (including matching and additional matching contributions) for the year provided by the Dollars & Sense Plan multiplied by the Participant's deferrals under this Plan not in excess of six percent (6%) of the Participant's Excess Salary and/or Incentive Compensation, applied to each separately.



## VII. Vesting of Account

7.01 A Participant's Account Balance shall be fully vested at all times.

## VIII. Time of Payment and Beneficiaries

8.01 Except as provided in Section 8.02, a Participant's Account Balance is payable upon termination of employment.

8.02 Payment of the Account Balance of a deceased Participant shall commence within ninety (90) days after his death, and shall be made to his beneficiary designated on a form provided for such purpose by the Plan Administrator. If the Participant fails to designate a beneficiary, his Account Balance shall be payable to his surviving spouse or, if none, to his surviving child or children (or legal representative of any minor child or child who has been declared incompetent or incapable of handling his affairs) in equal shares. The Account Balance of a Participant who dies leaving no spouse or children shall be paid to his estate.

## IX. Form of Benefit Payment

9.01 The normal form of payment of a Participant's Account Balance is a lump sum cash payment.

9.02 A Participant may, prior to termination of employment, elect to receive payment of his Account Balance in monthly, quarterly, or annual cash installments of approximately equal amounts, over a period not to exceed ten (10) years.

## X. Additional Restrictions on Benefit Payments

10.01 In no event will there be a duplication of benefits payable under the Plan because of employment by more than one participating Employer.

## XI. Administration and Interpretation

11.01 The Plan shall be administered by the Board of Directors of the Company through a Committee which shall consist of three or more members of such Board. No individual who is or has ever been a member of the Committee shall be eligible to be designated as a participant or receive payments under this Plan. The Committee shall have full power and authority to interpret and administer the Plan and, subject to the provisions herein set forth, to prescribe, amend and rescind rules and regulations and make all other determinations necessary or desirable for the administration of the Plan. The Board may from time to time appoint additional members of the Committee or remove members and appoint new members in substitution for those previously appointed and to fill vacancies however caused.

11.02 The decision of the Committee relating to any question concerning or involving the interpretation or administration of the Plan shall be final and conclusive, and nothing in the Plan shall be deemed to give any employee any right to participate in the Plan, except to such extent, if any, as the Committee may have determined or approved pursuant to the provisions of the Plan.

## XII. Nature of the Plan

12.01 Benefits under the Plan shall generally be payable by the Company from its own funds, and such benefits shall not (i) impose any obligation upon the trust(s) of the other employee benefit programs of the Company; (ii) be paid from such trust(s); nor (iii) have any effect whatsoever upon the amount or payment of benefits under the other employee benefit programs of the Company. Participants have only an unsecured right to receive benefits under the Plan from the Company as general creditors of the Company. The Company may deposit amounts in a trust established by the Company for the purpose of funding the Company's obligations under the Plan. Participants and their beneficiaries, however, have no secured interest or special claim to the assets of such trust, and the assets of the trust shall be subject to the payment of claims of general creditors of the Company upon the insolvency or bankruptcy of the Company, as provided in the trust.

## XIII. Employment Relationship

13.01 An employee shall be considered to be in the employment of the Employer as long as he remains an employee of either the Company, any Subsidiary of the Company, any designated affiliate, or any corporation to which substantially all of the assets and business of any of such entities are transferred. Nothing in the adoption of this Plan nor the designation of any Participant shall confer on any employee the right to continued employment by the Employer, or affect in any way the right of the Employer to terminate his employment at any time. Any question as to whether and when there has been a termination of an employee's employment, and the cause, notice or other circumstances of such termination, shall be determined by the Board, and its determination shall be final.

## XIV. Amendment and Termination of Plan

14.01 The Board of Directors of the Company in its sole discretion may terminate the Plan at any time and shall have the right to alter or amend the Plan or any part thereof from time to time, except that the Board of Directors shall not terminate the Plan or make any alteration or

amendment thereto which would impair the rights of a Participant previously accrued.

#### XV. Binding Effect

15.01 This Plan shall be binding on the Company, each Subsidiary and any designated affiliate, the successors and assigns thereof, and any entity to which substantially all of the assets or business of the Company, a Subsidiary, or a designated affiliate are transferred.

#### XVI. Reimbursement of Participants

16.01 The Company shall reimburse any Participant, or beneficiary thereof, for all expenses, including attorney's fees, actually and reasonably incurred by the Participant or beneficiary in any proceeding to enforce any of his rights under this Plan.

#### XVII. Construction

17.01 The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, and the singular may indicate the plural, unless the context clearly indicates the contrary. The words "hereof", "herein", "hereunder" and other similar compounds of the word "here" shall, unless otherwise specifically stated, mean and refer to the entire Plan, not to any particular provision or Section. Article and Section headings are included for convenience of reference and are not intended to add to, or subtract from, the terms of the Plan.

IN WITNESS WHEREOF, Century Telephone Enterprises, Inc. has executed this Plan this 29th day of December, 1998.

ATTEST:  
/s/ Linda Vaughn  
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CENTURY TELEPHONE ENTERPRISES, INC.  
By: /s/ R. Stewart Ewing, Jr.  
-----  
R. Stewart Ewing, Jr.  
Senior Vice President and  
  
Chief Financial Officer

**Exhibit 10.1(y)**  
**CENTURY TELEPHONE ENTERPRISES, INC.**  
**SUPPLEMENTAL DEFINED BENEFIT PLAN**

**I. Purpose of the Plan**

This Supplemental Defined Benefit Plan (the "Plan") is intended to provide Century Telephone Enterprises, Inc. (the "Company") and its subsidiaries a method for attracting and retaining key employees; to provide a method for recognizing the contributions of such personnel; and to promote executive and managerial flexibility, thereby advancing the interests of the Company and its stockholders. In addition, the Plan is intended to provide to a select group of management and highly compensated employees a more adequate level of retirement benefits in combination with the Company's general retirement program. The Plan is not intended to constitute a qualified plan under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and is designed to be exempt from the participation, vesting, funding and fiduciary responsibility rules of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

**II. Definitions**

As used in this Plan, the following terms shall have the meanings indicated, unless the context otherwise specifies or requires:

2.01 "ACTUARIAL EQUIVALENT" shall mean the amount of pension of a different type or payable at a different age that has the same value as computed by the Actuary on the same basis as that prescribed in Section 10.09 of the CenturyTel Retirement Plan.

2.02 "BENEFIT YEARS" shall mean years of service for benefit accrual purposes as determined under Section 3.06 of the CenturyTel Retirement Plan.

2.03 "BOARD OF DIRECTORS" shall mean not less than a quorum of the whole Board of Directors of Century Telephone Enterprises, Inc.

2.04 "CHANGE IN CONTROL" shall mean the occurrence of any of the following

(i) the acquisition by any "person" (as such term is used in Section 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")), other than the Company or any employee benefit plan or related trust or affiliate of the Company or its subsidiaries, of beneficial ownership (as defined in Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities entitled to vote generally in the election of directors, but not including any acquisition directly from the Company; (ii) the consummation of a merger, consolidation, reorganization, share exchange, or sale or other disposition of all or substantially all of the assets of the Company unless, immediately thereafter, at least 50% of the outstanding voting power of the surviving or successor corporation, or, if applicable, the parent company thereof (the "Surviving Company"), are owned by the Company's shareholders immediately prior to such time, at least a majority of the directors of the Surviving Company were directors of the Company at the time such transaction was approved, and no person or entity (excluding any employee benefit plan or related trust of the Company or the Surviving Company and any person or entity that was a shareholder of the Company immediately prior to such time) beneficially owns 20% or more of the outstanding voting power of the Surviving Company; (iii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board of Directors of the Company cease for any reason to constitute at least a majority thereof, unless the election of each director who was not a director at the beginning of such period shall have been approved in advance by directors representing at least two-thirds of the directors then in office who were directors at the beginning of the period; or (iv) the approval by the Company's shareholders of a complete liquidation or dissolution of the Company.

2.05 "COMMITTEE" shall mean three or more members of the Board of Directors as described in Section 13.01 of the Plan, or the Board if no Committee has been appointed.

2.06 "COMPANY" shall mean Century Telephone Enterprises, Inc., any Subsidiary thereof, and any affiliate designated by the Company as a participating employer under this Plan.

2.07 "EFFECTIVE DATE" of this Plan shall be January 1, 1999.

2.08 "EMPLOYER" shall mean Century Telephone Enterprises, Inc., any Subsidiary thereof, and any affiliate designated by the Company as a participating employer under this Plan.

2.09 "FINAL AVERAGE PAY" shall mean a participant's average monthly compensation as determined under Section 6.02-3 of the CenturyTel Retirement Plan, without taking into account the limitation contained in Section 6.02-4(e) thereof.

2.10 "NORMAL RETIREMENT DATE" shall mean the first day of the month coincident with or next following a Participant's 65th birthday.

2.11 "PARTICIPANT" shall mean any officer of the Employer who is granted participation in the Plan in accordance with the provisions of Article III.

2.12 "PLAN" shall mean the Century Telephone Enterprises, Inc. Supplemental Defined Benefit Plan.

2.13 "SOCIAL SECURITY COVERED COMPENSATION" shall mean the amount determined pursuant to Section 6.02-5 of the CenturyTel Retirement Plan.

2.14 "SUBSIDIARY" shall mean any corporation in which the Company owns, directly or indirectly through subsidiaries, at least fifty percent (50%) of the combined voting power of all classes of stock.

### III. Participation

Any officer who is either one of the key employees of the Company in a position to contribute materially to the continued growth and future financial success of the Company, or one who has made a significant contribution to the Company's operations, thereby meriting special recognition, shall be eligible to participate provided the following requirements are met:

a. The officer is employed on a full-time basis by Century Telephone Enterprises, Inc., any Subsidiary thereof, or any affiliate designated by the Company as a participating employer under this Plan.

b. The officer is compensated for full-time employment by a regular salary;

c. The coverage of the officer is duly approved by the Committee.

It is intended that participation in this Plan shall be extended only to those officers who are members of a select group of management and highly compensated employees, as determined by the Committee.

### IV. Normal Retirement

4.01 The monthly retirement benefit payable to a Participant on his Normal Retirement Date shall be the excess of an amount determined pursuant to Section 6.02 of the CenturyTel Retirement Plan, computed without taking into account the limitation contained in Section 6.02-4(e) thereof, over the amount so determined taking into account such limitation.

### V. Late Retirement

5.01 If a Participant remains employed beyond his Normal Retirement Date, his late retirement date will be the first day of the month coincident with or next following his actual date of retirement.

5.02 A Participant's late retirement benefit shall be the excess of an amount determined pursuant to Section 6.04 of the CenturyTel Retirement Plan, computed without taking into account the limitation contained in Section 6.02-4(e) thereof, over the amount so determined taking into account such limitation.

### VI. Early Retirement

6.01 A Participant who has attained age 55, and who has completed 5 or more Years of Service, is eligible for early retirement. An eligible Participant's early retirement date is the first day of the month coincident with or next following the date he terminates employment.

6.02 A Participant's early retirement benefit shall be the excess of an amount determined pursuant to Section 6.03 of the CenturyTel Retirement Plan, computed without taking into account the limitation contained in Section 6.02-4(e) thereof, over the amount so determined taking into account such limitation, payable at such time as the Participant elects pursuant to Section 6.03-2 of the CenturyTel Retirement Plan.

6.03 A Participant may elect to receive his early retirement benefit prior to Normal Retirement Date, in which event the benefit payable will be reduced according to the schedules contained in Section 6.03-1 of the CenturyTel Retirement Plan.

### VII. Disability

7.01 A Participant who becomes disabled, as determined under Section 6.12-2 of the CenturyTel Retirement Plan, prior to retirement or termination of service will be entitled to a disability benefit equal to the excess of an amount determined pursuant to Section 6.12 of the CenturyTel Retirement Plan, computed without taking into account the limitation contained in Section 6.02-4(e) thereof, over the amount so determined taking into account such limitation.

7.02 A Participant's disability benefit will commence at his Normal Retirement Date.

### VIII. Death Benefit for Spouse

8.01 Upon the death of a Participant who meets the requirements set forth in Section 6.11-1 of the CenturyTel Retirement Plan, the spouse of the Participant will be entitled to receive a death benefit determined in accordance with Section 8.02.

8.02 The monthly death benefit payable to the spouse of a Participant shall be the excess of an amount determined pursuant to Section 6.11 of the CenturyTel Retirement Plan, computed without taking into account the limitation contained in Section 6.02-4(e) thereof, over the amount so determined taking into account such limitation.

8.03 The death benefit shall be paid to the surviving spouse at such time and in such form as prescribed by Sections 6.11-2 through 6.11-4 of the CenturyTel Retirement Plan.

8.04 If a Participant has no surviving spouse at the date of his or her death, no death benefit shall be paid under this Plan.

IX. Reemployment after Retirement

If a Participant retires and commences receiving benefits under the Plan, and is later rehired by the Company, benefit payments shall be withheld and shall recommence in accordance with Section 6.13 of the CenturyTel Retirement Plan.

X. Termination of Service; Change in Control

10.01 If a Participant terminates service prior to death, disability or retirement, he shall be entitled only to vested accrued benefits at the time of termination and shall be vested in accrued benefits in accordance with the following schedule:

Years of Service	Vested %
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less than 5	0%
5 or more	100%

10.02 A Participant's vested Accrued Benefit shall be equal to the excess of an amount determined pursuant to Sections 7.02 through 7.04 of the CenturyTel Retirement Plan, computed without taking into account the limitation contained in Section 6.02-4(e) thereof, over the amount so determined without taking into account such limitation. The amount so determined shall be payable in the manner prescribed in Sections 7.02 through 7.04 of the CenturyTel Retirement Plan, and forfeitures of nonvested benefits shall be determined pursuant to Section 7.04 of the CenturyTel Retirement Plan.

10.03 (a) Notwithstanding anything to the contrary in this Plan or in any applicable law or regulation, upon the earlier of (i) the occurrence of a Change in Control, (ii) the date that any person or entity submits an offer or proposal to the Company that results in or leads to a Change in Control (whether by such person or any other person) or (iii) the date of the public announcement of a Change in Control or an offer, proposal or proxy solicitation that results in or leads to a Change in Control (whether by the person or entity making such announcement or any other person) (the earliest of such dates being hereinafter referred to as the "Effective Date"), the Accrued Benefit of each Participant (other than any Participant whose service as an employee was terminated prior to full vesting of his Accrued Benefit under Section 10.01) and the benefits conferred under this Section shall automatically vest and thereafter may not be adversely affected in any matter without the prior written consent of the Participant. Notwithstanding anything to the contrary in this Plan, upon the occurrence of a Change in Control any Participant who is then employed by Century or its subsidiaries ("Active Participants") shall have an irrevocable right to receive, and the Company shall be irrevocably obligated to pay, a lump sum cash payment in an amount determined pursuant to this Section if the Company or its successor, during a period commencing upon the Effective Date and ending on the third anniversary of the occurrence of the Change in Control, (i) terminates the Active Participant's employment, (ii) reduces the Active Participant's salary in effect immediately prior to the Effective Date, (iii) diminishes the Active Participant's duties, responsibilities or position in the management of the Company or (iv) requires the Active Participant to relocate involuntarily to an office outside of the city in which he performed his services for the Company immediately prior to the Effective Date (each such action being referred to as an "Effective Termination"). The lump sum cash payment payable to Active Participants under this Section (the "Lump Sum Payment") shall be paid on the date of Effective Termination or as soon thereafter as is administratively feasible.

(b) The amount of each Lump Sum Payment shall be determined as follows:

(i) With respect to any Active Participant who, after giving effect to the terms of subsection (b)(iv) below, is eligible as of the date of Effective Termination to receive benefits under Articles IV or V of this Plan, the Lump Sum Payment shall equal the Present Value (as defined below) of the stream of payments to which such participant would have otherwise been entitled to receive immediately upon Effective Termination in accordance with Articles IV or V of this Plan (assuming such benefits are paid in the form of a lifetime annuity), based upon such participant's Final Average Pay, Social Security Covered Compensation and Benefit Years as of the date of Effective Termination, without giving effect to any salary reductions that gave rise to such Effective Termination, but after giving effect to the terms of subsection (b)(iv) below.

(ii) With respect to any Active Participant who, after giving effect to the terms of subsection (b)(iv) below, is not eligible as of the date of Effective Termination to receive benefits under Articles IV, V or VI of this Plan, the Lump Sum Payment shall equal the product of (A) the Present Value, calculated as of age 65, of the stream of payments to which such participant would have otherwise been entitled to receive at age 65 in accordance with the terms of this Plan based on the same assumptions and terms set forth in subsection (b)(i) above, multiplied times (B) such discount factor as is necessary to reduce the amount determined under subsection (b)(ii)(A) above to its Present Value, it being understood that in calculating such discount factor, no discount shall be applied to reflect the possibility that such participant may die prior to attaining age 65.

(iii) With respect to any Active Participant who, after giving effect to the terms of subsection (b)(iv) below, is eligible as of the date of Effective Termination to receive benefits under Article VI of the Plan, the Lump Sum Payment shall equal the greater of (A) the Present Value of the stream of payments to which such participant would have otherwise been entitled to receive immediately upon Effective Termination in accordance with Article VI of this Plan, based upon the assumptions and terms set forth in subsection (b)(i) above, or (B) the Present Value, calculated as of age 65, of the stream of payments to which such participant would otherwise be entitled to receive at age 65 in accordance with this Plan, determined in the same manner and subject to the same assumptions and terms set forth in subsection (b)(ii) above.

(iv) In calculating the Lump Sum Payment due to any Active Participant under this Section, the number of years of Benefit Years of the Active Participant shall be deemed to equal the number of years determinable under the other sections of this Plan plus three years and the Active Participant's age shall be deemed to equal his actual age plus three years; provided, however, that in no event shall the provisions of this subsection be applicable if the application thereof will reduce the Active Participant's Lump Sum Payment from the amount that would otherwise be payable with the addition of less than three years of service, age or both.

(v) As used in this Section with respect to any amount, the "Present Value" of such amount shall mean the discounted value of such amount that is determined by making customary present value calculations in accordance with generally accepted actuarial principles, provided that (A) the discount interest rate applied in connection therewith shall equal the interest rate quoted by the Bloomberg Municipal AAA General Obligation 5-Year Index (as of the close of business on the first business day of the calendar quarter in which such present value calculations are made) or, in the event such index is no longer published, any similar index for comparable municipal securities and (B) the mortality table applied in connection therewith shall be the mortality table prescribed by the Commissioner of Internal Revenue under Section 417(e)(3)(A)(ii) (I) of the Internal Revenue Code or any successor table prescribed by such organization.

(c) Notwithstanding anything to the contrary in this Plan, upon the sooner of the occurrence of a Change in Control or the approval by the Board of Directors of the Company of any Change in Control, the Company shall promptly consult with each Participant who has already begun to receive periodic payments under this Plan ("Retired Participants") and, following such consultations, the Company shall have the option with respect to each Retired Participant to (i) confirm in writing its obligation to continue to provide to such Retired Participant all benefits hereunder in the same manner provided prior to the Change in Control or (ii) make a lump sum cash payment in an amount equal to the Present Value of the participant's future stream of payments which would otherwise be payable under this Plan. If the Company elects to furnish any Retired Participant with a lump sum cash payment, the Company shall offer to assist such participant in purchasing at such participant's cost an annuity for the benefit of such participant.

(d) Notwithstanding anything to the contrary in this Plan, upon the occurrence of Change in Control, any Participant (other than a Retired Participant) who is then a former employee of Century or its subsidiaries whose Accrued Benefit is vested under Section 10.01 ("Inactive Participants") shall have an irrevocable and unconditional right to receive, and the Company shall be irrevocably and unconditionally obligated to pay, a lump sum payment in an amount determined in the manner provided in subsection (b)(ii) or (iii), as applicable; provided, however, that no Inactive Participant will be entitled to the benefits of subsection (b)(iv).

## XI. Form of Benefit Payment

11.01 The normal form of benefit payment is a monthly lifetime annuity, payable in accordance with the Company's standard payroll practices, with payments commencing as of the first day of the month following the month in which the distributable event occurs.

11.02 A Participant may, prior to commencement of participation in the Plan, elect an optional form of payment which is the Actuarial Equivalent of a Participant's basic monthly pension, as follows:

Option 1: A reduced monthly pension payable for the lifetime of the Participant with a minimum of sixty (60) monthly payments guaranteed.

Option 2: A reduced monthly pension payable for the lifetime of the Participant with a minimum of one hundred twenty (120) monthly payments guaranteed.

Option 3: A reduced monthly pension payable for the lifetime of the Participant with a minimum of one hundred eighty (180) monthly payments guaranteed.

Option 4: A reduced monthly pension, payable to the Participant for the life of the Participant, with monthly payments of one-half (1/2) the reduced amount that was payable monthly to the Participant payable after the Participant's death for the life of the Participant's spouse.

Option 5: A reduced monthly pension payable to the Participant for the life of the Participant, with reduced monthly payments of two thirds ( $\frac{2}{3}$ ) of the reduced amount that was payable monthly to the Participant payable after the Participant's death for the life of the Participant's spouse.

Option 6: A reduced monthly pension payable to the Participant for the life of the Participant, with reduced monthly payments of three fourths ( $\frac{3}{4}$ ) of the reduced amount that was payable monthly to the Participant payable after the Participant's death for the life of the Participant's spouse.

Option 7: A reduced monthly pension payable to the Participant for the life of the Participant, with the same monthly pension payable after the Participant's death for the life of the Participant's spouse.

11.03 If a Participant does not elect an optional form of benefit payment under Section 11.02 prior to the commencement of participation in the Plan, such Participant's benefits shall be paid in the normal form provided in Section 11.01.

## XII. Additional Restrictions on Benefit Payments

In no event will there be a duplication of benefits payable under the Plan because of employment by more than one participating Employer.

## XIII. Administration and Interpretation

13.01 The Plan shall be administered by the Board of Directors through a Committee which shall consist of three or more members of the Board of Directors of the Company. No individual who is or has ever been a member of the Committee shall be eligible to be designated as a participant or receive payments under this Plan. The Committee shall have full power and authority to interpret and administer the Plan and, subject to the provisions herein set forth, to prescribe, amend and rescind rules and regulations and make all other determinations necessary or desirable for the administration of the Plan. The Board may from time to time appoint additional members of the Committee or remove members and appoint new members in substitution for those previously appointed and to fill vacancies however caused.

13.02 The decision of the Committee relating to any question concerning or involving the interpretation or administration of the Plan shall be final and conclusive, and nothing in the Plan shall be deemed to give any employee any right to participate in the Plan, except to such extent, if any, as the Committee may have determined or approved pursuant to the provisions of the Plan.

## XIV. Nature of the Plan

Benefits under the Plan shall generally be payable by the Company from its own funds, and such benefits shall not (i) impose any obligation upon the trust(s) of the other employee benefit programs of the Company; (ii) be paid from such trust(s); nor (iii) have any effect whatsoever upon the amount or payment of benefits under the other employee benefit programs of the Company. Participants have only an unsecured right to receive benefits under the Plan from the Company as general creditors of the Company. The Company may deposit amounts in a trust established by the Company for the purpose of funding the Company's obligations under the Plan. Participants and their beneficiaries, however, have no secured interest or special claim to the assets of the trust, and the assets of the trust shall be subject to the payment of claims of general creditors of the Company upon the insolvency or bankruptcy of the Company, as provided in the trust.

## XV. Employment Relationship

An employee shall be considered to be in the employment of the Company and its subsidiaries as long as he remains an employee of either the Company, any Subsidiary of the Company, or any corporation to which substantially all of the assets and business of the Company are transferred. Nothing in the adoption of this Plan nor the designation of any Participant shall confer on any employee the right to continued employment by the Company or a Subsidiary of the Company, or affect in any way the right of the Company or such Subsidiary to terminate his employment at any time. Any question as to whether and when there has been a termination of an employee's employment, and the cause, notice or other circumstances of such termination, shall be determined by the Board, and its determination shall be final.

## XVI. Amendment and Termination of Plan

The Board of Directors of the Company in its sole discretion may terminate the Plan at any time, and shall have the right to alter or amend the Plan or any part thereof from time to time, except that the Board of Directors shall not terminate the Plan or make any alteration or amendment thereto which would impair any rights or benefits of a Participant previously accrued.

This Plan shall be binding on the Company, each Subsidiary, and any affiliate designated by the Company as a participating employer under this Plan, the successors and assigns thereof, and any entity to which substantially all of the assets or business of the Company, a Subsidiary, or a participating affiliate are transferred.

## XVIII. Reimbursement to Participants

The Company shall reimburse any Participant, or beneficiary thereof, for all expenses, including attorney's fees, actually and reasonably incurred by the Participant or beneficiary in any proceeding to enforce any of their rights under this Plan.

## XIX. Construction

The masculine gender, where appearing in the Plan, shall be deemed to include the feminine gender, and the singular may indicate the plural, unless the context clearly indicates the contrary. The words "hereof", "herein", "hereunder" and other similar compounds of the word "here" shall, unless otherwise specifically stated, mean and refer to the entire Plan, not to any particular provision or Section. Article and Section headings are included for convenience of reference and are not intended to add to, or subtract from, the terms of the Plan.

IN WITNESS WHEREOF, Century Telephone Enterprises, Inc. has executed this Plan in its corporate name and its corporate seal to be hereunto affixed this 31st day of December, 1998.

ATTEST:  
/s/ Linda Vaughn  
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CENTURY TELEPHONE ENTERPRISES, INC.  
By: /s/ R. Stewart Ewing, Jr.  
R. Stewart Ewing, Jr.  
Senior Vice President and  
Chief Financial Officer



**Exhibit 10.1(z)**

**CENTURYTEL RETIREMENT PLAN**

**1999 RESTATEMENT**

January 1, 1999

Century Telephone Enterprises, Inc.  
100 Century Park Boulevard  
Monroe, Louisiana 71203 Company

**CENTURYTEL**

**RETIREMENT PLAN**

**1999 RESTATEMENT**

January 1, 1999

(As Amended And Restated)

Century Telephone Enterprises, Inc.  
100 Century Park Boulevard  
Monroe, LA 71203 Company

The Company maintains this Retirement Plan, formerly the Pacific Telecom Retirement Plan, most recently restated effective January 1, 1990. The Plan exists for the exclusive benefit of eligible employees and is intended to comply with Sections 401 and 501 of the Internal Revenue Code and applicable regulations.

To change the sponsoring employer of the Plan and the name of the Plan, to make conforming changes to coordinate the Plan with other plans maintained by the Company, and to comply with other changes in applicable law and regulations, the Company adopts this document as a complete amendment and restatement of the Plan as previously in effect (the Prior Plan).

**ARTICLE I**

**Effective Date; Qualification**

**1.01 Effective Date; Plan Year**

1.01-1 The effective date of this Amendment and Restatement is January 1, 1999, except as otherwise indicated herein with respect to specific provisions hereof.

1.01-2 The rights of participants who do not have Hours of Service on or after January 1, 1999 and of their beneficiaries are controlled by the Prior Plan, and the right of all other participants and beneficiaries are controlled by this Amendment and Restatement, except as follows:

(a) Service before January 1, 1976 that would be disregarded due to a Break in Service rule of the Prior Plan as in effect before that date shall not be counted.

(b) Special increases in benefits payable to retirees and beneficiaries under the Prior Plan shall apply to retirees without an Hour of Service on or after the effective date of the Prior Plan and their beneficiaries.

(c) The responsibilities of the Company and the Committee and the procedures for applying for benefits, processing claims and withholding benefits on reemployment, as provided in this Amendment and Restatement, shall apply to all participants.

1.01-3 The Plan Year and limitation year shall be the calendar year.

**1.02 Qualification**

If the Commissioner of Internal Revenue determines that this Amendment and Restatement does not qualify under Section 401(a) of the Internal Revenue Code, the Company may amend the Plan retroactively to qualify.

## **ARTICLE IIARTICLE II**

### **Application to the Company and Affiliates**

#### **2.01 Eligible Employers**

2.01-1 The Company has adopted and any affiliate approved by the Company may adopt this Plan for its employees.

2.01-2 "Affiliate" means a corporation, person or other entity that is one of the following:

(a) A member, with an Employer, of a controlled group under Section 414(b) of the Internal Revenue Code.

(b) A member, with an Employer, of a group of trades or businesses under common control under Section 414(c) of the Internal Revenue Code.

(c) A member, with an Employer, of an affiliated service group under Section 414(m) of the Internal Revenue Code.

2.01-3 "Employer" means the Company and any adopting affiliate. This Plan is a single plan maintained by multiple employers in which all of the Plan assets are available to pay benefits for all participants.

2.01-4 Employees of the following Affiliates are not eligible to participate in this Plan:

(a) Century Business Communications, Inc.

(b) Century Interactive Communications, Inc.

(c) CenturyTel Security Systems, Inc.

2.01-5 The Prior Plan was maintained for the benefit of employees of Pacific Telecom, Inc. and its affiliates. Pacific Telecom, Inc. was previously the sponsoring "Company" of this Plan. Effective January 1, 1999, Century Telephone Enterprises, Inc. is the sponsoring "Company" herein, and except as otherwise provided in the Plan, employees of Century Telephone Enterprises, Inc. and its Affiliates are eligible to participate in this Plan effective January 1, 1999.

#### **2.02 Service for Affiliates**

2.02-1 Transfer of employment from one Affiliate to another shall not constitute a termination of employment.

2.02-2 Work for an Affiliate shall be counted as Service after the date of affiliation or an earlier date fixed by the Company in a statement of adoption.

2.02-3 Except as provided below, Years of Service shall be counted under Article III during employment with the Company or any Affiliate, whether or not an Employer, and Benefit Years shall be counted under 3.06 during Service with an Employer and during Service with a nonadopting Affiliate if the obligation to pay benefits for such Affiliate Service is assumed from a plan maintained by the Affiliate. Benefit Years shall be counted for Service with Century Telephone Enterprises, Inc. or any Affiliate effective January 1, 1999. An assumption of benefit obligation shall be stated in writing by the Company, filed with the Retirement Committee and announced to employees.

2.02-4 If a business is acquired by the Company or an Affiliate and not continued as a separate incorporated entity, Service for employees of the acquired business who become employees of the Company or the acquiring Affiliate shall be counted from their date of hire by the Company or the Affiliate. Past service for the acquired business may be counted for eligibility or benefits from dates fixed by the Company, filed with the Retirement Committee and announced to affected employees.

#### **2.03 Adoption Procedure**

An Affiliate may adopt this Plan by a statement in writing, signed by the Affiliate and approved by the Company. The statement shall include the effective date of adoption and any special provisions that are to be applicable only to employees of the adopting Affiliate.

## **ARTICLE IIIARTICLE III**

### **Eligibility and Service**

#### **3.01 Conditions of Eligibility**

3.01-1 Participation shall start the first of each month for each person who satisfies all of the following conditions:

- (a) Is a qualified employee of an Employer.
- (b) Has completed one Year of Service.
- (c) Is age 21 or over.

3.01-2 "Qualified employee" means any employee except the following:

- (a) An employee covered by a collective bargaining agreement that does not provide for participation in this Plan.
- (b) A leased employee treated as an employee for pension purposes solely because of Section 414(n) of the Internal Revenue Code.
- (c) A "casual employee" as categorized in Employer's personnel policies, including generally workers who are on call, have no regular established work week and no fixed days or hours of work.

3.01-3 Every employee eligible to participate under this Plan or having a vested accrued benefit shall be known as a participant. The Committee shall furnish each participant with information about the Plan and benefits under it.

## 3.02 Service

3.02-1 "Service Year" means:

- (a) With respect to Service Years ending prior to January 1, 1999:
  - (i) For eligibility under 3.01 and Break in Service under 3.03 - an Employment Year.
  - (ii) For vesting under 7.01 - an Employment Year.
  - (iii) For accrual of benefits - an Employment Year.
- (b) With respect to Service Years commencing on or after January 1, 1999:
  - (i) For eligibility under 3.01 - an Employment Year.
  - (ii) For Break in Service under 3.03 - a Plan Year.
  - (iii) For vesting under 7.01 - a Plan Year.
  - (iv) For accrual of benefits - a Plan Year.

3.02-2 "Employment Year" means the twelve (12) month period starting on the date the employee first performs an Hour of Service or an anniversary of that date.

3.02-3 "Year of Service" means the following:

- (a) Each Service Year in which an employee has 1,000 or more Hours of Service is a Year of Service.
- (b) The 1,000-hour requirement shall be prorated (at the rate of 2.7 hours per calendar day) for the part year in which employment ends from death or retirement.

3.02-4 "Hours" for determining Service means the following:

- (a) Hours, whether or not worked, for which the participant is directly or indirectly paid or entitled to payment.
- (b) Regularly scheduled hours during leave of absence under 3.04 or layoff under 3.05.
- (c) Hours covered by a back pay award or agreement, regardless of mitigation of damages, unless already counted.
- (d) Hours paid for at or after termination of employment for unused vacation, holiday, sick leave, disability or jury duty.

3.02-5 The following shall apply to Hours of Service for periods not worked:

- (a) Hours shall be computed and attributed to Service Years in accordance with Department of Labor Regulations Sections 2530.200b-2(b) and (c).
- (b) Regularly scheduled hours during periods of disability when the individual is receiving payments from Employer or from an insurance company under a policy maintained by Employer shall be counted to the extent covered by 6.12.
- (c) Hours directly or indirectly paid for under 3.02-4(a) do not include hours during periods in which an individual receives payments solely under workers' compensation or unemployment compensation laws, regardless of the source of payment.

### 3.03 Break in Service

3.03-1 A Break in Service shall be determined as follows:

- (a) Subject to (b), a One-Year Break in Service is a Service Year in which an employee who has terminated employment has not more than 500 Hours of Service.
- (b) Regardless of Hours of Service, an employee absent because of maternity or paternity shall not, because of such absence, have a One-Year Break in Service until the second Service Year following the Service Year in which the absence begins, subject to (d) below.
- (c) Absence because of "maternity or paternity" means an absence from Service because of one or more of the following:
  - (1) Pregnancy.
  - (2) Birth of the employee's child or care following birth.
  - (3) Adoption of the employee's child or care following adoption or placement for adoption.
- (d) Paragraph (b) shall not apply unless the employee furnishes timely information satisfactory to the Committee to establish both of the following:
  - (1) That the absence was due to maternity or paternity.
  - (2) The length of such absence.

3.03-2 Intermittent periods of Service shall be aggregated until the participant has five consecutive One-Year Breaks in Service. If such a Break occurs and the employee has a later Year of Service, Service before the Break will be counted only if:

- (a) The employee had a vested interest before the Break.
- (b) The number of Years of Service before the Break is greater than the number of consecutive One-Year Breaks in Service.

3.03-3 If pre-Break Service is not counted under 3.03-2, the person shall be treated as newly hired. In any event, the first day of Service after rehire shall start a new Employment Year.

### 3.04 Leaves of Absence

3.04-1 Leaves of absence during which regularly scheduled Hours of Service accrue shall mean the following:

- (a) Leave of absence authorized by Employer if the employee returns within the time prescribed by Employer and otherwise fulfills all conditions imposed by Employer.
- (b) Absence because of disability under 6.12.
- (c) Periods of military service if the employee returns with employment rights protected by law.

3.04-2 In authorizing leaves of absence, Employer shall treat all employees similarly situated alike as much as possible.

3.04-3 If a person on leave fails to meet the conditions of the leave or fails to return to work when required, employment shall terminate and accrual of Service shall stop as of the date the leave began unless the failure is due to death or retirement.

### 3.05 Layoff

3.05-1 Regularly scheduled Hours of Service shall accrue during layoff subject to the rules below. An employee shall be considered laid off if separated from employment because of reduction of Employer's work force.

3.05-2 An employee shall continue as laid off, whether or not employed elsewhere, until one of the following occurs:

- (a) The employee retires, dies or resumes employment at the request of Employer.
- (b) Employer notifies the employee that employment has been terminated.
- (c) The employee elects to terminate employment, or the employee fails to report for work when recalled.
- (d) Twelve months have passed.

3.05-3 Termination of a layoff under 3.05-2(b),(c) or (d) shall be effective as of the date of the layoff.

### 3.06 Benefit Years

3.06-1 During a Year of Service, the following Hours of Service shall be Benefit Hours:

- (a) Hours on the payroll of Employer as a qualified employee.
- (b) Hours during leave of absence that Employer determines, in its sole discretion, is primarily for the benefit of Employer.
- (c) Hours during military service under 3.04-1(c).
- (d) Hours during disability for participants under 6.12-1(b).

3.06-2 For each Year of Service commencing prior to 1998, a participant shall be credited with up to one Benefit Year calculated by dividing Benefit Hours in the year by 2,080. For each Year of Service commencing in 1999 and thereafter, a participant shall be credited with one Benefit Year if the participant completes 1000 or more Benefit Hours. For the 1998 Plan Year, each participant's benefit service shall be determined pursuant to 3.07-4 below.

### 3.07 Short and Overlapping Computation Periods

3.07-1 For any short and/or overlapping computation period for vesting, break in service or benefit accrual purpose which arises due to the changes in Service Year under 3.02-1(b), the following rules shall apply.

3.07-2 For vesting purposes, a participant who is credited with 1000 Hours of Service in both the Service Year commencing in 1998 and the overlapping Service Year commencing January 1, 1999 shall be credited with two

(2) Years of Service for vesting purposes.

3.07-3 For Break in Service purposes, an employee who has terminated employment will have a One-Year Break in Service for each of the Service Years commencing in 1998 and commencing on January 1, 1999 if the employee has not more than 500 Hours of Service in such Service Years, respectively.

3.07-4 For benefit accrual purposes, a participant shall be credited with a pro-rata portion of a Benefit Year for the Service Year commencing in 1998 if the participant completes a pro-rated portion of 1000 Hours of Service by December 31, 1998. The pro-rated portion of the 1000-hour requirement shall be determined by multiplying the number of calendar days between the participant's employment anniversary date and December 31, 1998 times 2.7. Benefit Years shall be determined based on the Plan Year commencing January 1, 1999.

## ARTICLE IVARTICLE IV

### Plan AdministrationPlan Administration

#### 4.01 Retirement Committee

4.01-1 The Plan shall be administered by a Retirement Committee of three or more persons appointed by the Company. The Committee shall have a chair chosen from among its members and a secretary who need not be a member. Minutes shall be kept of all proceedings of the Committee. The Committee may act at a meeting by a majority vote of a quorum present or without a meeting by action recorded in a

memorandum signed by a majority of the members. A majority of members shall constitute a quorum.

4.01-2 Any member of the Committee may resign on 15 days' notice to the Company, and the Company may remove any Committee member without showing cause. All vacancies on the Committee shall be filled as soon as reasonably practicable. If a vacancy is not so filled, the number of members shall be reduced by the vacancy, but not below three. Until a new appointment is made, the remaining members of the Committee may act although less than a quorum.

4.01-3 The Trustee shall be given the names and specimen signatures of the Committee members, the chair and the secretary. The Trustee shall accept and rely on the names and signatures until notified of a change.

4.01-4 Documents may be signed for the Committee by the chair, the secretary or other persons designated by the Committee.

#### 4.02 Committee Powers and Duties

4.02-1 The Committee shall interpret the Plan, shall decide any questions about the rights of participants and their beneficiaries and in general shall administer the Plan. Any decision by the Committee within its authority shall be final and bind all parties. The Committee shall have absolute discretion to carry out its responsibilities.

4.02-2 The Committee shall be the Plan administrator under federal laws and regulations applicable to plan administration and shall comply with such laws and regulations. The secretary of the Committee shall be the agent for service of process on the Plan at the Company's address.

4.02-3 The Committee shall keep records of all relevant data about the rights of all persons under the Plan. The Committee shall determine the time, manner, amount and recipient of payment of pension benefits and medical benefits and the Service of any employee and instruct the Trustee on distributions. Any person having an interest under the Plan may consult a member of the Committee at any reasonable time.

4.02-4 The Committee shall allocate the assets of the Plan among investment pools created under the trust described in 5.04.

4.02-5 The Committee may delegate all or part of its administrative duties to one or more agents and may retain advisors to assist it. The Committee may consult with and rely upon the advice of counsel who may be counsel for the Company. The Committee shall retain an enrolled actuary and an independent public accountant for the Plan on behalf of the Plan.

#### 4.03 Claims Procedure

4.03-1 Any person claiming a pension benefit or medical benefit, requesting an interpretation or ruling under the Plan or requesting information under the Plan shall present the request in writing to the chair of the Committee, who shall respond in writing as soon as practicable.

4.03-2 If the claim or request is denied, the written notice of denial shall state:

(a) The reasons for denial, with specific reference to the Plan provisions on which the denial is based.

(b) A description of any additional material or information required and an explanation of why it is necessary.

(c) An explanation of the Plan's claim review procedure.

4.03-3 Any person whose claim or request is denied or who has not received a response within thirty (30) days may request review by notice given in writing to the chair of the Committee. The claim or request shall be reviewed by the Committee, who may, but shall not be required to, have the claimant appear before them. On review, the claimant may have representation, examine pertinent documents and submit issues and comments in writing.

4.03-4 The decision on review shall normally be made within sixty (60) days. If an extension is required for a hearing or other special circumstances, the claimant shall be so notified and the time limit shall be one hundred twenty (120) days. The decision shall be in writing and shall state the reasons and the relevant Plan provisions. All decisions on review shall be final and bind all parties concerned.

#### 4.04 Authority to Act for the Company or Employer

4.04-1 Except as provided in 4.04-2, all authority of the Company or any Employer under this Plan shall be exercised by the chief executive officer of the corporation who may delegate all or any part of such authority.

4.04-2 The power to amend or terminate the Plan or to terminate the trust may be exercised only by the Board of Directors of the Company or a designated committee thereof, except as provided in 4.04-3.

4.04-3 The chief executive officer of the Company may amend the Plan to make technical, administrative or editorial changes on advice of counsel to comply with applicable law or to simplify or clarify the Plan.

4.04-4 The Board of Directors of the Company or of an Employer shall have no administrative or investment authority or function. Membership on the Board shall not make a person a fiduciary with respect to the Plan.

#### 4.05 Expenses.05 Expenses

4.05-1 Members of the Committee shall not be compensated for services. The Committee shall be reimbursed for all expenses.

4.05-2 The Company may elect to pay any administrative fees or expenses. Otherwise the expenses and fees shall be paid from the trust fund.

### **ARTICLE V**

#### **Funding**

##### 5.01 Funding Policy

The Committee shall establish the funding policy in consultation with the Plan actuary and be responsible for management of assets in the fund as provided in 4.02-4. The funding policy shall fix a minimum and maximum contribution for each year.

##### 5.02 Contributions

5.02-1 Each Employer shall make contributions for its employees to fund pension benefits and may make contributions for its employees to fund medical benefits. The amount and time of payment shall be determined in conformance with the funding policy established by the Committee.

5.02-2 An Employer may suspend or reduce contributions in any year so long as the minimum requirements of the funding policy are satisfied.

5.02-3 No contribution by employees shall be required or permitted.

5.02-4 Contributions are conditioned upon deductibility under Section 404 of the Internal Revenue Code. To the extent a deduction is disallowed, 10.10 shall apply.

##### 5.03 Reports to Committee.03 Reports to Committee

Each Employer shall furnish the Committee any information requested by it for Plan administration and funding review.

##### 5.04 Trust Fund

5.04-1 Pension benefits and medical benefits under this Plan shall be funded through the CenturyTel Retirement Trust, established by agreement between Century Telephone Enterprises, Inc. and a Trustee. The Trustee shall receive Employer contributions, hold the fund in accordance with the trust agreement and distribute the pension benefits and medical benefits under this Plan as directed by the Committee.

5.04-2 All pension benefits and medical benefits shall be paid solely from the trust fund to the extent the fund is sufficient. If the fund is not sufficient, the Trustee shall not be liable for the unfunded pension benefits and medical benefits.

### **ARTICLE VIARTICLE VI**

#### **Retirement BenefitsRetirement Benefits**

##### 6.01 Eligibility; Retirement Dates

6.01-1 A person may retire with benefits under this Plan on termination of employment on or after early, normal or deferred retirement date as defined below.

6.01-2 Normal retirement date is age 65.

6.01-3 Early retirement date is any day after age 55 and 5 Years of Service.

6.01-4 Deferred retirement date is any day after normal retirement date.

## 6.02 Normal Retirement Basic Benefit

6.02-1 Except as provided in 6.02-1A and subject to 6.06, the basic benefit on normal retirement for a person retiring on or after January 1, 1990 is a monthly pension for the life of the participant equal to the greater of:

(a) the sum of:

(i) Benefit Years (BY) as of December 31, 1998, up to a maximum of thirty (30), times the sum of 1.3 percent of Final Average Pay (FAP) plus .65 percent of Final Average Pay in excess of Social Security Covered Compensation (SSCC) as follows:

$$\text{BY (up to 30) X } ((1.3\% \text{ X FAP}) + (.65 \text{ X (FAP-SSCC)})), \text{ and}$$

(ii) Benefit Years (BY) accrued after December 31, 1998, up to a maximum of thirty (30), taking into account Benefit Years under clause (i), above, first in determining the thirty (30) year maximum, times the sum of 0.50 percent of Final Average Pay plus 0.50 percent of Final Average Pay in excess of Social Security Covered Compensation (SSCC) as follows:

$$\text{BY (up to 30, taking into account benefit years under (i), above, first) X } ((0.50\% \text{ X FAP}) + (0.50\% \text{ X (FAP - SSCC)})).$$

(b) the greatest early retirement benefit the participant could have received.

6.02-1A For participants covered by a collective bargaining agreement which provides for participation in this Plan, and subject to 6.06, the basic benefit on normal retirement for a person retiring on or after January 1, 1990 is a monthly pension for the life of the participant equal to the greater of:

(a) Benefit Years (BY), up to a maximum of thirty (30), times the sum of 1.3 percent of Final Average Pay (FAP) plus .65 percent of Final Average Pay in excess of Social Security Covered Compensation (SSCC) as follows:

$$\text{BY (up to 30) X } ((1.3\% \text{ X FAP}) + (.65\% \text{ X (FAP-SSCC)})).$$

(b) the greatest early retirement benefit the participant could have received.

6.02-1B If a participant either becomes covered by a collective bargaining agreement which provides for participation in this Plan or ceases to be so covered, the participant's basic benefit shall be determined by applying 6.02-1 above to the time period during which the participant is not covered by a collective bargaining agreement which provides for participation in this Plan, and 6.02-1A above shall apply to the time period during which the participant is so covered. In the event a participant's basic benefit is determined under both 6.02-1 and 6.02-1A for periods within a single Plan year, the participant shall not be given duplicate credit under both 6.02-1 and 6.02-1A, but each such period shall be counted only once in determining the participant's basic benefit.

6.02-2 "Benefit Year" is defined in 3.06-2.

6.02-3 "Final Average Pay" means the participant's average monthly compensation in the sixty (60) consecutive calendar months of highest compensation in the last 120 calendar months of employment with the Company or an affiliate. Months separated by a period when the participant is not in such employment shall be treated as consecutive. If a participant has fewer than sixty (60) months of compensation, all months shall be used.

6.02-4 "Compensation" means the sum of (a) and (b), adjusted under (c), (d), and (e):

(a) All nondeferred compensation reportable on Form W-2 except the following:

(1) Overtime or premium pay.

(2) Imputed income from expense reimbursement or fringe benefits.

(3) Prizes and awards (such as employee recognition awards and safety awards).

(4) Payment for termination of employment (such as retirement bonuses, disability benefits and severance pay).

(5) Long-term incentive compensation.



(b) Salary reduction amounts elected by the participant under a qualified cash or deferred arrangement or a cafeteria plan.

(c) During periods of reduced compensation because of such causes as illness, disability or leave of absence, compensation shall be figured at the last regular rate before the start of the period.

(d) Full-time equivalent pay shall be used for persons working part time.

(e) The maximum amount of annual compensation taken into account for any year for a participant shall be \$150,000 plus any cost-of-living adjustment authorized for the year by applicable regulations. For Plan Years beginning before January 1, 1997, for purposes of this limit, the following shall apply to any participant who is a highly compensated employee (as defined in Internal Revenue Code Section 414(q) and related Treasury Regulations) and is either a five percent owner or one of the 10 highest paid employees:

(1) The participant's compensation shall be aggregated with any compensation paid by Employer to the participant's spouse and to the participant's lineal descendants under age 19.

(2) If the \$150,000 limit is exceeded in the aggregate, pay counted for each aggregated employee shall be reduced pro rata to stay within the limit.

(f) The reduction in the maximum compensation counted under

(e) to \$150,000 shall be made providing a participant with the greater of the following (formula with extended wear-away):

(1) The participant's benefit accrued under the Plan as of December 31, 1993 based on compensation up to the maximum permitted amount of compensation in each earlier year, plus the benefit accrued on the basis of service after that date and on compensation at the reduced level.

(2) The participant's benefit accrued on the basis of service before and after December 31, 1993 and on compensation at the reduced level.

(g) A bonus earned in one calendar year and paid in the following calendar year, including any bonus paid in the year following employment termination, shall be divided by the number of the participant's completed calendar months of employment with Employer during the year the bonus was earned and the resulting amount treated as received in each of those months.

(h) A lump sum payment in lieu of an increase in base salary shall not be treated as a bonus and shall be counted as salary received one-twelfth in each succeeding calendar month of employment.

6.02-5 "Social Security Covered Compensation" means the covered compensation amount for a person with the participant's Social Security retirement age, as determined in accordance with applicable regulations. The Committee may, in its discretion, use a table of Social Security Covered Compensation published by the Internal Revenue Service with rounded amounts.

6.02-6 If an employee becomes entitled to workers' compensation benefits for disability, the normal retirement basic benefit shall be reduced as follows:

(a) Each monthly benefit shall be reduced by the amount of any workers' compensation installment payment for that month.

(b) The total benefit shall be reduced actuarially by the portion of any lump sum workers' compensation award that is actuarially attributable to years after normal retirement date.

### 6.03 Early Retirement

6.03-1 On early retirement, the basic benefit shall be the normal retirement benefit under 6.02-1 reduced as follows. The amount of basic benefit attributable to the appropriate percentage of Final Average Pay determined under Section 6.02-1 or 6.02-1A (the Base Benefit) and the amount attributable to the appropriate percentage of Final Average Pay in excess of Social Security Covered Compensation determined under Section 6.02-1 or 6.02-1A (the Excess Benefit) shall be adjusted to the Benefit Starting Date by the percentages prescribed in the following table, interpolating between ages through the last full month.

Age at Benefit Starting Date	Base Benefit Percentage	Excess Benefit Percentage
64	100%	92%
63	100%	84%
62	100%	76%
61	95%	72%
60	90%	68%
59	84%	64%
58	78%	60%
57	72%	56%
56	66%	52%

6.03-2 Early retirement benefits shall be paid as follows:

- (a) Benefits shall start as of the first of the month after age 65 unless the participant elects to start benefits earlier under (b).
- (b) The participant may elect to start benefits as of the first of any month after early retirement by applying for benefits under 6.07.
- (c) If the participant dies before the Benefit Starting Date under (a) or (b), benefits shall be limited to the spouse's benefit under 6.11.

#### 6.04 Deferred Retirement Basic Benefit

6.04-1 On deferred retirement, the basic benefit shall be that for normal retirement based on Benefit Years and Final Average Pay at actual retirement.

6.04-2 A participant who works past the month in which normal retirement benefits would have begun shall be notified in writing during that month that benefits will not be started, except for payments under 6.10-1(a). The notification shall contain the information required by applicable law and regulations on suspension of benefits.

6.04-3 A participant who works past normal retirement date shall be paid a benefit for any month in which the participant has fewer than forty (40) paid Hours of Service under 3.02-4(a) and does not otherwise receive a benefit under this Plan. The benefit shall be the amount of the monthly normal retirement basic benefit based on Service and pay to normal retirement date.

6.04-4 If benefits start under 6.10-1(a) to a participant during employment the following shall apply:

- (a) The starting date under 6.10-1(a) shall be the Benefit Starting Date under 6.08-2.
- (b) All provisions with respect to the time, form and amount of benefit shall apply as of the Benefit Starting Date. The form of benefit determined as of that date shall be final and shall not be reopened at later termination of employment. The amount of benefit for service to the Benefit Starting Date shall not be changed by later changes in Final Average Pay.
- (c) Additional accruals shall be calculated at each calendar year-end after the Benefit Starting Date as follows:
  - (1) The additional benefit shall be based on additional service and on Final Average Pay as of the year-end.
  - (2) Added benefits shall be in the form determined under (b) above.
  - (3) In the year in which the employee terminates employment the date of termination shall be substituted for the year-end.
- (d) The preretirement death benefit for a spouse under 6.11 will not apply if the participant dies after the Benefit Starting Date.

#### 6.05 Cost-of-Living Adjustment

6.05-1 The amount currently payable to each participant who has no Hours of Service after December 31, 1987, or to the spouse or other beneficiary of such a participant, shall be adjusted by the amount under 6.05-2 as follows:

- (a) The adjustment shall be made each January 1 beginning with the first January 1 that is at least twelve (12) months after the start of benefits.
- (b) The adjustment shall be made to the benefit actually being paid after conversion to an optional form.

6.05-2 The adjustment under 6.05-1 shall be the lesser of:

- (a) The percentage increase in the U. S. Consumer Price Index (all items) during the twelve (12) months ending with the September index preceding the adjustment date; and
- (b) Two (2) percent.

6.05-3 If the Consumer Price Index decreases during the period described in 6.05-2(a), no downward adjustment in retirement benefits shall be made. Any such decrease shall offset any subsequent increases.

6.05-4 The benefit for a participant who has Hours of Service after December 31, 1987 shall not be adjusted as provided above. The amount of the benefit shall be at least as much as the actuarial equivalent of the participant's accrued benefit under the Prior Plan as of December 31, 1987, including the value of potential cost-of-living adjustments.

## 6.06 Limit on Benefits

6.06-1 Benefits shall be limited in accordance with the following rules as provided in Internal Revenue Code Section 415 and related regulations. The following provisions shall be applied in a manner consistent with the Code and regulations, which are incorporated by this reference.

6.06-2 The actuarially equivalent straight life annuity benefit on normal, early or deferred retirement expressed as an annual benefit shall be not more than either of the following:

(a) \$90,000 plus for any year any cost-of-living adjustment authorized by applicable regulations for that year.

(b) 100 percent of high three-year average compensation.

6.06-3 "High three-year average compensation" shall be the average annual W-2 compensation during the three consecutive calendar years of highest compensation from an Employer.

6.06-4 The limitations in 6.06-2 shall be adjusted as follows:

(a) For an employee who has less than ten (10) years of participation, the limitation shall be the amount in 6.06-2(a) multiplied by the participant's years of participation and divided by ten.

(b) For an employee participating before January 1, 1983 or January 1, 1987, the limitation in 6.06-2(a) shall not be lower than the accrued benefit under the Plan on December 31, 1982 or December 31, 1986, respectively.

(c) If the Benefit Starting Date is before the Social Security retirement age, the limit in 6.06-2(a) shall be actuarially reduced. The reduction shall be 5/9 of 1 percent for each of the first thirty six (36) months before Social Security retirement age and 5/12 of 1 percent for each further month, if any, above age 62. Below age 62 the reduction shall be to an actuarial equivalent of the amount at age 62 using an interest assumption of the lesser of the following:

(1) Five(5) percent per annum.

(2) A percentage imputed from the tables in 6.03-1 by dividing the participant's early retirement basic benefit by the normal retirement benefit, subtracting the result from one hundred (100) percent and dividing the remainder by the number of years between the Benefit Starting Date and age 65.

(d) If a benefit starts after the Social Security retirement age, the limit in 6.06-2(a) shall be actuarially increased in a manner prescribed by the Treasury Department.

6.06-5 If the benefit is paid in the form of a contingent annuity under 6.09-3 with payments continued to the participant's spouse, the limitations in 6.06-2 shall be applied to the participant's actual benefit rather than the actuarially equivalent straight life annuity.

6.06-6 If the Employer maintains or has maintained another tax qualified defined benefit pension plan at any time, the benefits shall be combined for purposes of applying the above limitations.

6.06-7 If the Employer maintains or has maintained one or more tax qualified defined contribution pension plans at any time, the following shall apply:

(a) The defined contribution fraction under all such plans combined with the defined benefit fraction under this Plan and all other defined benefit plans maintained by Employer shall not for any individual exceed 1.0.

(b) The defined benefit fraction numerator shall be the participant's projected annual normal retirement benefit. The denominator shall be the maximum legally allowed benefit, adjusted under (d).

(c) The defined contribution fraction numerator shall be the sum of all annual additions since the Plan's inception. The denominator shall be the sum of the maximum legally allowed annual additions for all years of the participant's employment with Employer, adjusted under (d).

(d) The denominators under (b) and (c) shall be the smaller of the maximum percentage limit figure times 1.4 or the maximum dollar limit figure times 1.25.

6.06-8 If benefits or contributions under another pension plan maintained by the Employer, when combined with the benefits under this Plan, exceed the above limitations, the benefits under this Plan shall be reduced to the extent of the excess, and the benefits or contributions under the other plan shall stand.

6.06-9 For purposes of 6.06-7, contributions for medical benefits separately accounted for on behalf of a key employee pursuant to 8.03-2 shall be treated as an annual addition to a defined contribution plan. Section 415(c)(1)(B) of the Internal Revenue Code, limiting annual additions to twenty-five (25) percent of the participant's compensation, shall not apply to any amount so treated.

6.06-10 Cost-of-living adjustments to the dollar amount in 6.06-2(a) shall be applied to the accrued benefit of a participant who has retired or otherwise terminated from Service. Any resulting change to a benefit in pay status shall be made as of the payment for January of the year to which the adjustment applies.

#### 6.07 Application for Benefits

6.07-1 A participant, spouse or beneficiary eligible for benefits must apply in writing under 4.03 on a form prescribed by the Committee. The Committee may start benefits in a proper case without an application being filed.

6.07-2 Application shall be made within the following time periods:

(a) No more than ninety (90) days before the Benefit Starting Date.

(b) No less than thirty (30) days before the Benefit Starting Date, unless the Committee waives the time requirement.

6.07-3 Between thirty (30) and ninety (90) days before the Benefit Starting Date, the Committee shall give the participant a written explanation of the following:

(a) The optional forms of benefit available under the Plan, including the relative value of each form.

(b) The terms and conditions of the survivor annuity benefit in 6.09-3(b), the participant's right to elect not to receive such a benefit, and the following with respect to each election:

(1) Its financial effect.

(2) The requirement of spouse consent.

(3) The participant's right to revoke.

(c) The right to defer payment until normal retirement age, if the participant is under that age.

6.07-4 If a participant first qualifies under 6.07-3 by marrying after the above requirements would first have been applicable, the requirements shall be met as soon as practicable after the participant so qualifies.

#### 6.08 Time of Payment

6.08-1 Benefits shall start with the first month beginning after normal retirement date or on an earlier payment date under 6.03-2(b) after early retirement, whichever applies. Payments shall be made for each benefit month at the end of that month.

6.08-2 The "Benefit Starting Date" means the first day of the first benefit month. If payments are delayed under 6.08-3, the Benefit Starting Date shall not change.

6.08-3 Subject to 6.10-1(a), payment of benefits may be delayed beyond the Benefit Starting Date because of a delay in application or if the amount is not known. In that event, the following shall apply:

(a) Payment shall be made or commence as soon as practicable after the Benefit Starting Date, and in any event within sixty (60) days after application is made or the amount becomes known.

(b) Back installments from the Benefit Starting Date shall be paid in a lump sum with the first payment or amortized over the benefit period as directed by the Committee.

#### 6.09 Form of Retirement Benefit.09 Form of Retirement Benefit

6.09-1 The basic benefit on normal, early or deferred retirement is based on equal payments for each month from the Benefit Starting Date through the month in which the participant dies.

6.09-2 A participant shall elect the actual form of distribution from those in 6.09-3 as follows:

- (a) Regardless of form, the value of the benefit shall be the actuarial equivalent of the basic benefit.
- (b) The election shall be made and any joint or contingent annuitant named in the application under 6.07.
- (c) If the contingent annuitant dies before the participant's Benefit Starting Date after retirement or termination of employment, the election shall be void.
- (d) If a participant is married at the Benefit Starting Date and no valid election is in effect, the benefit shall be paid in the form stated in 6.09-3(b) with the spouse as contingent annuitant.
- (e) An election by a married participant of a form other than a contingent annuity under 6.09-3(b) with the participant's spouse shall not be effective unless either of the following applies:
  - (1) The spouse executes, within ninety (90) days before the Benefit Starting Date, a consent in writing that acknowledges the particular form of benefit, the name of any contingent annuitant or other non-spouse death beneficiary and the effect of the designation and is witnessed by a notary public or Plan representative.
  - (2) The consent cannot be obtained because the spouse cannot be located or because of other circumstances provided by applicable regulations.
- (f) A determination in good faith by the Committee that (e) has been complied with shall be final and binding if the Committee has exercised proper fiduciary care in making the determination.
- (g) If (d) does not apply, the form in the absence of an election shall be that stated in 6.09-3(a).
- (h) The Committee shall pay the actuarial equivalent of the participant's benefit in a lump sum if the distributable amount has never been over \$3,500 (for Plan Years beginning after 1998, this amount shall be \$5,000).

6.09-3 Subject to 6.10, the forms of benefit shall be the following:

- (a) Straight life annuity.
- (b) Life annuity with half payments continued to a contingent annuitant.
- (c) Life annuity with full payments continued to a contingent annuitant.
- (d) On early retirement, an annuity under which the monthly payments before first eligibility for Social Security retirement benefits (assumed to be age 62 and 1/2) are increased by a temporary supplement and the remaining payments are reduced so as to provide approximately equal payments throughout when combined with Social Security.
- (e) Annuity for the life of the participant, continuing to a designated beneficiary for the remainder of the first 120 monthly payments in the event the participant dies before 120 payments have been made.

6.09-4 The Committee shall direct the Trustee to pay the benefit directly from the trust fund or to purchase a single premium nontransferable annuity in a form and from an insurance company approved by the Committee.

6.09-5 An eligible recipient of an eligible rollover distribution under 6.09-2(h) or 7.03 may elect before the benefit is paid to have the benefit distributed by a direct rollover into an eligible retirement plan or IRA and the following shall apply:

- (a) The participant must identify the eligible retirement plan or IRA and the fund holder to whom the direct rollover shall be paid.
- (b) "Eligible retirement plan" is defined in Section 402(c)(8)(B) of the Internal Revenue Code.
- (c) "Eligible rollover distribution" is defined in Section 402(c)(4) of the Internal Revenue Code.
- (d) "Eligible recipient" means the participant, the spouse of a deceased participant or a spouse or former spouse who is an alternate payee under a qualified domestic relations order.

## 6.10 Limits on Time and Form of Payout

6.10-1 Payment of benefits to a participant shall comply with the following restrictions:

- (a) Payment shall begin no later than the April 1 following the calendar year in which the participant attains age 70 1/2.
- (b) Payment shall be made over a period no longer than the lives or joint life expectancy of the participant and any designated beneficiary.
- (c) If the designated beneficiary is not the spouse and is more than ten years younger than the participant, the benefit form shall be limited so that the benefit payable after death is incidental to the Plan's primary purpose of providing retirement benefits.

6.10-2 Payment of preretirement death benefits shall comply with the following restrictions:

- (a) Payment may be made over a period no longer than the spouse's life or life expectancy.
- (b) Payment may be deferred up to the date the participant would have attained age 70 1/2.
- (c) If the beneficiary is not a natural person, the entire benefit shall be paid within five years after death.

6.10-3 The restrictions of 6.10-1 and 6.10-2 shall be complied with by distributions in accordance with Treasury Regulations Section 1.401(a)(9)-1 and Section 1.401(a)(9)-2, which shall override any distribution options in the Plan inconsistent with Internal Revenue Code Section 401(a)(9).

6.10-4 Payments to restricted employees shall be limited as follows:

- (a) Benefit payments to a restricted employee shall not exceed the periodic amounts payable under a single life annuity that is actuarially equivalent to the employee's entire benefit.
- (b) The limit in (a) shall not apply if either of the following is true:
  - (1) Immediately after a payment of a benefit to the restricted employee Plan assets equal at least 110 percent of current liabilities.
  - (2) The value of the benefits payable to the restricted employee is less than one percent of current liabilities.
- (c) "Benefits" means the accrued benefit and other benefits to which the restricted employee is entitled under the Plan, other than a social security supplement.
- (d) "Restricted employee" means a current or former highly compensated employee with benefits under the Plan whose annual compensation in the current or any prior plan year is one of the twenty five (25) highest of such employees.
- (e) Benefits may be paid to a restricted employee in excess of the limit in (a) if the employee agrees to repay the excess upon termination of the Plan and provides security for such repayment in accordance with rulings of the Internal Revenue Service.

## 6.11 Death Benefit for Spouse

6.11-1 A benefit shall be payable to a surviving spouse on the death of a participant if all of the following conditions are met:

- (a) The death occurs before the Benefit Starting Date.
- (b) The participant is legally married to the surviving spouse at death and was for the preceding year.
- (c) The participant has five or more Years of Service.

6.11-2 The spouse's benefit shall be paid as follows:

- (a) The benefit shall be the amount payable to the spouse as contingent annuitant under 6.09-3(b) determined as though the participant had retired on the first day of the month in which death occurs if at death the participant is:
  - (1) Age 55 or over; or

(2) Actively employed by Employer and has thirty (30) or more Years of Service.

(b) On the death of a participant with thirty (30) or more Years of Service before age 55, the participant shall be assumed to be age 55 in determining the amount payable under (a).

(c) The benefit in the case of a participant not covered by

(a) shall be the amount payable to the spouse as contingent annuitant under 6.09-3(b) determined as though the participant had separated from service on the date of death, if not already separated, and had survived until retirement at age 55.

(d) A benefit determined under (a) shall start on the first day of the month after death, and a benefit determined under (c) shall start on the first day of the month after the later of the following:

(1) The date of death.

(2) The date the participant would have reached age 55.

(e) If the participant had elected a retirement benefit in the contingent annuity form described in 6.09-3(c) within the ninety

(90) days before the participant's Benefit Starting Date and dies with such election in effect, the amounts under (a) or (c) shall be based on that form.

6.11-3 The spouse may elect an actuarially equivalent benefit starting at a later date. Such an election must comply with the restrictions in 6.10-2.

6.11-4 The Committee shall pay the actuarial equivalent of the spouse's death benefit in a lump sum if either of the following applies:

(a) The distributable amount is not over \$3,500 (for Plan Years beginning after 1998, this amount shall be \$5,000).

(b) The amount is not over \$10,000 at the date of payment and the spouse requests a lump sum.

6.11-5 No benefit shall be payable if a participant dies before retirement unless 6.11-1 applies.

## 6.12 Disability

6.12-1 A participant who becomes disabled while employed shall continue to accrue Service as follows:

(a) A participant who meets the criteria of 6.12-2(a) shall be on leave of absence under 3.04 and accrue Hours of Service.

(b) A participant who has ten (10) or more Years of Service when disability arises and meets the criteria of both 6.12-2(a) and (b) shall also accrue Benefit Hours.

(c) Accrual of Service shall continue under (a) and (b) as long as the relevant criteria for disability are met.

(d) If the participant fails to return promptly after recovery and within any time limit fixed by Employer, unless the failure is due to death or retirement, accrual of Service shall stop as of the later of the following:

(1) The date the leave of absence for disability began.

(2) The date when 501 Hours have been counted since the participant last worked.

6.12-2 The Committee shall determine the existence of disability under the criteria for both of the following:

(a) Long-term disability insurance maintained by Employer.

(b) Social Security disability benefits.

6.12-3 A disabled participant shall be retired at normal retirement date and may retire at early retirement date if eligible. Benefits shall be determined on the basis of Benefit Years and Final Average Pay at retirement and Social Security Covered Compensation at disability.

6.12-4 If the participant notifies the Committee in writing that benefits after disability would reduce any other disability benefit, the Committee shall defer payments until the other benefit stops, subject to 6.10-1.

6.13 Reemployment After Retirement

- 6.13-1 Benefit payments to a retired participant shall be withheld when the participant has been rehired by Employer as a qualified employee and is expected to be reemployed for more that six (6) months.
- 6.13-2 A participant whose benefits have been withheld under 6.13-1 shall receive benefits on a later retirement determined as follows:
- (a) The participant shall apply for benefits under 6.07 and select a form of benefit under 6.09 for the benefits attributable to Service after rehire. The benefits attributable to Service before rehire shall be in the form that applied during the prior period of retirement.
- (b) On later retirement, the participant's benefit shall be calculated based on all Service and then reduced by the actuarial value of benefits previously received. The monthly benefit shall not be less than that paid on the earlier retirement.
- (c) If a participant who retired and received enhanced benefits under a voluntary retirement incentive program is rehired, the benefit calculated under (b) shall be reduced by the enhanced benefits previously received and shall not be less than the amount payable on the earlier retirement under the incentive program. If the incentive program includes a Social Security bridge benefit, that benefit shall resume at later retirement for any period remaining before earliest Social Security retirement age.
- 6.13-3 A participant whose benefits are first withheld after normal retirement date shall receive the notification required by 6.04-2.
- 6.13-4 A retired participant who is rehired and does not have benefit payments withheld under 6.13-1 shall not accrue any additional benefit for the period of rehire.

ARTICLE VIIARTICLE VII

Benefits After Termination of EmploymentBenefits After Termination of Employment

7.01 Vesting of Benefits

- 7.01-1 A participant who terminates employment before retirement or death and does not later accrue additional Service shall be entitled only to vested accrued benefits at the time of termination.
- 7.01-2 A participant shall be vested in accrued benefits based on Years of Service as follows:

Years of Service	Percent Vested
Less than 5	0
5 or more	100%

7.02 Accrued Benefit; Payment.02 Accrued Benefit; Payment

- 7.02-1 A participant's accrued benefit on termination of employment shall be the normal retirement basic benefit under 6.02 based on Service, Final Average Pay and Social Security Covered Compensation at termination.
- 7.02-2 Benefits for a vested terminated participant normally shall start on the first day of the month after normal retirement age. A terminated participant may elect to start receiving a benefit on the first day of any month after age 55. The benefit payable on such an early start shall be the accrued benefit, reduced to the Benefit Starting Date under the following table, interpolating between ages through the last full month.

Age at Benefit Starting Date	Benefit Percentage
64	88%
63	78%
62	68%
61	61%
60	54%
59	48%
58	43%
57	38%
56	34%
55	30%

- 7.02-3 A vested terminated participant entitled to benefits must apply for benefits and elect a distribution option not more than ninety (90) days nor less than thirty (30) days before benefits are to start. If application is filed after normal retirement date, back payments shall be paid in a



lump sum with the first payment or amortized over the benefit period as directed by the Committee.

### 7.03 Cash Settlement

7.03-1 The Committee shall pay a participant whose employment with the Company and its affiliates has terminated the actuarial value of the vested, accrued benefit in cash before the Benefit Starting Date, if either of the following applies:

- (a) The distributable amount is not over \$3,500 (for Plan Years beginning after 1998, this amount shall be \$5,000).
- (b) The amount is not over \$10,000 at the date of payment, the participant requests a cash settlement and 6.09-2(e) and (f) are satisfied with respect to the participant's spouse, if any.

7.03-2 If the actuarial value of the vested, accrued benefit is over \$3,500 (for Plan Years beginning after 1998, this amount shall be \$5,000), but not over \$10,000, the participant may elect to receive in lieu of the cash settlement:

- (a) A straight life annuity if the participant is unmarried.
- (b) A life annuity with half payments continued to the spouse if the participant is married.

7.03-3 If a cash settlement is made under 7.03-1 or an annuity is elected under 7.03-2, Benefit Years before the settlement shall be disregarded for determining the participant's benefit at a later time.

### 7.04 Forfeiture of Nonvested Retirement Benefits

7.04-1 A participant whose employment terminates before being vested under 7.01 and who does not become vested because of later Service shall forfeit all accrued benefits. A nonvested, terminated participant shall be considered to have received a full distribution of the zero vested balance when employment terminates. The forfeiture shall occur as of the earlier of the following:

- (a) The date the participant receives or is considered to have received a cash settlement under 7.03.
- (b) The date the participant completes five consecutive One-Year Breaks in Service.

7.04-2 Forfeiture of benefits shall be taken into consideration in establishing the funding policy under 5.01.

7.04-3 A participant whose benefit has been forfeited under 7.04-1 shall have the forfeited benefit restored only when one of the following occurs:

- (a) The participant completes a Year of Service after the forfeiture and before having five consecutive One-Year Breaks in Service.
- (b) The participant returns to employment with Employer or an affiliate before having a One-Year Break in Service.

## ARTICLE VIII

### Medical BenefitsMedical Benefits

#### 8.01 Eligibility

8.01-1 Medical benefits under this Article shall be provided to a participant, or the dependents of a participant, who:

- (a) Has terminated employment, commenced receiving pension benefits on early, normal or deferred retirement, and qualifies for post-retirement medical benefits under the Pacific Telecom, Inc. Welfare Benefits Plan or successor thereto.
- (b) Retires and commences benefits on or after January 1, 1998.
- (c) Is not covered by a collective bargaining agreement at retirement.
- (d) Has never been a "key employee" as defined in Section 416(i) of the Internal Revenue Code.

8.01-2 The term "benefits" used alone in this Plan shall refer to pension benefits under Article VI and Article VII and not to medical benefits provided under this Article.

## 8.02 Medical Benefits

8.02-1 The medical benefits provided under this Plan to participants eligible under 8.01 shall be all medical benefits, as defined in Internal Revenue Code Section 213(d)(1), provided to such participants after retirement under the Pacific Telecom, Inc. Welfare Benefits Plan or successor thereto. The provisions of such Welfare Benefits Plan can limit medical benefits to retired participants who meet further eligibility requirements. Any medical benefits to which retired participants are entitled under such Welfare Benefits Plan that are not provided under this Plan due to insufficiency of funding or otherwise, shall be paid from a welfare benefits trust established by the Company for that purpose or from Employer's general assets.

8.02-2 The document evidencing the Pacific Telecom, Inc. Welfare Benefits Plan or successor thereto, including all of the separate documents incorporated into it, is incorporated by reference as part of this Plan. This incorporation by reference shall include any amendments made from time to time to the Pacific Telecom, Inc. Welfare Benefits Plan and any successor plan.

## 8.03 Separate Medical Benefits Account

8.03-1 Subject to 8.04, each Employer may make contributions to fund the medical benefits provided in 8.02 for its employees. A separate account shall be maintained for all such contributions, and earnings on them. Medical benefits for participants shall be paid only from such account.

8.03-2 Investment earnings and losses of the trust fund shall be allocated to the accounts in 8.03-1 in proportion to the investment earnings and losses of the entire trust.

#### 8.04 Limitation on Contributions

The aggregate actual contributions (measured from January 1, 1989) to fund medical benefits shall not exceed twenty five (25) percent of the total actual contributions (measured from January 1, 1989) to the Plan, disregarding in such total any contributions to fund past service credits.

#### 8.05 Satisfaction of Liabilities

8.05-1 Unless all obligations under 8.02 have been satisfied, no part of the medical benefits account shall be used for any purpose other than payment of either of the following:

(a) Medical benefits.

(b) Necessary or appropriate expenses attributable to the administration of the medical benefits account.

8.05-2 Following satisfaction of the obligations under 8.02, any amounts remaining in the medical benefits account shall be returned to the Employers on an equitable basis as determined by the Committee.

#### 8.06 Forfeiture of Benefits

If a person's interest in the medical benefits account is forfeited prior to termination of the Plan, the amount forfeited shall be applied as soon as possible to reduce Employer's contributions to fund medical benefits.

### **ARTICLE IX**

#### **Amendment and Termination**

##### 9.01 Amendment

9.01-1 The Company may amend this Plan at any time except that no amendment shall revest any of the trust fund in an Employer or otherwise modify the Plan so that it would not be for the exclusive benefit of the eligible employees.

9.01-2 Amendments may be made retroactively to the extent permitted by applicable law and regulations.

##### 9.02 Termination

9.02-1 The Company may wholly or partly terminate the Plan at any time. In that event, the rights of all affected participants to the benefits then accrued and funded shall fully vest and be nonforfeitable. The Company shall promptly file notice of termination with the Pension Benefit Guaranty Corporation and may request a ruling from the Internal Revenue Service on the effect of termination on the qualification of the trust.

9.02-2 Upon termination, the Company may continue the Plan to pay pension benefits and medical benefits as they mature or liquidate and distribute the trust fund. In any event, the available funds shall be allocated by the Committee as provided below. The time and method of payment shall be determined by the Committee. Pension benefits and medical benefits already distributed in cash or by purchase and delivery of an annuity contract shall not be affected.

9.02-3 On Plan termination the benefit of any current or former highly compensated employee shall be limited to a benefit that is non-discriminatory under Section 401(a)(4) of the Internal Revenue Code.

##### 9.03 Treatment of Employers

9.03-1 All employees of all Employers, including the Company, shall be treated as though employed by one Employer for purposes of determining total or partial termination. For this purpose, this Plan shall be treated as one plan and not as a collection of separate plans of the Employers. If some or all of the employees of an Employer terminate employment, this shall be viewed in the context of the whole Plan to determine whether there has been a partial termination or curtailment and whether accelerated vesting is required.

9.03-2 An Employer may be excluded from the Plan with respect to its employees at any time by the Company. Such exclusion shall not constitute a termination or partial termination of the Plan. Employees of the excluded affiliate shall be treated as having terminated employment if the affiliate ceases to maintain its affiliated status. Unless the Internal Revenue Service rules that the exclusion constitutes a partial termination of the Plan, the rights of employees of the excluded affiliate shall not become fully vested and nonforfeitable as a result of the exclusion. If the excluded affiliate retains its affiliated status with the Company, its employees shall continue to accrue Service for the purposes of vesting and eligibility, but shall not accrue Benefit Years after the effective date of the exclusion.

#### 9.04 Allocation of Assets on Termination

9.04-1 In the event of Plan termination, the benefit of any current or former highly compensated employee shall be limited to a benefit that is nondiscriminatory under Internal Revenue Code Section 401(a)(4).

9.04-2 Amounts allocated to the medical benefits accounts shall be used to pay medical benefits in 8.02. If all obligations to pay medical benefits are satisfied, amounts remaining in the medical benefits accounts shall be returned to Employers under 8.05-2. All amounts in the trust fund other than amounts in the medical benefits accounts shall be allocated in the order set out below based on actuarial valuation of accrued retirement benefits as of the date of termination using nondiscriminatory formulas established by the Committee. All benefits for each group shall be paid or provided for before any benefits are paid for any members of the group having the next lower priority. If the funds are insufficient to pay all of the benefits for any group, the amount available shall be allocated among the members of the group in proportion to their interests.

9.04-3 The order of priority determined as of the day before termination shall be as follows:

(a) Benefits that had been in pay status for three years or more or could have been in pay status for three years if the participant had retired on the earliest opportunity and received the normal form of benefit. Allocation shall be based on the lowest benefit provided by Plan provisions in effect within the last five years.

(b) Other benefits guaranteed under the Employee Retirement Income Security Act of 1974, disregarding Sections 4022(b)(5) and (6), including benefits not covered by (a) because of the exclusion of benefit increases within five years.

(c) All other vested accrued benefits not covered by (b).

(d) All other accrued benefits.

#### 9.05 Merger

If this Plan is merged or consolidated with or the assets or liabilities are transferred to any other plan or trust, the benefit that each participant would receive if the Plan terminated just afterwards shall be at least as much as if it terminated just before.

## ARTICLE X

### General Provisions

#### 10.01 Information for Committee

10.01-1 The Committee may accept as correct and rely on any information furnished by the Company or an Employer. The Committee may not demand an audit, investigation or disclosure of the records of the Company or any Employer.

10.01-2 The Committee may require satisfactory proof of data from a participant, spouse, joint or contingent annuitant or beneficiary. The Committee may adjust any retirement benefit if an error in relevant data is discovered.

#### 10.02 Indemnity and Bonding

10.02-1 The Company shall indemnify and defend any Plan fiduciary who is an officer, director or employee of an Employer from any claim or liability that arises from any action or inaction in connection with the Plan, subject to the following rules:

(a) Coverage shall be limited to actions taken in good faith that the fiduciary reasonably believed were not opposed to the best interests of the Plan.

(b) Negligence by the fiduciary shall be covered to the fullest extent permitted by law.

(c) Coverage shall be reduced to the extent of any insurance coverage.

10.02-2 Plan fiduciaries shall be bonded to the extent required by applicable law for the protection of Plan assets.

#### 10.03 Applicable Law

This Plan shall be construed according to the laws of Louisiana except as preempted by federal law.

#### 10.04 Plan Binding on All Parties

This Plan shall be binding upon the heirs, personal representatives, successors and assigns of all present and future parties.

#### 10.05 Not Contract of Employment

This Plan shall not be a contract of employment between any Employer and any employee, and no employee may object to amendment or termination of the Plan. The Plan shall not prevent an Employer from discharging any employee at any time.

#### 10.06 Notices

Except as otherwise required or permitted under other provisions of this Plan or under applicable law, any notice under this Plan shall be in writing and shall be effective when actually delivered or, if mailed, when deposited postpaid as first-class mail. Mail shall be directed to the address stated in this Plan for the Company or in the statement of adoption of another Employer, or to such other address as a party may specify by notice to the other parties. Notices shall be sent to the Committee at the Company's address.

#### 10.07 Benefits Not Assignable; Qualified Domestic Relations Order

10.07-1 This Plan is for the personal protection of the participants. No vested or unvested interest of any participant or beneficiary may be assigned, seized by legal process, transferred or subjected to the claims of creditors in any way, except as provided in 10.07-2.

10.07-2 Benefits may be paid in accordance with a qualified domestic relations order under procedures established by the Committee pursuant to Section 414(p) of the Internal Revenue Code.

#### 10.08 Designation of Beneficiary

10.08-1 Each participant shall on request file with the Committee a designation of beneficiaries and may change it from time to time. The designated beneficiaries or other recipient described below shall receive any residual benefit after death of a participant if no other person is entitled to it as a contingent annuitant or spouse or in any other capacity.

10.08-2 If a beneficiary dies after the death of a participant but before distribution to the beneficiary, the benefit to which the beneficiary was entitled shall be paid to the estate of the deceased beneficiary.

10.08-3 If no beneficiary has been named or no named beneficiary is living when the participant dies, the benefit shall be paid in the following order of priority:

- (a) The participant's surviving spouse.
- (b) The participant's surviving children in equal shares.
- (c) The participant's estate.

#### 10.09 Actuarial Equivalency

10.09-1 Actuarial equivalency and other actuarial valuations and adjustments shall be determined by the enrolled actuary retained for the Plan based on the following:

- (a) For determinations of cash amounts, interest shall be the annual rate of interest on 30-year Treasury Securities for the September preceding the year in which the cash amount is paid and mortality shall be as provided in the mortality table prescribed by the Commissioner of Internal Revenue under Section 417(e)(3)(A)(ii) of the Internal Revenue Code.
- (b) If (a) does not apply, interest shall be eight (8) percent per annum and mortality shall be as provided in the UP-1984 Mortality Table.
- (c) For valuing benefits accrued on or before December 31, 1987, the Consumer Price Index shall be assumed to increase at least two (2)

percent per annum.

10.09-2 If the actuarial factors for determining equivalent benefits are changed by Plan amendment, the benefit actually paid in any form shall not be less than the amount determined for the same form by applying the prior factors to the participant's accrued benefit as of the date the change is adopted or is effective, whichever is later.

#### 10.10 Nonreversion of Assets

10.10-1 Subject to the following paragraphs, no part of the contributions or the principal or income of this Plan shall be paid to or revested in an Employer or to be used other than for the exclusive benefit of the participants and their beneficiaries.

10.10-2 A contribution may be returned to Employer to the extent that:

- (a) The contribution was made by mistake of fact.
- (b) A deduction for the contribution under 5.02-4 is disallowed.

10.10-3 Return of contributions under 10.10-2(a) and (b) shall be subject to the following:

- (a) Any return must occur within one year of the mistaken payment or disallowance of the deduction.
- (b) The returnable amount shall be reduced by any losses attributable to the contribution.

10.10-4 If after all fixed and contingent liabilities or obligations to persons entitled to benefits under the Plan shall have been paid or provided for in full any Plan assets remain because of erroneous actuarial computation, such assets shall revert to the Employers. Such a reversion shall not take place sooner than the earliest date as of which a reversion of assets would be permitted by law.

#### 10.11 Enhanced Early Retirement Programs

The 1991 Enhanced Early Retirement Program for Cencom Employees, attached hereto as Appendix A, the 1991 Enhanced Early Retirement Program for Alascom Employees, attached hereto as Appendix B, and the 1992 Enhanced Early Retirement Program, attached hereto as Appendix C, are incorporated in this Plan and made a part hereof.

### **ARTICLE XI**

#### **Special Top-Heavy Plan Rules**

##### 11.01 Application of Rules

If the Plan becomes top-heavy, the rules in this Article shall apply and shall control over any other provisions with which they conflict.

##### 11.02 Determination of Top-Heavy Status

11.02-1 The Plan shall be top-heavy for a Plan Year if, as of the determination date, the Plan's top-heavy percentage for the year exceeds sixty (60) percent. The top-heavy percentage is the present value of accrued benefits of all key employees as a percentage of the present value of accrued benefits of all key and non-key employees other than former key employees. Individuals who have not received any compensation from Employer during the five Plan Years ending on the determination date shall not be taken into account.

11.02-3 The following plans of Employers and affiliates shall be considered as one plan for determining top-heaviness:

- (a) Any plan in which a key employee participates.
- (b) Any plan that must be considered in order for a plan in
  - (a) to meet the minimum coverage requirements for qualification under Internal Revenue Code Sections 401(a)(4) and 410.

11.02-4 "Key employee" and "non-key employee" are defined in Section 416(i) of the Internal Revenue Code.

11.02-5 For purposes of 11.02-1, the present value of a participant's accrued benefit shall be determined as follows:

- (a) The participant shall be regarded as terminating service with 100 percent vesting on the valuation date described in (d).

(b) The benefit to be valued shall be that payable as of the first Benefit Starting Date after normal retirement date.

(c) Rollovers and transfers shall be included or excluded as provided in 11.02-6 and 11.02-7.

(d) The benefit shall be valued as of the most recent Plan funding valuation date falling within the Plan Year in which the determination date falls. The valuation shall be based on the Plan's assumptions for determining equivalency of benefits except that the interest rate shall be five (5) percent.

11.02-6 Except as provided below, distributions and transfers made within the Plan Year ending on the determination date or the four preceding Plan Years shall be added back to the present value of accrued benefits as of the determination date, unless already counted. The value of a distributed annuity contract is its actuarial value as of the date of distribution. A transfer out of this Plan, or distribution that is rolled over, shall not be added back if either of the following applies:

(a) It goes to a plan maintained by an Employer or an affiliate.

(b) It is not initiated by the employee.

11.02-7 A rollover or transfer accepted into this Plan before 1984 shall be included in the present value of accrued benefits. A rollover or transfer accepted after 1983 shall be included only if either of the following applies:

(a) It goes to a plan maintained by an Employer or an affiliate.

(b) It is not initiated by the employee.

### 11.03 Top-Heavy Plan Restrictions

11.03-1 The following provisions shall apply, effective the first day of the first Plan Year for which the Plan is top-heavy, and shall continue in effect even if the Plan ceases to be top-heavy.

11.03-2 All benefits attributable to Employer contributions shall be 100 percent vested if the participant satisfies both of the following conditions:

(a) Has at least three Years of Service.

(b) Has an Hour of Service during a Plan Year for which the Plan is top-heavy.

11.03-3 The minimum benefit attributable to Employer contributions shall be the following:

(a) The participant's average W-2 compensation from Employer during the five consecutive Years of Service of highest aggregate compensation, time

(b) The lesser of the following:

(1) 2 percent of each Benefit Year.

(2) 20 percent.

11.03-4 Years of Service under 11.03-3 do not include the following:

(a) Plan Years for which the Plan is not top-heavy.

(b) Years of Service completed in a Plan Year beginning before 1984.

11.03-5 The minimum benefit under 11.03-3 shall be a single life annuity with no ancillary benefits, commencing at the normal retirement Benefit Starting Date. The minimum benefit shall be actuarially decreased if the actual Benefit Starting Date is earlier than the normal retirement Benefit Starting Date and actuarially increased if later.

11.03-3 The limitation in 6.06-7(d) shall be determined using 1.0 in place of 1.25.

IN WITNESS WHEREOF, Century Telephone Enterprises, Inc. has executed this Plan this 31st day of December, 1998.

ATTEST:

/s/ Linda B. Vaughn  
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CENTURY TELEPHONE ENTERPRISES, INC.

By: /s/ R. Stewart Ewing, Jr.  
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**APPENDIX A  
TO  
CENTURYTEL RETIREMENT PLAN**

**1991 ENHANCED EARLY RETIREMENT PROGRAM  
FOR CENCOM EMPLOYEES**

Enhanced early retirement benefits shall be paid from the CenturyTel Retirement Plan (the Plan) to eligible participants under the 1991 Enhanced Early Retirement Program for Cencom Employees (the Program) who terminate employment within the prescribed period, as provided below. Terms used in this Appendix and not defined in it shall have the same meaning as the Plan document.

**1. Eligibility**

1.1 Conditions. Benefits under the Program shall be available to all individuals who are not excluded by 1.2 and satisfy the following conditions:

- (a) Are employed by Cencom Inc. or Cencom of Wisconsin, Inc. or have retired from such employment since January 1, 1991.
- (b) Attained age fifty (50) on or before December 31, 1991.
- (c) Have five (5) or more Benefit Years by December 1, 1991.

1.2 Excluded Employees. An employee is excluded from participation in the Program if the employee was previously retired under the Plan, was rehired and continues to receive benefits based on the previous retirement.

1.3 Election to Participate. An individual who meets the conditions in 1.1 may elect to participate in the Program by giving written notice on a form prescribed by the Committee. To be effective, such form must be received by the Committee no later than the first of the month following notification of election. An individual who does not give such notice or who terminates employment before the date fixed under 1.4 shall not receive the enhanced benefits of the Program.

1.4 Retirement Date. November 1, 1991 is the estimated retirement date for each eligible employee who has elected to participate in the Program under 1.3 unless the Employer fixes a different date by notice to the employee. A different retirement date shall be no later than December 31, 1991. An eligible individual who has retired before the first general announcement of the Program shall be treated as having retired on the date fixed by the Employer.

1.5 Other Termination Payments. The enhanced benefits provided under the Program shall be in lieu of any severance, unemployment compensation or other payments to which an individual is entitled as a result of termination of employment. An election to participate in the Program by an individual who is entitled to receive any such payments shall be a waiver of the payment

**2. Benefit Enhancement.**

A participant in the Program shall receive enhanced early retirement benefits from the Plan as provided below. Any enhancement that would exceed the maximum benefit limits imposed by law shall be paid by the Employer outside the Plan.

2.1 Commencement Before Age 55. A participant in the Program who is under age 55 shall commence receiving early retirement benefits under the Plan upon termination of employment as though the participant were age 55 or over.

2.2 Benefit Formula. A participant in the Program shall have a normal retirement basic benefit equal to Benefit Years (BY) times 1.8 percent of Final Average Pay (FAP) as follows:

$BY \times 1.8\% \times FAP$

For the purpose of this Program, Final Average Pay shall be the participant's Final Average Pay at December 31, 1990.

2.3 Five Additional Benefit Years. A participant in the program shall have a normal retirement basic benefit calculated with the addition of five (5) more Benefit Years than the number of Benefit Years otherwise credited under the terms of the Plan.



2.4 Early Retirement Reduction. A participant in the program shall receive the amount payable at normal retirement with no reduction for early retirement to age 62; reduced three (3) percent per year for early retirement before age 62.

2.5 Social Security Bridge. A participant in the Program shall be paid an additional monthly benefit from the Plan equal to fifteen (15) percent of the participant's monthly salary rate at the time of retirement, but no more than \$1,000 per month. The additional monthly benefit shall commence along with the regular retirement benefit and shall be paid on the same monthly schedule. The additional benefit shall terminate with the month prior to the first month for which the participant is eligible to receive a Social Security retirement benefit, or the month of the participant's death, if earlier.

### 3. Death of Participant.

The surviving spouse of an eligible individual who has elected to participate in the Program and who dies before the Benefit Starting Date shall have a pre-retirement death benefit calculated without regard to the enhancements provided by the Program. On a participant's death after the Benefit Starting Date, death benefits shall be paid only in accordance with the form of benefit elected by the participant.

## **APPENDIX B TO CENTURYTEL RETIREMENT PLAN**

### **1991 ENHANCED EARLY RETIREMENT PROGRAM FOR ALASCOM EMPLOYEES**

Enhanced early retirement benefits shall be paid from the CenturyTel Retirement Plan (the Plan) to eligible participants under the 1991 Enhanced Early Retirement Program for Alascom Employees including Alascom engineering department employees located in Vancouver, Washington (the Program) who terminate employment within the prescribed period, as provided below. Terms used in this Appendix and not defined in it shall have the same meaning as the Plan document.

#### 1. Eligibility

1.1 Conditions. Benefits under the Program shall be available to all individuals who are not excluded by 1.2 and satisfy the following conditions:

(a) Are employed by Alascom, Inc. or have retired from such employment since January 1, 1991.

(b) The employer shall fix the age of eligible employees by notice to employees. The attained age as of December 31, 1991 shall be the age for eligibility purposes. The employer shall not fix an eligibility age of less than fifty (50) years as of December 31, 1991.

1.2 Excluded Employees. An employee is excluded from participation in the Program if the employee was previously retired under the Plan, was rehired and continues to receive benefits based on the previous retirement.

1.3 Election to Participate. An individual who meets the conditions in 1.1 may elect to participate in the Program by giving written notice on a form prescribed by the Committee. To be effective, such form must be received by the Committee no later than December 27, 1991. An individual who does not give such notice or who terminates employment before the date fixed under 1.4 shall not receive the enhanced benefits of the Program.

1.4 Retirement Date. December 1, 1991 is the estimated retirement date for each eligible employee who has elected to participate in the Program under 1.3 unless the Employer fixes a different date by notice to the employee. A different retirement date shall be no later than December 31, 1991. An eligible individual who has retired before the first general announcement of the Program shall be treated as having retired on the date fixed by the Employer.

1.5 Other Termination Payments. The enhanced benefits provided under the Program shall be in lieu of any severance, unemployment compensation or other payments to which an individual is entitled as a result of termination of employment. An election to participate in the Program by an individual who is entitled to receive any such payments shall be a waiver of the payment

2. Benefit Enhancement A participant in the Program shall receive enhanced early retirement benefits from the Plan as provided below. Any enhancement that would exceed the maximum benefit limits imposed by law shall be paid by the Employer outside the Plan.

2.1 Commencement. Before Age 55. A participant in the Program who is under age 55 shall commence receiving early retirement benefits under the Plan upon termination of employment as though the participant were age 55 or over.

2.2 Benefit Formula. A participant in the Program shall have a normal retirement basic benefit equal to Benefit Years (BY) times 1.8 percent of Final Average Pay (FAP) as follows:

BY x 1.8% x FAP

For the purpose of this Program, Final Average Pay shall be the participant's Final Average Pay at December 31, 1990.

2.3 Five Additional Benefit Years. A participant in the program shall have a normal retirement basic benefit calculated with the addition of five (5) more Benefit Years than the number of Benefit Years otherwise credited under the terms of the Plan.

2.4 Early Retirement Reduction. A participant in the program shall receive the amount payable at normal retirement with no reduction for early retirement to age 62; reduced three (3) percent per year for early retirement before age 62.

2.5 Social Security Bridge. A participant in the Program shall be paid an additional monthly benefit from the Plan equal to fifteen (15) percent of the participant's base pay as of September 1, 1991; the Social Security Bridge shall not be less than \$400 per month or greater than \$1,000 pre month. The additional monthly benefit shall commence along with the regular retirement benefit and shall be paid on the same monthly schedule. The additional benefit shall terminate with the month prior to the first month for which the participant is eligible to receive a Social Security retirement benefit, or the month of the participant's death, if earlier.

The Social Security level income option in 6.09-3(d) of the Retirement Plan is not available to participants who elect enhanced early retirement benefits because the Social Security Bridge Benefit is provided in lieu of this option.

### 3. Death of Participant.

The surviving spouse of an eligible individual who has elected to participate in the Program and who dies before the Benefit Starting Date shall have a pre-retirement death benefit calculated without regard to the enhancements provided by the Program. On a participant's death after the Benefit Starting Date, death benefits shall be paid only in accordance with the form of benefit elected by the participant.

## APPENDIX C TO CENTURYTEL RETIREMENT PLAN

### 1992 ENHANCED EARLY RETIREMENT PROGRAM

Enhanced early retirement benefits shall be paid from the CenturyTel Retirement Plan (the Plan) to eligible participants under the 1992 Enhanced Early Retirement Program (the Program) who terminates employment within the prescribed period, as provided below. Terms used in this Appendix and not defined in it shall have the same meaning as the Plan document.

#### 1. Eligibility.

1.1 Conditions. Benefits under the Program shall be available to all individuals who are not excluded by 1.2, who are described in either (a) or (b) below, and satisfy the minimum age requirement in (c) below:

(a) This paragraph includes individuals who on August 19, 1992 are employed in or serve as officer of the following organizations or work locations or have returned from such employment since January 1, 1992:

☒ **Pacific Telecom, Inc.**

☒ **Pacific Telecom Cable**

☒ **Central Toll Investigation Department**

☒ **Inter-Island Telephone Company**

☒ **Peninsula Telecommunications, Inc.**

☒ **Tel Com Construction Company (exempt employees only)**

☒ **Telephone Utilities of Washington, Inc. (Long Beach only)**

(b) This paragraph includes individuals whose employment with Pacific Telecom, Inc. or Alascom, Inc. was terminated between January 1, 1992 and September 1, 1992 as a result of a reduction in force.

(c) The Company shall fix a minimum age requirement for each organization or work location described in (a). Satisfaction of the minimum

age shall be based on the employee's attained age as of December 31, 1992. The minimum ages are set forth below.

☒ **Pacific Telecom, Inc. - Age 52**

☒ **Pacific Telecom Cable - Age 50**

☒ **Central Toll Investigation Department - Age 52**

☒ **Inter-Island Telephone Company - Age 55**

☒ **Peninsula Telecommunications, Inc. - Age 55**

☒ Tel Com Construction Company (exempt employees only) Age 52

☒ Telephone Utilities of Washington, Inc. (Long Beach only) Age 55

1.2 Excluded Employees. An employee is excluded from participation in the Program if the employee was previously retired under the Plan, was rehired and continues to receive benefits based on the previous retirement.

1.3 Election to Participate. An individual who meets the conditions in 1.1 may elect to participate in the Program by giving written notice on a form prescribed by the Committee. An individual who does not give such notice or who terminates employment before the date fixed under 1.4 shall not receive the enhanced benefits of the Program.

To be effective, such form must be received by the Committee no later than the following dates:

(a) October 19, 1992 shall be the due date unless (b), (c) or (d) applies.

(b) An eligible individual who was not notified of the Program by October 19, 1992 shall have until close of business on December 31, 1992 to elect to participate in the Program.

(c) An eligible individual who was notified of the Program but did not elect to participate by October 19, 1992 may elect to do so before close of business on April 16, 1993.

(d) An officer or employee of Pacific Telecom Cable who becomes eligible as a result of reducing the eligibility age from 52 to 50 may elect to participate in the Program before close of business on May 31, 1993.

1.4 Retirement Date. The retirement date for each eligible employee who has elected to participate in the Program shall be December 1, 1992 if the election is made pursuant to 1.3(a) or (b) and shall be June 1, 1993 if the election is made pursuant to 1.3(c). However, the participant's Employer may fix a different retirement date by notice to the employee, which shall be no later than December 1, 1993. An eligible individual who has retired under 1.1(a) or been terminated in a reduction in force under 1.1(b) before the first general announcement of the Program shall be treated as having retired on December 1, 1992.

1.5 Other Termination Payments. The enhanced benefits provided under the Program shall be in lieu of any severance, unemployment compensation or other payments to which an individual is entitled as a result of termination of employment. An election to participate in the Program by an individual who is entitled to receive any such payment shall be a waiver of the payment. If an eligible individual who has already received such payments elects to participate in the Program, the individual's additional benefits under this Appendix shall be offset in full by the amount of such payments until they are entirely recovered. The individual then shall receive the full amount, free of offset.

## 2. Benefit Enhancement.

A participant in the Program shall receive enhanced early retirement benefits from the Plan as provided below. Any enhancement that would exceed the maximum benefit limits imposed by law shall be paid by the Employer outside the Plan.

2.1 Commencement Before Age 55. A participant in the Program who is under age 55 shall commence receiving early retirement benefits under the Plan upon termination of employment as though the participant were age 55 or over.

2.2 Benefit Formula. A participant in the Program shall have a normal retirement basic benefit equal to Benefit Years (BY) times 1.8 percent of Final Average Pay (FAP) as follows:

$BY \times 1.8\% \times FAP$

For the purpose of this Program, Final Average Pay shall be the participant's Final Average Pay at December 31, 1991.

2.3 Five Additional Benefit Years. A participant in the program shall have a normal retirement basic benefit calculated with the addition of five (5) more Benefit Years than the number of Benefit Years otherwise credited under the terms of the Plan.

2.4 Early Retirement Reduction. A participant in the program shall receive the amount payable at normal retirement with no reduction for early retirement to age 62; reduced three (3) percent per year for early retirement before age 62.

2.5 Social Security Bridge. A participant in the Program shall be paid an additional monthly benefit from the Plan equal to fifteen (15) percent of the participant's base pay as of August 1, 1992; the Social Security Bridge shall not be less than \$400 per month or greater than \$1,000 per month. The additional monthly benefit shall commence along with the regular retirement benefit and shall be paid on the same monthly schedule. The additional benefit shall terminate with the month prior to the first month for which the participant is eligible to receive a Social Security retirement benefit, or the month of the participant's death, if earlier.

The Social Security level income option in 6.09-39d) of the Retirement Plan is not available to participants who elect enhanced early retirement benefits because the Social Security Bridge Benefit is provided in lieu of this option.

3. Death of Participant.

The surviving spouse of an eligible individual who has elected to participate in the Program and who dies before the Benefit Starting Date shall have a pre-retirement death benefit calculated without regard to the enhancements provided by the Program. On a participant's death after the Benefit Starting Date, death benefits shall be paid only in accordance with the form of benefit elected by the participant.

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# EXHIBIT 21

## CENTURY TELEPHONE ENTERPRISES, INC. SUBSIDIARIES OF THE REGISTRANT AS OF DECEMBER 31, 1998

Subsidiary	State of incorporation
Actel Corporation	Louisiana
Brownsville Cellular Telephone Co., Inc.	Delaware
Cascade Autovon Company	Washington
Celutel of Biloxi, Inc.	Delaware
Celutel, Inc.	Delaware
Century Business Communications, LLC	Louisiana
Century Cellunet of Alexandria, Inc.	Louisiana
Century Cellunet of Michigan RSA #4, Inc.	Louisiana
Century Cellunet of Michigan RSAs, Inc.	Louisiana
Century Cellunet of Mississippi RSA #2, Inc.	Mississippi
Century Cellunet of Mississippi RSA #6, Inc.	Mississippi
Century Cellunet of Mississippi RSA #7, Inc.	Mississippi
Century Cellunet of North Arkansas, Inc.	Louisiana
Century Cellunet of Pine Bluff, LLC	Arkansas
Century Cellunet of Saginaw, Inc.	Louisiana
Century Cellunet of South Arkansas, Inc.	Louisiana
Century Cellunet of Southern Michigan, Inc.	Delaware
Century Cellunet of Texarkana, Inc.	Louisiana
Century Color Graphics, LLC	Louisiana
Century Interactive Communications, Inc.	Louisiana
Century Interactive Fax, Inc.	Louisiana
CenturyTel Entertainment, Inc.	Washington
CenturyTel Holdings, Inc.	Louisiana
CenturyTel Investments, LLC	Louisiana
CenturyTel Long Distance, Inc.	Louisiana
CenturyTel Michigan Network, LLC	Louisiana
CenturyTel Midwest - Michigan, Inc.	Michigan
CenturyTel of Adamsville, Inc.	Tennessee
CenturyTel of Arkansas, Inc.	Arkansas
CenturyTel of Central Indiana, Inc.	Indiana
CenturyTel of Central Louisiana, Inc.	Louisiana
CenturyTel of Chatham, Inc.	Louisiana
CenturyTel of Chester, Inc.	Iowa
CenturyTel of Claiborne, Inc.	Tennessee
CenturyTel of Colorado, Inc.	Colorado
CenturyTel of Cowiche, Inc.	Washington
CenturyTel of Eagle, Inc.	Colorado
CenturyTel of East Louisiana, Inc.	Louisiana
CenturyTel of Eastern Oregon, Inc.	Oregon
CenturyTel of Evangeline, Inc.	Louisiana
CenturyTel of Fairwater-Brandon-Alto, Inc.	Wisconsin
CenturyTel of Forestville, Inc.	Wisconsin
CenturyTel of Greater Wisconsin, Inc.	Wisconsin
CenturyTel of Idaho, Inc.	Delaware
CenturyTel of Inter Island, Inc.	Washington
CenturyTel of Lake Dallas, Inc.	Texas
CenturyTel of Larsen-Readfield, Inc.	Wisconsin
CenturyTel of Michigan, Inc.	Michigan
CenturyTel of Minnesota, Inc.	Minnesota
CenturyTel of Monroe County, Inc.	Wisconsin
CenturyTel of Montana, Inc.	Oregon
CenturyTel of Mountain Home, Inc.	Arkansas
CenturyTel of North Louisiana, Inc.	Louisiana
CenturyTel of North Mississippi, Inc.	Mississippi
CenturyTel of Northern Michigan, Inc.	Michigan
CenturyTel of Northern Wisconsin, Inc.	Wisconsin
CenturyTel of Northwest Louisiana, Inc.	Louisiana
CenturyTel of Northwest Wisconsin, Inc.	Wisconsin
CenturyTel of Odon, Inc.	Indiana
CenturyTel of Ohio, Inc.	Ohio
CenturyTel of Ooltewah-Collegedale, Inc.	Tennessee
CenturyTel of Oregon, Inc.	Oregon
CenturyTel of Port Aransas, Inc.	Texas
CenturyTel of Postville, Inc.	Iowa
CenturyTel of Redfield, Inc.	Arkansas
CenturyTel of Ringgold, Inc.	Louisiana
CenturyTel of San Marcos, Inc.	Texas
CenturyTel of South Arkansas, Inc.	Arkansas
CenturyTel of Southeast Louisiana, Inc.	Louisiana
CenturyTel of Southern Wisconsin, Inc.	Wisconsin
CenturyTel of Southwest Louisiana, Inc.	Louisiana

CenturyTel of the Gem State, Inc.	Idaho
CenturyTel of the Midwest-Kendall, Inc.	Wisconsin
CenturyTel of the Midwest-Wisconsin, Inc.	Wisconsin
CenturyTel of the Northwest, Inc.	Washington
CenturyTel of the Southwest, Inc.	New Mexico
CenturyTel of Upper Michigan, Inc.	Michigan
CenturyTel of Washington, Inc.	Washington
CenturyTel of Wisconsin, Inc.	Wisconsin
CenturyTel of Wyoming, Inc.	Wyoming
CenturyTel Paging, Inc.	Louisiana
CenturyTel Personal Access Network, Inc.	Louisiana
CenturyTel Security Systems, Inc.	Louisiana
CenturyTel Service Group, LLC	Louisiana
CenturyTel Supply Group, Inc.	Louisiana
CenturyTel Telecom Service, Inc.	Washington
CenturyTel Telecommunications, Inc.	Texas
CenturyTel Telelink, Inc.	Louisiana
CenturyTel Wireless Louisiana, Inc.	Louisiana
CenturyTel Wireless of Appleton-Oshkosh-Neenah MSA, LLC	Delaware
CenturyTel Wireless of La Crosse, LLC	Delaware
CenturyTel Wireless of North Louisiana, LLC	Louisiana
CenturyTel Wireless of Shreveport, LLC	Louisiana
CenturyTel Wireless of Wisconsin RSA #1, LLC	Delaware
CenturyTel Wireless of Wisconsin RSA #10, LLC	Delaware
CenturyTel Wireless of Wisconsin RSA #2, LLC	Delaware
CenturyTel Wireless of Wisconsin RSA #3, LLC	Delaware
CenturyTel Wireless of Wisconsin RSA #6, LLC	Delaware
CenturyTel Wireless of Wisconsin RSA #8, LLC	Delaware
CenturyTel Wireless, Inc.	Louisiana
CenturyTel/Area Long Lines, Inc.	Wisconsin
CenturyTel/Remote Access, Inc.	Louisiana
CenturyTel/Tele-Max, Inc.	Texas
CenturyTel/Teleview of Wisconsin, Inc.	Wisconsin
CenturyTel/WORLDDVOX, Inc.	Oregon
Eau Claire Cellular, Inc.	Colorado
Jackson Cellular Telephone Co., Inc.	Delaware
MVI Corp.	Oregon
North-West Cellular of Eau Claire, Inc.	Wisconsin
Pacific Telecom Cellular of Alaska RSA #1, Inc.	Alaska
Pacific Telecom Cellular of Alaska, Inc.	Alaska
Pacific Telecom Cellular of Michigan RSA #1, Inc.	Michigan
Pacific Telecom Cellular of Michigan RSA #2, Inc.	Michigan
Pacific Telecom Cellular of Michigan, Inc.	Michigan
Pacific Telecom Cellular of Oregon, Inc.	Oregon
Pacific Telecom Cellular of Washington, Inc.	Washington
Pacific Telecom Cellular, Inc.	Wisconsin
Pacific Telecom of Alaska PCS, Inc.	Alaska
Pascagoula Cellular Services, Inc.	Mississippi
PTI Communications of Alaska, Inc.	Alaska
Telephone Utilities of Alaska, Inc.	Alaska
Telephone Utilities of the Northland, Inc.	Alaska
The McAllen Cellular Telephone Co., Inc.	Nevada

Certain of the Company's smaller subsidiaries have been intentionally omitted from this exhibit pursuant to rules and regulations of the Securities and Exchange Commission.

## EXHIBIT 23

### Independent Auditors' Consent

The Board of Directors  
Century Telephone Enterprises, Inc.:

We consent to incorporation by reference in the Registration Statements (No.333-27165 and No. 333-42013) on Form S-3, the Registration Statements (No. 33-17113, No. 33-46562, No. 33-60061 and No. 333-67815) on Form S-8, the Registration Statements (No. 33-31314 and No. 33-46473) on combined Form S-8 and Form S-3, and the Registration Statements (No. 33-48956 and No. 333-17015) on Form S-4 of Century Telephone Enterprises, Inc. of our report dated January 28, 1999, except as to Note 21 which is as of February 23, 1999, relating to the consolidated balance sheets of Century Telephone Enterprises, Inc. and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows and related financial statement schedules for each of the years in the three-year period ended December 31, 1998, which report appears in the December 31, 1998 annual report on Form 10-K of Century Telephone Enterprises, Inc.

*/s/ KPMG LLP*

*KPMG LLP*

*Shreveport, Louisiana*  
*March 12, 1999*



## ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED BALANCE SHEET OF CENTURY TELEPHONE ENTERPRISES, INC. AND SUBSIDIARIES AS OF DECEMBER 31, 1998 AND THE RELATED AUDITED CONSOLIDATED STATEMENT OF INCOME FOR THE TWELVE MONTH PERIOD THEN ENDED AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000018926

NAME: CENTURY TELEPHONE ENTERPRISES, INC.

MULTIPLIER: 1,000

PERIOD TYPE	YEAR	
FISCAL YEAR END	DEC 31 1998	
PERIOD START	JAN 01 1998	
PERIOD END	DEC 31 1998	
CASH	5,742	
SECURITIES	0	
RECEIVABLES	134,444	
ALLOWANCES	4,155	
INVENTORY	23,709	
CURRENT ASSETS	226,238	
PP&E	4,289,658	
DEPRECIATION	1,938,205	
TOTAL ASSETS	4,935,455	
CURRENT LIABILITIES	304,844	
BONDS	2,558,000	
PREFERRED MANDATORY	0	
PREFERRED	8,106	
COMMON	138,083	
OTHER SE	1,385,293	
TOTAL LIABILITY AND EQUITY	4,935,455	
SALES	0	
TOTAL REVENUES	1,577,085	
CGS	0	
TOTAL COSTS	1,097,274	
OTHER EXPENSES	0	
LOSS PROVISION	0	
INTEREST EXPENSE	167,552	
INCOME PRETAX	387,458	
INCOME TAX	158,701	
INCOME CONTINUING	228,757	
DISCONTINUED	0	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	228,757	
EPS PRIMARY	1.67	1
EPS DILUTED	1.64	1

<sup>1</sup> Adjusted to reflect stock split effective in March 1999. Financial Data Schedules for prior periods have not been restated to reflect such stock split.

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**End of Filing**

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