

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, 2008

or

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

Commission file number 1-7784

**CENTURYTEL, INC.**  
*(Exact name of Registrant as specified in its charter)*

Louisiana  
*( State or other jurisdiction of  
incorporation or organization)*

72-0651161  
*(IRS Employer  
Identification No.)*

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

71203  
*(Zip Code)*

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

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

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

Stock Options  
*(Title of class)*

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 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.    ☐ ☐

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer
<input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	

Indicate by check mark if the Registrant is a shell company (as defined in Rule 12b-2 of the Act).    Yes ☐    No ☒

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 our outstanding voting securities) was \$3.2 billion as of June 30, 2008. As of February 20, 2009, there were 100,319,319 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant’s Proxy Statement to be furnished in connection with the 2009 annual meeting of shareholders are incorporated by reference in Part III of this Report.

## Table of Contents

	Page
<b>Part I.</b>	
Item 1. Business	4
Item 1A. Risk Factors	26
Item 1B. Unresolved Staff Comments	44
Item 2. Properties	44
Item 3. Legal Proceedings	45
Item 4. Submission of Matters to a Vote of Security Holders and Executive Officers of the Registrant	46
<b>Part II.</b>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	47
Item 6. Selected Financial Data	48
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	76
Item 8. Financial Statements and Supplementary Data	77
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	119
Item 9A. Controls and Procedures	119
Item 9B. Other Information	119
<b>Part III.</b>	
Item 10. Directors, Executive Officers and Corporate Governance	120
Item 11. Executive Compensation	121
Item 12. Security Ownership of Certain Beneficial Owners and Management	121
Item 13. Certain Relationships and Related Transactions	121
Item 14. Principal Accountant Fees and Services	121
<b>Part IV.</b>	
Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K	122
<b>Signatures</b>	135

## PART I

### Item 1. Business

**On October 26, 2008, we agreed to acquire Embarq Corporation (“EMBARQ”) in a stock-for-stock transaction that we expect to complete in the second quarter of 2009, subject to the satisfaction of various closing conditions. The information contained in this annual report does not reflect the impact of us acquiring EMBARQ. For additional information, see “Pending Acquisition” below.**

*General .* CenturyTel, Inc., together with its subsidiaries, is an integrated communications company engaged primarily in providing an array of communications services, including local and long distance voice, Internet access and broadband services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide a complete offering of integrated communications services. We conduct all of our operations in 25 states located within the continental United States.

At December 31, 2008, our incumbent local exchange telephone subsidiaries operated approximately 2.0 million telephone access lines, primarily in rural areas and small to mid-size cities in 23 states, with over 68% of these lines located in Missouri, Wisconsin, Alabama, Arkansas and Washington. According to published sources, we are currently the seventh largest local exchange telephone company in the United States based on the number of access lines served.

We also provide fiber transport, competitive local exchange carrier, security monitoring, and other communications and business information services in certain local and regional markets.

In recent years, we have expanded our product offerings to include satellite television services and wireless broadband services. For additional information, see “Operations - Recent Product Developments” below.

For information on the amount of revenue derived by our various lines of services, see “Operations - Services” below and Item 7 of this annual report.

*Pending acquisition.* On October 26, 2008, we entered into a definitive merger agreement to acquire Embarq Corporation (“EMBARQ”) in a stock-for-stock transaction. Under the terms of the agreement, EMBARQ shareholders will receive 1.37 CenturyTel shares for each share of EMBARQ common stock they own at closing. On December 31, 2008, EMBARQ had outstanding approximately 142.4 million shares of common stock and \$5.7 billion of long-term debt. The two companies have a combined operating presence in 33 states with approximately 7.7 million access lines and two million broadband customers.

Completion of the transaction is subject to the receipt of regulatory approvals, including approvals from the Federal Communications Commission and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction in the second quarter of 2009.

See Item 1A, Risk Factors, for additional information concerning the pending acquisition of EMBARQ. Additional information about EMBARQ is included in documents that it has filed with the U.S. Securities and Exchange Commission (the “SEC”). See “Where to find additional information” below.

The foregoing description of the pending EMBARQ merger is not complete, and is qualified in its entirety by reference to our Current Reports on Form 8-K filed with the SEC on October 27 and October 30, 2008, including the exhibits thereto.

*Recently completed acquisitions* . On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. (“Madison River”) for approximately \$322 million cash (including the effect of post-closing adjustments). In connection with the acquisition, we also paid all of Madison River’s existing indebtedness (including accrued interest), which approximated \$522 million. At the time of this acquisition, Madison River operated approximately 164,000 predominantly rural access lines in four states with more than 30% high-speed Internet penetration and its network included ownership in a 2,100 route mile fiber network.

In June 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. (“KMC”) for approximately \$75.5 million cash, which has enabled us to offer broadband and competitive local exchange services to customers in these markets. During 2008, we sold the assets in six of these markets in two separate transactions.

In June 2003, we purchased for \$39.4 million cash the assets of Digital Teleport, Inc., a regional communications company providing wholesale data transport services to other communications carriers over its fiber optic network located in Missouri, Arkansas, Oklahoma and Kansas. In addition, in December 2003, we acquired additional fiber transport assets in Arkansas, Missouri and Illinois from Level 3 Communications, Inc. for approximately \$15.8 million cash. For additional information, see “Operations - Services - Fiber Transport and CLEC.”

We also acquired approximately 660,000, 490,000 and 650,000 telephone access lines in transactions completed in 1997, 2000 and 2002, respectively, each of which substantially expanded our operations. The 2002 acquisition of telephone access lines was funded primarily from proceeds received from the sale of substantially all of our wireless operations in August 2002.

We continually evaluate the possibility of acquiring additional communications assets in exchange for cash, securities or other properties, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement. Although our primary focus will continue to be on acquiring interests that are proximate to our properties or that serve a customer base large enough for us to operate efficiently, we may also acquire other communications interests and these acquisitions could have a material impact upon us.

*Where to find additional information.* We make available all of our filings with the SEC (including Forms 10-K, 10-Q and 8-K) on our website ( [www.centurytel.com](http://www.centurytel.com) ) as soon as reasonably practicable after we complete such filings with the SEC. These documents may also be obtained from the SEC's website at [www.sec.gov](http://www.sec.gov) . You may obtain copies of EMBARQ's filings with the SEC at the same website, or at EMBARQ's website ( [www.EMBARQ.com](http://www.EMBARQ.com) ).

We also make available on our website our Corporate Governance Guidelines, our Corporate Compliance Program and the charters of our audit, compensation, risk evaluation, and nominating and corporate governance committees. We will furnish printed copies of these materials free of charge upon the request of any shareholder. If a provision of our Corporate Compliance Program is amended, other than by a technical, administrative or other non-substantive amendment, or a waiver under this program is granted to a director or executive officer, notice of such amendment or waiver will be posted on our website. Also, we may elect to disclose the amendment or waiver in a report on Form 8-K filed with the SEC. Only our board of directors may consider a waiver of our Corporate Compliance Program for a director or executive officer.

In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and the Act's related regulations. In addition, during 2008 our chief executive officer certified to the New York Stock Exchange that he was unaware of any violation by us of the New York Stock Exchange's corporate governance listing standards.

*Industry information .* Unless otherwise indicated, information contained in this annual report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the communications industry are based on estimates made by us using data from industry sources, and on assumptions made by us based on our management's knowledge and experience in the markets in which we operate and the communications industry generally. We believe these estimates and assumptions are accurate as of the date made; however, this information may prove to be inaccurate because it cannot always be verified with certainty. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed in Item 1A of this annual report.

*Other* . As of December 31, 2008, we had approximately 6,500 employees, of which approximately 1,600 were members of 15 different bargaining units represented by the International Brotherhood of Electrical Workers and the Communications Workers of America. We believe that relations with our employees continue to be generally good. During 2006, 2007 and 2008, we announced reductions of our workforce which aggregated approximately 700 jobs, primarily due to (i) increased competitive pressures and the loss of access lines over the last several years, (ii) completion of our Madison River integration and (iii) the elimination of certain customer service personnel due to reduced call volumes.

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

## OPERATIONS

According to published sources, we are the seventh largest local exchange telephone company in the United States, based on the approximately 2.0 million access lines we served at December 31, 2008. An “access line” is a telephone line that connects a home or business to the public switched telephone network. All of our access lines are digitally switched. Through our operating telephone subsidiaries, we provide local exchange services to predominantly rural areas and small to mid-size cities in 23 states.

The following table lists additional information regarding our access lines as of December 31, 2008 and 2007 (rounded to the nearest thousand lines).

December 31, 2008	December 31, 2008		December 31, 2007	
	Number of access lines	Percent of access lines	Number of access lines	Percent of access lines
State				
Missouri	387,000	19%	408,000	19%
Wisconsin (1)	362,000	18	387,000	18
Alabama (2)	268,000	13	290,000	14
Arkansas	197,000	10	211,000	10
Washington	147,000	7	157,000	7
Michigan	86,000	4	91,000	4
Colorado	82,000	4	86,000	4
Louisiana	80,000	4	84,000	4
Oregon	62,000	3	66,000	3
Ohio	57,000	3	64,000	3
Illinois (2)	53,000	3	57,000	3
Montana	53,000	3	57,000	3
Texas	31,000	2	33,000	2
Georgia (2)	30,000	2	34,000	2
Minnesota	25,000	1	27,000	1
Tennessee	22,000	1	23,000	1
Mississippi	21,000	1	22,000	1
North Carolina (2)	13,000	*	14,000	*
Wyoming	6,000	*	6,000	*
New Mexico	5,000	*	6,000	*
Idaho	5,000	*	5,000	*
Indiana	4,000	*	5,000	*
Iowa	2,000	*	2,000	*
	<u>1,998,000</u>	<u>100%</u>	<u>2,135,000</u>	<u>100%</u>

\* Represents less than 1% of access lines.

- (1) As of December 31, 2008 and 2007, approximately 48,000 and 51,000, respectively, of these lines were owned and operated by our 89%-owned affiliate.
- (2) In connection with our acquisition of Madison River in April 2007, we acquired an aggregate of approximately 164,000 access lines in Illinois, Alabama, Georgia and North Carolina.



The following table summarizes certain information related to our customer base, operating revenues and capital expenditures for the past five years. The 2008 and 2007 information includes the Madison River properties we acquired on April 30, 2007.

	Year ended or as of December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Access lines	1,998,000	2,135,000	2,094,000	2,214,000	2,314,000
% Residential	73%	73	74	75	75
% Business	27%	27	26	25	25
Internet customers	683,000	623,000	459,000	357,000	271,000
% High-speed Internet service	94%	89	80	70	53
% Dial-up service	6%	11	20	30	47
Operating revenues	\$ 2,599,747	2,656,241	2,447,730	2,479,252	2,407,372
Capital expenditures	\$ 286,817	326,045	314,071	414,872	385,316

As discussed further below, our access lines (exclusive of acquisitions) have declined in recent years, and are expected to continue to decline. To mitigate these declines, we hope to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission or improvements in our infrastructure, (iii) provide our broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products to new customers. See “Services” and “Regulation and Competition.”

## Services

We derive revenue from providing (i) local exchange and long distance voice telephone services, (ii) network access services, (iii) data services, which includes both high-speed and dial-up Internet services, as well as special access and private line services, (iv) fiber transport, competitive local exchange and security monitoring services and (v) other related services. The following table reflects the percentage of operating revenues derived from these respective services:

	2008	2007	2006
Voice	33.6%	33.5	35.6
Network access	31.6	35.4	35.9
Data	20.2	17.4	14.4
Fiber transport and CLEC	6.2	6.0	6.1
Other	8.4	7.7	8.0
	<u>100.0%</u>	<u>100.0</u>	<u>100.0</u>

*Voice.* We offer local calling service to residential and business customers within our local service areas, generally for a fixed monthly charge. We also offer a number of enhanced voice services (such as call forwarding, caller identification, conference calling, voicemail, selective call ringing and call waiting) to our local exchange customers for an additional monthly fee. At December 31, 2008, nearly 60% of both our business and residential customers subscribed to one or more enhanced services. We also offer long distance services to our customers based on either usage or pursuant to flat-rate calling plans. We anticipate that most of our long distance service will be provided as part of an integrated bundle with our other service offerings, including our local exchange telephone service offering.

Normalized for acquisitions, dispositions and other adjustments, access lines declined 6.4% in 2008, 5.7% in 2007 and 4.8% in 2006. We believe these declines in the number of access lines were primarily due to the displacement of traditional wireline telephone services by other competitive services and recent economic conditions. Based on our current retention initiatives, we estimate that our access line loss will be between 5.7% and 6.7% in 2009.

*Network access.* We derive our network access revenues primarily from (i) providing services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms (see “Regulation and Competition Relating to Incumbent Local Exchange Operations” below). Our revenues for switched access services depend primarily on the level of call volume.

Certain of our interstate network access revenues are based on tariffed access charges prescribed by the Federal Communications Commission (“FCC”); the remainder of such revenues are derived under revenue sharing arrangements with other local exchange carriers (“LECs”) administered by the National Exchange Carrier Association (“NECA”), a quasi-governmental non-profit organization formed by the FCC in 1983 for such purposes.

Certain of our intrastate network access revenues are derived through access charges that we bill to intrastate long distance carriers and other LEC customers. Such intrastate network access charges are based on tariffed access charges, which are subject to state regulatory commission approval. Additionally, certain of our intrastate network access revenues, along with intrastate and intra-LATA (Local Access and Transport Areas) long distance revenues, are derived through revenue sharing arrangements with other LECs.

*Data.* We derive our data revenues primarily from monthly recurring charges for providing Internet access services (both high-speed and dial-up services) and data transmission services over special circuits and private lines. We began offering traditional dial-up Internet access services to our telephone customers in 1995. In late 1999, we began offering high-speed Internet access services, a premium-priced broadband data service. As of December 31, 2008, approximately 88% of our access lines were broadband-enabled. At December 31, 2008, we provided high-speed Internet access services to over 641,000 customers and dial-up services to over 42,000 customers. During 2008, we added over 85,000 high-speed Internet customers.

Our data revenue also includes amounts billed to our business customers for dedicated circuits used for various purposes, including connecting the customer's offices or networks to our networks.

*Fiber transport and CLEC* . Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier ("CLEC") and security monitoring businesses.

In late 2000, we began offering competitive local exchange telephone services as part of a bundled service offering to small to medium-sized businesses in Monroe and Shreveport, Louisiana. In February 2002, we purchased the fiber network and customer base of KMC's operations in Monroe and Shreveport, Louisiana and in June 2005, we purchased the fiber assets in 16 metropolitan markets from KMC which allowed us to offer broadband and competitive local exchange services to customers in these markets. As part of our plan to focus our efforts on the CLEC markets with the most promise, in mid-2008 we sold the assets in six of our CLEC markets to other communications companies in two separate transactions. As of December 31, 2008, our competitive local exchange markets provided service over 800 miles of fiber.

Under the name "LightCore", we sell fiber capacity to other carriers and businesses over a network that encompassed, at December 31, 2008, over 9,900 miles of fiber in the central United States. We began our fiber transport business during 2001, when we began selling capacity over a 700-mile fiber optic ring that we constructed in southern and central Michigan. In June 2003, we acquired the assets of Digital Teleport, Inc., a regional communications company providing wholesale data transport services to other communications carriers over its fiber optic network located in Missouri, Arkansas, Oklahoma and Kansas. We have used the network to sell services to new and existing customers and to reduce our reliance on third party transport providers. In addition, in December 2003, we acquired additional fiber transport assets in Arkansas, Missouri and Illinois from Level 3 Communications, Inc. to provide services similar to those described above.

In addition to the above-described fiber network, in connection with our 2007 acquisition of Madison River, we acquired ownership in a 2,100 route mile fiber network located in six states which has enabled us to expand our fiber network business and further reduce our reliance on third-party transport providers.

We offer 24-hour burglary and fire monitoring services to over 10,700 customers in select markets in Louisiana, Arkansas, Mississippi, Texas and Ohio.

*Other*. We derive our "other revenues" principally by (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services to third parties, (iii) participating in the publication of local telephone directories, which allows us to share in revenues generated by the sale of yellow page and related advertising to businesses, and (iv) offering our new services described below under the heading "-Recent Product Developments". We also provide printing, database management and direct mail services and cable television services.

During 2008, we paid an aggregate of approximately \$149 million for 69 licenses in the FCC's auction of 700 megahertz ("MHz") wireless spectrum. The 700 MHz spectrum is not expected to be cleared for usage until mid-2009. We are still in the planning stages regarding the use of this spectrum. However, based on our preliminary analysis, we are considering developing wireless voice and data service capabilities based on equipment using LTE (Long-Term Evolution) technology. Given that this equipment is not expected to be commercially available until 2010, we do not expect our deployment to result in any material impact on our capital and operating budgets in 2009.

From time to time, we also make investments in other communications companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation and Competition" under this Item 1 below and "Risk Factors and Cautionary Statements" under Item 1A below. For more information on the financial contributions of our various services, see Item 7 of this annual report.

### **Recent Product Developments**

Since 2005, we, in conjunction with DISH Network Corporation ("DISH"), have offered satellite television service to households in substantially all of our local exchange service areas. Effective January 1, 2007, we changed our relationship with DISH from a revenue sharing arrangement to an agency relationship. In late 2005, we initiated our switched digital television service to the LaCrosse, Wisconsin market and, in October 2007, we commenced a second switched digital video service offering to our Columbia, Missouri market.

We also offer wireless broadband Internet services in select locations in certain markets in 13 states.

### **Federal Financing Programs**

Certain of our telephone subsidiaries receive long-term financing from the Rural Utilities Service ("RUS"), a federal agency that has historically provided long-term financing to telephone companies at relatively attractive interest rates. Approximately 13% of our plant is pledged to secure obligations of our telephone subsidiaries to the RUS. For additional information regarding our financing, see our consolidated financial statements included in Item 8 herein.

## **Sales and Marketing**

We maintain local offices in most of the larger population centers within our service territories. These offices provide sales and customer support services in the community. We also rely on our call center personnel to promote sales of services that meet the needs of our customers. In addition, our strategy is to enhance our communications services by offering comprehensive bundling of services and deploying new technologies to build upon the strong reputation we enjoy in our markets and to further promote customer loyalty.

Most of our services are currently offered under our “CenturyTel” brand name. However, we currently sell fiber capacity on our networks under the brand name “LightCore.” In addition, our satellite television service is offered on a co-branded basis under the “DISH Network” name. We have agreed to determine, in consultation with EMBARQ, whether it is in the best interests of our shareholders to change our corporate or brand names in connection with our pending EMBARQ merger.

## **Network Architecture**

Our local exchange carrier networks consist of central office hosts and remote sites, all with advanced digital switches (primarily manufactured by Nortel and Siemens) and operating with licensed software. Our outside plant consists of transport and distribution delivery networks connecting each of our host central offices to our remote central offices, and ultimately to our customers. As of December 31, 2008, we maintained over 253,000 miles of copper plant and approximately 21,000 miles of fiber optic plant in our local exchange networks. Our fiber optic cable is the primary transport technology between our host and remote central offices and interconnection points with other incumbent carriers. Most of our long distance service is provided directly through our own switches and network equipment, with the balance being provided through reselling arrangements with other long distance carriers. We also maintain networks in connection with providing fiber transport and CLEC services. For additional information on these networks, see “Services - Fiber Transport and CLEC.”

## **Regulation and Competition Relating to Incumbent Local Exchange Operations**

Traditionally, LECs operated as regulated monopolies having the exclusive right and responsibility to provide local telephone services in their franchised service territories. (These LECs are sometimes referred to below as “incumbent LECs” or “ILECs”). Consequently, most of our intrastate telephone operations have traditionally been regulated extensively by various state regulatory agencies (generally called public service commissions or public utility commissions) and our interstate operations have been regulated by the FCC under the Communications Act of 1934. As we discuss in greater detail below, passage of the 1996 Act, coupled with state legislative and regulatory initiatives and technological changes, fundamentally altered the telephone industry by generally reducing the regulation of LECs and attracting a substantial increase in the number of competitors and capital invested in existing and new services. We anticipate that these trends toward reduced regulation and increased competition will continue.

The following description discusses some of the major industry regulations that affect our traditional telephone operations, but numerous other regulations not discussed below could also impact us. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could substantially change the manner in which the communications industry operates. Neither the outcome of any of these developments, nor their potential impact on us, can be predicted at this time. The impact of regulatory changes in the communications industry could have a substantial impact on our operations. See Item 1A of this annual report below.

*State regulation* . The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke certifications authorizing companies to provide communications services. Most commissions have traditionally regulated pricing through “rate of return” regulation that focuses on authorized levels of earnings by LECs. Historically, most of these commissions also (i) regulated the purchase and sale of LECs, (ii) prescribed depreciation rates and certain accounting procedures, (iii) enforced laws requiring LECs to provide universal service under publicly filed tariffs setting forth the terms, conditions and prices of their LEC services, (iv) oversaw implementation of several federal telecommunications laws including interconnection obligations and (v) regulated service standards, operating procedures and various other matters.

In recent years, state legislatures and regulatory commissions in most of the 23 states in which our telephone subsidiaries operate have either reduced the regulation of LECs or have announced their intention to do so, and we expect this trend will continue. Essentially, such relief comes in two forms: (i) full or partial deregulation through legislation or (ii) the ability of LECs to elect into or renew existing state alternative regulation through a regulatory proceeding. Several states have implemented laws or rulings which require or permit LECs to opt out of pricing or “rate of return” regulation in exchange for agreeing to alternative forms of regulation. Such alternatives permit the LEC greater freedom to establish local service rates in exchange for agreeing not to charge rates in excess of specified caps. As discussed further below, subsidiaries operating over 72% of our access lines in various states have agreed to be governed by alternative regulation plans, and we continue to explore our options for similar treatment in other states. We believe that reduced regulatory oversight of certain of our telephone operations may allow us to offer new and competitive services faster than under the traditional regulatory process. For a discussion of legislative, regulatory and technological changes that have introduced competition into the local exchange industry, see “Developments Affecting Competition.”

The following summary describes the alternative regulation plans applicable to us in Missouri, Wisconsin, Alabama and Arkansas, our four largest telephone markets.

- All of our Missouri LECs are regulated under a price-cap regulation plan whereby basic service rates are adjusted annually based on an inflation-based factor and non-basic services may be increased without restriction up to 5% annually. If the inflation-based factor were to decline as it has done in recent years, our revenues would be negatively impacted.
- Our Wisconsin access lines, except for those acquired from Verizon in 2000 (which continue to be regulated under “rate of return” regulation), are regulated under various alternative regulation plans developed jointly between the Wisconsin Public Service Commission and us. Each of these alternative regulation plans permits us to adjust local rates within specified parameters if we meet certain quality-of-service and infrastructure-development commitments. These plans also include initiatives designed to promote competition.
- In 2005, the state of Alabama passed legislation that essentially allowed telephone companies the option to phase in deregulation of certain LEC services. In February 2007, our Alabama LECs opted to provide all local services (including bundled services but excluding certain basic telephone and optional calling services) on a deregulated and detariffed basis. Certain basic telephone and optional calling services continue to be regulated and subject to a price cap. Our Alabama properties acquired from Madison River operate under a separate alternative regulation plan under which local rates are still governed by the Alabama Public Service Commission.
- Our Arkansas LECs acquired from Verizon Communications, Inc. are regulated under an alternative regulation plan under which rates can be adjusted based on an inflation-based factor. Other local rates can be adjusted without commission approval; however, such rates are subject to commission review under certain conditions. Our remaining Arkansas LECs have the option to increase rates up to certain specified amounts.

Notwithstanding the movement toward alternative regulation, LECs operating approximately 28% of our total access lines continue to be subject to “rate of return” regulation for intrastate purposes. These LECs remain subject to the powers of state regulatory commissions to conduct earnings reviews and adjust service rates, either of which could lead to revenue reductions.

*Federal regulation.* Our telephone subsidiaries are required to comply with the Communications Act of 1934, which requires us to offer services at just and reasonable rates and on non-discriminatory terms, as well as the 1996 Act, which amended the Communications Act to promote competition and reform the Universal Service Program.

The FCC regulates interstate services provided by our telephone subsidiaries primarily by regulating the interstate access charges that we bill to long distance companies and other communications companies for use of our network in connection with the origination and termination of interstate voice and data transmissions. Additionally, the FCC has prescribed certain rules and regulations for telephone companies, including a uniform system of accounts and rules regarding the separation of costs between jurisdictions and, ultimately, between interstate services. In addition, the FCC has responsibility for maintaining and administering the Universal Service Fund. LECs must obtain FCC approval to use certain radio frequencies, or to transfer control of any such licenses. The FCC retains the right to revoke these licenses if a carrier materially violates relevant legal requirements.

The FCC requires price-cap regulation of interstate access rates for the Regional Bell Operating Companies, and permits it for all other LECs. 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. Our properties acquired from Verizon in 2002 have continued to operate under price-cap regulation, as permitted under FCC rules for acquired properties, while the remainder of our properties operate under traditional rate-of-return regulation (which permits us to set rates based on forecasted investment and expenses plus a return on investment, which is currently 11.25%). In September 2008, we filed a petition with the FCC to convert our remaining rate-of-return study areas to price cap regulation effective January 1, 2009 and, to the extent necessary, requested limited waivers of certain pricing and universal service high-cost support rules related to our election. Such petition was not addressed by the FCC in 2008 and remains pending.

In 2003, the FCC opened a broad intercarrier compensation proceeding with the ultimate goal of creating a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or carrying telecommunications traffic. The FCC has received intercarrier compensation proposals from several industry groups, and in early 2005 solicited comments on all proposals previously submitted to it. Broad industry negotiations have taken place with the goal of developing a consensus plan that addresses the concerns of carriers from all industry segments. On November 5, 2008 the FCC issued a document that, among other things, requested public comment on (i) the chairman's draft proposal which would require carriers to reduce access charges in three phases to as low as \$.0007 per minute of use (which is substantially lower than our current intrastate and interstate access rates and local reciprocal compensation rates), (ii) an alternative proposal, and (iii) some universal service reforms. Such document also included an order that declined to implement a universal service reform proposal issued in November 2007 by the Federal-State Joint Board. It is currently unclear what action the FCC may take with respect to the new set of draft proposals. Adoption of the chairman's original proposal, which is included in the latest draft order, could result in a material adverse impact on our results of operations. The ultimate outcome of this proceeding could change the way we receive compensation from, and remit compensation to, other carriers, our end user customers and the federal Universal Service Fund (the "USF"). Until the FCC's proceeding concludes and the changes, if any, to the existing rules are established, we cannot estimate the impact it will have on our results of operations.

In December 2005, a group of six mid-size carriers, including us, filed proposed rules with the FCC regarding "phantom traffic". "Phantom traffic" generally refers to telecommunications calls that cannot be billed properly to responsible carriers by other carriers in the call path because the traffic is mislabeled, unlabeled or improperly routed. The proposal requests that the FCC implement and enforce updated rules that require carriers to accurately identify, label and route network traffic so that appropriate bills can be created. In late 2006, the FCC opened a separate phantom traffic proceeding with the intent of formalizing potential phantom traffic rules for the industry. Overall, the comments received to date on the phantom traffic issue have been favorable to us; however, until the FCC concludes its phantom traffic proceeding and adopts changes, if any, to existing rules, we cannot estimate the impact any changes will have on our results of operations.



As discussed further below, certain providers of competitive communications services are currently not required to compensate ILECs for the use of their networks. Additionally, certain deregulated providers seek and receive high cost universal support funding based on the incumbent's costs rather than their own.

Our operations and those of all communications carriers also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act, and laws governing local number portability and customer proprietary network information requirements. These laws and regulations may cause us to incur additional costs.

*Universal service support funds, revenue sharing arrangements and related matters* . A significant number of our telephone subsidiaries recover a portion of their costs from the federal USF and from similar state "universal support" mechanisms, which receive their funding from fees charged to interexchange carriers and LECs. Disbursements from these programs traditionally have focused principally on allowing LECs serving small communities and rural areas to provide communications services on terms and at prices reasonably comparable to those available in urban areas. Other USF programs address other social goals, such as supporting schools and libraries through the USF's E-rate program.

The table below sets forth the amounts received by our telephone subsidiaries in 2008 and 2007 from federal and state universal support programs.

Support Program	Year ended December 31,			
	2008		2007	
	% of Total		% of Total	
	2008		2007	
	Amount Received	Operating Revenues	Amount Received	Operating Revenues
(amounts in millions)				
USF High Cost Loop Support	\$ 151.7	5.8%	\$ 166.5	6.3%
Other Federal Support Programs	128.5	5.0%	133.9	5.0%
Total Federal Support Receipts	280.2	10.8%	300.4	11.3%
State Support Programs	39.7	1.5%	35.6	1.3%
TOTAL	\$ 319.9	12.3%	\$ 336.0	12.6%

Federal USF programs have undergone substantial changes since 1997, and are expected to experience more changes in the coming years. As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies by adopting an interim mechanism for a five-year period based on embedded, or historical, costs that provide relatively predictable levels of support to many LECs, including substantially all of our LECs. In May 2006, the FCC extended this interim mechanism until such time that new high-cost support rules are adopted for rural telephone companies.

Universal support funds available to ILECs are currently available to local competitors that (i) certify they will serve all customers in a study area, (ii) offer nine core services, and (iii) qualify as an “eligible telecommunications carrier.” Wireless and other competitive service providers continue to seek to qualify to receive USF support. This trend, coupled with changes in usage of telecommunications services, have placed stress on the funding mechanism of the USF, which is subject to annual caps on disbursements. These developments have placed additional financial pressure on the amount of money that is necessary and available to provide support to all eligible service providers, including support payments we receive from the USF High Cost Loop support program.

Over the past few years, each of the FCC, Universal Service Administrative Company and certain Congressional committees has initiated wide-ranging reviews of the administration of the federal USF. As part of this process, we, along with a number of other USF recipients, have undergone a number of USF audits and have also received requests for information from the FCC’s Office of Inspector General (“OIG”) and Congressional committees. In addition, in July 2008 we received a subpoena from the OIG requesting a broad range of information regarding our depreciation rates and methodologies since 2000. The OIG has not identified to us any specific issues with respect to our participation in the USF program and none of the audits completed to date has identified any material issues regarding our participation in the USF program. While we believe our participation is in compliance with FCC rules and in accordance with accepted industry practices, we cannot predict with certainty the timing or outcome of these various reviews. We have complied with and are continuing to respond to all requests for information.

A significant portion of our support payments have varied over time based on our average cost to serve customers compared to national cost averages. Under the USF High Cost Loop support program, which is the USF's principal support program, our payments from the USF will decrease if national average costs per loop increase at a rate greater than our average cost per loop. Increases in the nationwide average cost per loop factor used to allocate funds among all USF recipients caused our revenues from the USF High Cost Loop support program to decrease in 2008 when compared to 2007. Similarly, we anticipate that our 2009 revenues from the USF High Cost Loop support program will be lower than 2008. See Item 7 of Part II of this annual report for more information.

In late 2002, the FCC requested that the Federal-State Joint Board ("FSJB") on Universal Service review various FCC rules governing high cost universal service support, including rules regarding eligibility to receive support payments in markets served by LECs and competitive carriers. Since then, the FSJB recommended a comprehensive general review of the high-cost support mechanisms for rural and non-rural carriers and requested comments on the FCC's current rules for the provision of high-cost support for rural companies, including comments on whether eligibility requirements should be amended in a manner that would adversely affect larger rural LECs such as us. The FCC Chairman's November 2008 proposal regarding USF reform would (i) require that all high-cost USF recipients have broadband service capabilities deployed in 100% of their markets within five years; (ii) freeze ILEC support at December 2008 levels; and (iii) expand the current Lifeline and Link-up programs.

Over the past few years, the FSJB has proposed that the FCC consider several changes to USF programs, including an interim cap on the amount of high cost support that competitive eligible telecommunications carriers ("CETCs") may receive. The FSJB also recommended elimination of the identical support rule which now enables wireless CETCs to draw identical support based on the ILEC's cost. In addition, the FSJB is recommending certain other reforms, including (i) caps on the present high cost funding mechanism, (ii) certification of only one wireline, one wireless and one broadband carrier in each market and (iii) further consideration of competitive bidding as a distribution mechanism. Until the FCC acts on these recommendations, we cannot estimate the impact that such proposals would have on our operations. In addition, there are a number of judicial appeals challenging several aspects of the FCC's universal service rules and various Congressional proposals seeking to substantially modify USF programs, none of which have been resolved at this time. We will continue to be active in monitoring and participating in these developments.

In 2004, the FCC mandated changes in the administration of the universal service support programs that temporarily suspended the disbursement of funds under the USF's E-rate program (for service to Schools and Libraries), and, more significantly, created questions that these administrative changes could similarly delay the disbursement of funds to LECs from the Universal Service High Cost Loop support program. Congress has passed bills in recent years granting successive one-year exemptions from the federal law that impacted the E-rate program, including a bill extending the exemption through December 31, 2008. An additional exemption is currently pending before Congress. Although we expect funding from this program to continue, we cannot assure you that the lack of a definitive resolution of this issue will not delay or impede the disbursement of funds in the future.

A substantial portion of our state support payments are payable by Louisiana under a state universal service fund program. An order was approved by the Louisiana Public Service Commission (“LPSC”) in December 2008 which restructures the program to determine our state support based on embedded cost. We expect the payments to be received under this fund to approximate those received by us under the predecessor program. The costs are subject to an annual adjustment by the LPSC. As such, there can be no assurance that the funding levels will remain at current levels.

Some of our 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.

All of our interstate network access revenues are based on access charges, cost separation studies or special settlement arrangements, many of which are administered by the FCC or NECA, and all of which are subject to change. See “Services.”

Certain long distance carriers continue to request that certain of our LECs reduce intrastate access tariffed rates. Long distance carriers have also aggressively pursued regulatory or legislative changes that would reduce access rates. In light of pending intercarrier compensation reform that is expected to address intrastate access charges, most states are deferring action until they receive direction from the FCC. However, some carriers are continuing to pursue lower intrastate access rates in some states.

*Developments affecting competition* . Over the past decade, fundamental technological, regulatory and legislative changes have significantly impacted the communications industry, and we expect these changes will continue. Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the communications industry in recent years. As a result, we increasingly face competition from other communication service providers, as further described below.

Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. This trend is more pronounced among residential customers, which comprise 73% of our access line customers. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services, and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from at least one competitive service provider. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, 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.

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, 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 nondiscriminatory "unbundled" access to all aspects of the LEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to collocate their physical plant on the LEC's property, or provide virtual collocation if physical collocation is not practicable. During 2003, the FCC released new rules outlining the obligations of incumbent LECs to lease to competitors elements of their circuit-switched networks on an unbundled basis at prices that substantially limited the profitability of these arrangements to incumbent LECs. In response to successful judicial challenges to these rules, in 2005 the FCC released rules that required incumbent LECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network element, and where the unbundling would not interfere with the development of facilities-based competition. These rules are further designed to remove LECs' unbundling obligations over time as competing carriers deploy their own networks and local exchange competition increases.

Under the 1996 Act's rural telephone company exemption, approximately half of our telephone access lines are exempt from certain of the 1996 Act's interconnection requirements unless and until the appropriate state regulatory commission overrides the exemption upon receipt from a competitor of a bona fide request meeting certain criteria. States are permitted to adopt laws or regulations that provide for greater competition than is mandated under the 1996 Act.

As a result of these regulatory, consumer and technological developments, ILECs increasingly face competition from CLECs, particularly in densely populated areas. CLECs provide competing services through reselling the ILECs' local services, through use of the ILECs' unbundled network elements or through their own facilities. The number of companies which have requested authorization to provide local exchange service in our service areas has increased in recent years, especially in our markets acquired from Verizon in 2002 and 2000. We anticipate that similar action may be taken by other competitors in the future, especially if all forms of federal support available to ILECs continue to remain available to these competitors.

As noted above, wireless and other competitive services providers have been increasingly aggressive in seeking and obtaining USF support funds. This support is likely to encourage additional competitors to enter our high-cost service areas.

Technological developments have led to the development of new services that compete with traditional LEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively pursued this opportunity. As of December 31, 2008, we believe that approximately 43-48% of our access lines faced competition from cable voice offerings. Additionally, several large electric utilities have announced plans to offer communications services that compete with some LECs.

Improvements in the quality of Voice over Internet Protocol (“VoIP”) service have led several cable, Internet, data and other communications companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers route calls partially or wholly over the Internet, without use of ILEC's circuit switches and, in certain cases, without use of ILEC's networks to carry their communications traffic. VoIP providers frequently use existing broadband networks to deliver flat-rate, all distance calling plans that may offer features that cannot readily be provided by traditional LECs. These plans may also be priced competitively or below those currently charged for traditional local and long distance telephone services for several reasons, including lower operating costs. In December 2003, the FCC initiated rulemaking that is expected to address the effect of VoIP on intercarrier compensation, universal service and emergency services. Although the FCC's rulemaking regarding VoIP-enabled services remains pending, the FCC has adopted orders establishing broad guidelines for the regulation of such services, including (i) an April 2004 order that found an IP-telephony service using the public switched telephone network to be a regulated telecommunications service subject to interstate access charges, (ii) a November 2004 order that Internet-based services provided by Vonage Holdings Corporation should be subject to federal rather than state regulation and (iii) a June 2005 order requiring all VoIP service providers whose services are interconnected to the public switched telephone network to provide E-911 services to their customers. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for our customers.

Similar to us, many cable, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Several of these companies started offering full service bundles before us, which could give them an advantage in building customer loyalty. Such activities will continue to place downward pressure on the demand for our access lines.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers or alternative access vendors. These systems, which have become more prevalent as a result of the 1996 Act, are capable of originating or terminating calls without use of the ILECs' networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of special access or independent switching services and the concentration of telecommunications traffic on a few of the ILECs' access lines. We anticipate that all these trends will continue and lead to decreased use of our networks.

Significant competitive factors in the local telephone industry include pricing, packaging of services and features, quality and convenience of service and meeting customer needs such as simplified billing and timely response to service calls.

As 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 we do or own larger or more diverse networks than ours. In addition, many of them are not subject to the same regulatory constraints we are.

Competition can harm us by causing us to lose customers, or by causing us to lower prices or increase our capital or operating expenses to retain customers. Competing communications services, such as wireless, VoIP, electronic mail and optional calling services, can also reduce usage of our network and thereby decrease our network access revenues. Competition can also cause customers to reduce either usage of our services or switch to less profitable services, and could impede our ability to diversify into new lines of business dominated by incumbent providers.

We anticipate that the traditional operations of LECs will continue to be impacted by changes in regulation, technology, and consumer preferences affecting the ability of LECs to attract and retain customers and the capability of wireless companies, CLECs, cable television companies, VoIP providers, electric utilities and others to provide competitive LEC services. Competition relating to traditional LEC services has thus far affected large urban areas to a greater extent than the less dense areas in which we operate.

Exclusive of acquisitions, we expect our operating revenues in 2009 to decline as we continue to experience downward pressure primarily due to continued access line losses, reduced universal service funding and lower network access revenues. We expect such declines to be partially offset primarily due to increased demand for our high-speed Internet service offering.

## Regulation and Competition Relating to Other Operations

*Long Distance Operations* . We offer intra-LATA, intrastate and interstate long distance services. State public service commissions generally regulate intra-LATA toll calls within the same LATA and inter-LATA toll calls between different LATAs located in the same state. Federal regulators have jurisdiction over interstate toll calls. Recent state regulatory changes have increased competition to provide intra-LATA toll services in our local exchange markets. Competition for intrastate and interstate long distance services has been intense for several years, and focuses primarily on price and pricing plans, and secondarily on customer service, reliability and communications quality. Traditionally, our principal competitors for providing long distance services were large national carriers, regional phone companies and dial-around resellers. Increasingly, however, we have experienced competition from newer sources, including wireless companies offering attractively-priced calling plans. Technological substitutions, including VoIP and electronic mail, have further reduced demand for traditional long distance services. To counter such competition, we now offer unlimited long distance calling plans.

*Data Operations* . In connection with our data business, we face competition from Internet service providers, satellite companies and cable companies which use wired or wireless technologies to offer dial-up Internet access services or high-speed broadband services. As of December 31, 2008, we believe approximately 60% of our local exchange markets are overlapped by cable systems offering data services competitive with ours. Many of these competitors offer content or other features that we cannot match. Moreover, many of these providers have traditionally been subject to less rigorous regulatory scrutiny than our subsidiaries, although recent FCC rule changes classifying our high-speed offering as an “information service” has helped reduce regulatory disparities. These recent rule changes further provided companies the option to deregulate (for price cap companies) or detariff (for rate of return companies) high-speed Internet services. During 2006, all of our operating companies elected to either deregulate or detariff their high-speed Internet services, which decreased regulatory oversight and increased our retail pricing flexibility.

*Fiber Transport Operations* . When our fiber transport networks are used to provide intrastate telecommunications services, we must comply with state requirements for telecommunications utilities, including state tariffing requirements. To the extent our facilities are used to provide interstate communications, we are subject to federal regulation as a non-dominant common carrier. Due largely to excess capacity, the fiber transport industry is highly competitive. Our primary competitors are from other communications companies, many of whom operate networks and have resources much larger than ours. Over the last few years, several large communications companies have merged and have implemented strategies to transfer a significant portion of their voice and data traffic from our fiber network to their networks. We expect this trend to continue as companies seek opportunities to reduce their transport-related costs. In addition, new IP-based services may enable new entrants to transport data at prices lower than we currently offer.



*CLEC Operations* . Competitive local exchange carriers are subject to certain reporting and other regulatory requirements by the FCC and state public service commissions, although the degree of regulation is much less substantial than that imposed on ILECs operating in the same markets. Local governments also frequently require competitive local exchange carriers to obtain licenses or franchises regulating the use of rights-of-way necessary to install and operate their networks. In each of our CLEC markets, we face competition from the ILEC, which traditionally has long-standing relationships with its customers. Over time, we may also face competition from one or more other CLECs, or from other communications providers who can provide comparable services.

*Other Operations* . Similar to our CLEC business, we may be required to obtain licenses or franchises to enter new markets for our switched digital television and wireless broadband services, which could delay our rollout of these offerings. The television and wireless communications markets we have recently entered are highly competitive, which could limit our ability to compete effectively.

## **OTHER DEVELOPMENTS OR MATTERS**

In August 2007, our board of directors approved a \$750 million stock repurchase program which expires in September 2009, unless extended by the board. Through December 31, 2008, we had repurchased approximately 13.2 million shares for \$503.9 million under this program. We have suspended our current share repurchase program pending completion of our acquisition of EMBARQ. We previously repurchased approximately \$401.0 million, \$186.7 million, \$437.5 million and \$1.028 billion of our shares under separate repurchase programs approved in February 2004, February 2005, May 2005 and February 2006, respectively. For additional information, see Liquidity and Capital Resources included in Item 7 of this annual report.

In June 2008, our board of directors increased our quarterly cash dividend rate from \$.0675 to \$.70 per share, and declared a one-time dividend of \$.6325 per share, which was paid in July 2008, which, when coupled with the previously-paid second quarter 2008 dividend, equaled the newly-established \$.70 per share quarterly rate. See “Risk Factors” below for additional information regarding our current dividend practice.

In February 2009, the American Recovery and Reinvestment Act of 2009 was signed into law. Such Act includes programs for loans and grants for broadband investment that total \$7.2 billion. Our utilization of these programs will depend in part on how the agencies charged with maintaining the programs interpret the new law. If these programs are implemented in a fashion that affords us opportunities to expand or enhance our broadband offerings, we will likely apply for grant funding to deploy broadband in some of our higher cost rural areas.

We have certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2008 have not been material and we currently have no reason to believe that such costs will become material.

For additional information concerning our business and properties, see Items 2 and 7 elsewhere herein, and the Consolidated Financial Statements and notes 2, 4, 5, and 16 thereto set forth in Item 8 elsewhere herein.

## **Item 1A. Risk Factors**

### **RISK FACTORS AND CAUTIONARY STATEMENTS**

#### **Risk Factors**

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects. The risks described below are not the only risks facing us. Please be aware that additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could materially and adversely affect our business operations.

#### ***Risks Related to Our Business***

***If we continue to experience access line losses similar to the past several years, our revenues, earnings and cash flows may be adversely impacted.***

Our business generates a substantial portion of its revenues by delivering voice and data services over access lines. We have experienced access line losses over the past several years, including a 6.4% decline during the year ended December 31, 2008, due to a number of factors, including increased competition and wireless and broadband substitution. We expect to continue to experience access line losses in our markets for an unforeseen period of time. Our inability to retain access lines could adversely impact our revenues, earnings and cash flow from operations.

***Recent deterioration in the economy and credit markets may adversely affect our future results of operations .***

To date, our operations and liquidity has not been materially impacted by the current credit environment; however, the recent tightening of the credit markets may negatively impact our operations in the future if overall borrowing rates increase. In addition, if the economy and credit markets continue to deteriorate, it may impact our ability to collect receivables from our customers and other communications companies. This deterioration may also cause our customers to reduce or terminate their receipt of service offerings from us due to their inability to pay for such services or to completely forego our service offerings for other competitive services. Such events would negatively impact our results of operations. We cannot predict with certainty the impact to us of any further deterioration in the overall economy and credit markets.

We are also exposed to market risk from changes in the fair value of our pension plan assets. Should our actual return on plan assets continue to be significantly lower than our 8.25% expected return assumption, our net periodic pension expense and our required cash contribution to our pension plan will increase in future periods. Such events would negatively impact our results of operations and cash flow.

***We face competition, which we expect to intensify and which may reduce market share and lower profits.***

As a result of various technological, regulatory and other changes, the telecommunications industry has become increasingly competitive. We face competition from wireless telephone services, which we expect to increase if wireless providers continue to expand and improve their network coverage, offer fixed-rate calling plans, lower their prices and offer enhanced services and (ii) cable television operators, competitive local exchange carriers and voice-over-Internet protocol, or VoIP, providers. Over time, we expect to face additional local exchange competition from electric utility and satellite communications providers and alternative networks or non-carrier systems designed to reduce demand for our switching or access services. The recent proliferation of companies offering integrated service offerings has intensified competition in Internet, long distance and data services markets, and we expect that competition will further intensify in these markets.

Our competitive position could be weakened in the future by strategic alliances or consolidation within the communications industry or the development of new technologies. Our ability to compete successfully will depend on how well we market our products and services and on our ability to anticipate and respond to various competitive and technological factors affecting the industry, including changes in regulation (which may affect us differently from our competitors), changes in consumer preferences or demographics, and changes in the product offerings or pricing strategies of our competitors.

Many of our current and potential competitors (i) have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources substantially greater than ours, (ii) own larger and more diverse networks, (iii) conduct operations or raise capital at a lower cost than us, (iv) are subject to less regulation, offer greater online content services or (vi) have substantially stronger brand names. Consequently, these competitors may be better equipped to charge lower prices for the products and services, to provide more attractive offerings, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, and to devote greater resources to the marketing and sale of their products and services.

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers reducing their usage of our services or shifting to less profitable services, (iii) reduced traffic on our networks, (iv) our need to expend substantial time or money on new capital improvement projects, (v) our need to lower prices or increase marketing expenses to remain competitive and (vi) our inability to diversify by successfully offering new products or services.

***We could be harmed by rapid changes in technology.***

The communications industry is experiencing significant technological changes, particularly in the areas of VoIP, data transmission and wireless communications. Several large electric utilities have announced plans to offer communications services that will compete with LECs. Some of our competitors may enjoy network advantages that will enable them to provide services more efficiently or at lower cost. Rapid changes in technology could result in the development of additional products or services that compete with or displace those offered by traditional LECs, or that enable current customers to reduce or bypass use of our networks. We cannot predict with certainty which technological changes will provide the greatest threat to our competitive position. We may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into our systems in a cost effective manner, or at all. If we cannot develop new products to keep pace with technological advances, or if such products are not widely embraced by our customers, we could be adversely impacted.

***We cannot assure you that our diversification efforts will be successful.***

The telephone industry has recently experienced a decline in access lines and intrastate minutes of use, which, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely affect our core business and future prospects. As explained in greater detail elsewhere in this annual report, our access lines (excluding the effect of acquisitions) have decreased over the last several years, and we expect this trend to continue. We also earned less intrastate revenues in 2008 due to reductions in intrastate minutes of use (partially due to the displacement of minutes of use by wireless, electronic mail and other optional calling services). We believe that our intrastate minutes of use will continue to decline, although the magnitude of such decrease is uncertain.

We have traditionally sought growth largely through acquisitions of properties similar to those currently operated by us. However, we cannot assure you that properties will be available for purchase on terms attractive to us, particularly if they are burdened by regulations, pricing plans or competitive pressures that are new or different from those historically applicable to our incumbent properties. Moreover, we cannot assure you that we will be able to arrange additional financing on terms acceptable to us or to obtain timely federal and state governmental approvals on terms acceptable to us, or at all.

Recently, we broadened our services and products by offering satellite television services and reselling wireless services as part of our bundled product and service offerings. Our reliance on other companies and their networks to provide these services could constrain our flexibility and limit the profitability of these new offerings. We provide facilities-based digital video services to select markets and may initiate other new service or product offerings in the future, including new offerings exploiting the 700 MHz spectrum that we purchased in 2008. We anticipate that these new offerings will generate lower profit margins than many of our traditional services. We cannot assure you that our recent or future diversification efforts will be successful.

Future deterioration in our financial performance could adversely impact our credit ratings, our cost of capital and our access to the capital markets.

***Our future results will suffer if we do not effectively adjust to changes in our industry.***

The above-described changes in our industry have placed a higher premium on marketing, technological, engineering and provisioning skills. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen these skills, and, where necessary, to attract and retain new personnel that possess these skills.

***Our future results will suffer if we do not effectively manage our expanded operations.***

Following the EMBARQ merger, we may continue to expand our operations through additional acquisitions and new product and service offerings, some of which involve complex technical, engineering, and operational challenges. Our future success depends, in part, upon our ability to manage our expansion opportunities, which pose substantial challenges for us to integrate new operations into our existing business in an efficient and timely manner, to successfully monitor our operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. We cannot assure you that our expansion or acquisition opportunities will be successful, or that we will realize our expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

***Network disruptions could adversely affect our operating results.***

To be successful, we will need to continue providing our customers with a high capacity, reliable and secure network. Some of the risks to our network and infrastructure include:

- power losses or physical damage to our access lines, whether caused by fire, adverse weather conditions, terrorism or otherwise
- capacity limitations
- software and hardware defects or malfunctions
- breaches of security, including sabotage, tampering, computer viruses and break-ins, and
- other disruptions that are beyond our control.

Disruptions or system failures may cause interruptions in service or reduced capacity for customers. If service is not restored in a timely manner, agreements with our customers or service standards set by state regulatory commissions could obligate us to provide credits or other remedies, and this would reduce our revenues or increase our costs. Service disruptions could also damage our reputation with customers, causing us to lose existing customers or have difficulty attracting new ones.

***Any failure or inadequacy of our information technology infrastructure could harm our business.***

The capacity, reliability and security of our information technology hardware and software infrastructure (including our billing systems) is important to the operation of our current business, which would suffer in the event of system failures. Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. Our inability to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, service or billing interruptions, and the diversion of development resources.

***We rely on a limited number of key suppliers and vendors to operate our business.***

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. Our local exchange carrier networks consist of central office and remote sites, all with advanced digital switches. Some of the digital switches were manufactured by Nortel, which recently declared bankruptcy. If any of these suppliers experience interruptions or other problems delivering or servicing these network components on a timely basis, our operations could suffer significantly. To the extent that proprietary technology of a supplier is an integral component of our network, we may have limited flexibility to purchase key network components from alternative suppliers. We also rely on a limited number of other communications companies in connection with reselling long distance, wireless and satellite entertainment services to our customers. In addition, we rely on a limited number of software vendors to support our business management systems. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies or services on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

***Portions of our property, plant and equipment are located on property owned by third parties.***

Over the past few years, certain utilities, cooperatives and municipalities in certain of the states in which we operate have requested significant rate increases for attaching our plant to their facilities. To the extent that these entities are successful in increasing the amount we pay for these attachments, our future operating costs will increase.

In addition, we rely on rights-of-way, co-location agreements and other authorizations granted by governmental bodies and other third parties to locate our cable, conduit and other network equipment on their respective properties. If any of these authorizations terminate or lapse, our operations could be adversely affected.

***Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect us.***

We originate and terminate calls for long distance carriers and other interexchange carriers over our network in exchange for access charges that represent a significant portion of our revenues. Should these carriers go bankrupt or experience substantial financial difficulties, our inability to timely collect access charges from them could have a negative effect on our business and results of operations.

In addition, certain of our operations carry a significant amount of voice and data traffic for larger communications companies. As these larger communications companies consolidate or expand their networks, it is possible that they could transfer a significant portion of this traffic from our network to their networks, which could negatively impact our business and results of operations.

***We depend on key members of our senior management team.***

Our success depends largely on the skills, experience and performance of a limited number of senior officers, none of whom are parties to employment agreements. Competition for senior management in our industry is intense and we may have difficulty retaining our current senior managers or attracting new ones in the event of terminations or resignations. For a discussion of similar concerns relating to the EMBARQ merger, see “Risks Related to the Pending Acquisition of EMBARQ – We and EMBARQ may be unable to retain key employees” below.

***We could be affected by certain changes in labor matters.***

At December 31, 2008, approximately 25% of our employees were members of 15 separate bargaining units represented by two different unions. From time to time, our labor agreements with these unions lapse, and we typically negotiate the terms of new agreements. We cannot predict the outcome of these negotiations. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. Moreover, our post-employment benefit offerings cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

### ***Risks Related to the Pending Acquisition of EMBARQ***

***Our ability to complete the EMBARQ merger is subject to the receipt of consents and approvals from government entities which may impose conditions that could adversely effect us or cause us to abandon the merger.***

We are unable to complete the merger until after we receive approvals from the FCC and various state governmental entities. In deciding whether to grant some of these approvals, the relevant governmental entity will make a determination of whether, among other things, the merger is in the public interest. Regulatory entities may impose certain requirements or obligations as conditions for their approval.

The merger agreement may require us to accept conditions from these regulators that could adversely impact the combined company without us having the right to refuse to close the merger on the basis of those regulatory conditions. We can provide no assurance that we will obtain the necessary approvals or that any required conditions will not materially adversely effect us following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment of the merger.

***Failure to complete the merger could negatively impact us.***

If the merger is not completed, our ongoing businesses may be adversely affected and we will be subject to several risks, including the following:

- being required, under certain circumstances, to pay a termination fee of \$140 million;
- having to pay certain costs relating to the proposed merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and
- diverting the focus of management from pursuing other opportunities that could be beneficial to us,

in each case, without realizing any of the benefits of having the merger completed.

***The pendency of the merger could adversely affect us.***

In connection with the pending merger, some of our customers may delay or defer decisions, which could negatively impact our revenues, earnings and cash flows regardless of whether the merger is completed. Similarly, our current and prospective employees may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the merger. For a discussion of similar concerns following the merger, see “ – We and EMBARQ may be unable to retain key employees.”



***We expect to incur substantial expenses related to the integration of EMBARQ .***

We expect to incur substantial expenses in connection with integrating the business, policies, procedures, operations, technologies and systems of EMBARQ with ours. There are a large number of systems that must be integrated, including management information, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. While we have assumed that a certain level of expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of all of the expected integration expenses. Moreover, many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue enhancements related to the integration of the businesses following the completion of the merger. These integration expenses likely will result in our taking significant charges against earnings following the completion of the merger, but the amount and timing of such charges are uncertain at present.

***Following the merger, the combined company may be unable to successfully integrate our business and EMBARQ's business and realize the anticipated benefits of the merger.***

The merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating its business practices and operations. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully combine our business and EMBARQ's business in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized partly or wholly in the time frame currently anticipated or at all;
- lost sales and customers as a result of certain customers of either of the two companies deciding not to do business with the combined company;
- complexities associated with managing the combined businesses;
- integrating personnel from the two companies while maintaining focus on providing consistent, high quality products and customer service;
- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the merger; and

- performance shortfalls at one or both of the two companies as a result of the diversion of management’s attention caused by completing the merger and integrating the companies’ operations.

In addition, we and EMBARQ have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the diversion of each company’s management’s attention, the disruption or interruption of, or the loss of momentum in, each company’s ongoing businesses or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers and employees or our ability to achieve the anticipated benefits of the merger, or could reduce the earnings or otherwise adversely affect the business and financial results of the combined company.

***We and EMBARQ may be unable to retain key employees.***

Our success after the merger will depend in part upon our ability to retain key EMBARQ and CenturyTel employees. Key employees may depart either before or after the merger because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us following the merger. Accordingly, no assurance can be given that we will be able to retain key employees to the same extent that we or EMBARQ have been able to in the past.

***Following the merger, we may need to launch branding or rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers.***

We plan to consult with EMBARQ about whether to change our name and primary brand in connection with the merger. Prior to the merger, we and EMBARQ will each continue to market our respective products and services using the “CenturyTel” and “EMBARQ” brand names and logos. Following the merger, we plan to market our products and services under “CenturyTel,” “EMBARQ” or some other name. As a result, we will discontinue use of either or both of the “CenturyTel” or “EMBARQ” brand names and logos in some or all of the markets of the combined company. If we retain either our name or EMBARQ’s, we will nonetheless incur substantial capital and other costs in rebranding our products and services in those markets that previously used a different name. If we choose an entirely new brand, these costs will be even greater, and we may not be able to achieve or maintain name recognition or status under our new brand that is comparable to the recognition and status previously enjoyed. The failure of any of these initiatives could adversely affect our ability to attract and retain customers after the merger, resulting in reduced revenues.

## ***Risks Related to Our Regulatory Environment***

***Our revenues could be materially reduced or our expenses materially increased by changes in regulations, including those recently proposed by the chairman of the FCC.***

The majority of our revenues are substantially dependent upon regulations which, if changed, could result in material revenue reductions. Laws and regulations applicable to us and our competitors have been and are likely to continue to be subject to ongoing changes and court challenges, which could also affect our revenues.

*Risk of loss or reduction of network access charge revenues or support fund payments.* A significant portion of our revenues are derived from access charge revenues that are paid to us by long distance carriers based largely on rates set by federal and state regulatory bodies. In particular, the FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of our revenues. The FCC has been considering comprehensive reform of its intercarrier compensation rules for several years. Any reform eventually adopted by the FCC will likely involve significant changes in the access charge system and could potentially result in a significant decrease or elimination of access charges altogether. In addition, our financial results could be harmed if carriers that use our access services become financially distressed or bypass our networks, either due to changes in regulation or other factors. Furthermore, access charges currently paid to us could be diverted to competitors who enter our markets or expand their operations, either due to changes in regulation or otherwise.

We receive a substantial portion of our revenues from the federal Universal Service Fund (“USF”), and, to a lesser extent, intrastate support funds. These governmental programs are reviewed and amended from time to time, and we cannot assure you that they will not be changed or impacted in a manner adverse to us. For several years, the FCC and a federal-state joint board established by Congress have considered comprehensive reforms of the federal USF contribution and distribution rules. During this period, various parties have objected to the size of the USF or questioned the continued need to maintain the program in its current form. Over the past few years, our high cost support fund revenues have decreased due to increases in the nationwide average cost per loop factor used to determine payments to program participants, as well as declines in the overall size of the high cost support fund. Pending judicial appeals and congressional proposals create additional uncertainty regarding our future receipt of support payments. In addition, the number of eligible telecommunications carriers receiving support payments from this program has increased substantially in recent years, which, coupled with other factors, has placed additional financial pressure on the amount of money that is available to provide support payments to all eligible recipients, including us.

On November 5, 2008, the FCC issued a document that, among other things, requested public comment on the reform proposal, including a draft proposal of the FCC chairman designed to comprehensively redefine and reform the FCC’s intercarrier compensation rules and the federal USF rules. The draft proposes to reduce intrastate and interstate access rates and local reciprocal compensation rates to levels substantially below those currently charged by us. The draft also proposes changes to USF rules that would mandate broadband deployment, freeze the level of certain USF support payments, and expand various USF programs, the combined effect of which would adversely impact local exchange carriers by limiting the amount of USF revenues available to them and increasing their operating costs. It is currently unclear what action the FCC may take with respect to the draft proposals. Adoption of the chairman’s original proposal could result in a material adverse impact on the results of our operations.

*Risks posed by state regulations.* We are also subject to the authority of state regulatory commissions which have the power to regulate intrastate rates and services, including local, in-state long-distance and network access services. Notwithstanding the movement toward alternative state regulation, LECs operating approximately 28% of our total access lines continue to be subject to “rate of return” regulation for intrastate purposes. These LECs remain subject to the powers of state regulatory commissions to conduct earnings reviews and adjust service rates, which could lead to revenue reductions. LECs governed by alternative regulatory plans could also under certain circumstances be ordered to reduce rates or could experience rate reductions following the lapse of plans currently in effect. Our business could also be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing state regulations. In particular, we cannot assure you that we will succeed in obtaining or maintaining all requisite state regulatory approvals for our operations without the imposition of restrictions on our business, which could have the effect of imposing material additional costs on us or limiting our revenues.

*Risks posed by costs of regulatory compliance.* Regulations continue to create significant compliance costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers. Our business also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business (including local number portability and customer proprietary network information requirements). For example, existing provisions of the Communications Assistance for Law Enforcement Act require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations to assist other governmental agencies.

*Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers .* Affiliates of ours operating approximately half of our telephone access lines are exempt from the 1996 Act’s more burdensome requirements governing the rights of competitors to interconnect to incumbent local exchange carrier networks and to utilize discrete network elements of the incumbent’s network at favorable rates. If state regulators decide that it is in the public’s interest to impose these more burdensome interconnection requirements on us, these affiliates would be required to provide unbundled network elements to competitors. As a result, more competitors could enter our traditional telephone markets than we currently expect, resulting in lower revenues and higher additional administrative and regulatory expenses.

***Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition against us.***

The 1996 Act provides for significant changes and increased competition in the communications industry, including the local communications and long distance industries. This Act and the FCC's implementing regulations remain subject to judicial review and additional rulemakings, thus making it difficult to predict what effect the legislation will ultimately have on us and our competitors. Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced, which address issues affecting our operations and those of our competitors. Moreover, certain communities nationwide have expressed an interest in establishing municipal telephone utilities that would compete for customers. We cannot predict the outcome of these developments, nor can we assure that these changes will not have a material adverse effect on us or our industry.

***We are subject to significant regulations that limit our flexibility.***

As a diversified full service incumbent local exchange carrier, or ILEC, we have traditionally been subject to significant regulation that does not apply to many of our competitors. For instance, unlike many of our competitors, we are subject to federal mandates to share facilities, file and justify tariffs, maintain certain accounts and file reports, and state requirements that obligate us to maintain service standards and limit our ability to change tariffs in a timely manner. This regulation imposes substantial compliance costs on us and restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. Although newer alternative forms of regulation permit us greater freedoms in several states in which we operate, they nonetheless typically impose caps on the rates that we can charge our customers. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could impede our ability to compete. Litigation and different objectives among federal and state regulators could create uncertainty and impede our ability to respond to new regulations. Moreover, changes in tax laws, regulations or policies could increase our tax rate, particularly if state regulators continue to search for additional revenue sources to address budget shortfalls. We are unable to predict the future actions of the various regulatory bodies that govern us, but such actions could materially affect our business.

***We are subject to franchising requirements that could impede our expansion opportunities.***

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements generally apply to our fiber transport and CLEC operations, and to our emerging switched digital television and wireless broadband businesses. These requirements could delay us in expanding our operations or increase the costs of providing these services.

***We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.***

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC, the New York Stock Exchange and the Public Company Accounting Oversight Board, are increasing legal and financial compliance costs and making some activities more time consuming. The annual evaluation of our internal controls required by Section 404 of the Sarbanes-Oxley Act may result in identifying material weaknesses in our internal controls. Any future failure to successfully or timely complete these annual assessments could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or investors' confidence in us, and could cause our stock price to fall. If we fail to maintain effective controls and procedures, we may be unable to provide financial information in a timely and reliable manner, which could in certain instances limit our ability to borrow or raise capital.

For a more thorough discussion of the regulatory issues that may affect our business, see "Operations" above.

***Other Risks***

***We have a substantial amount of indebtedness and may need to incur more in the future.***

We have a substantial amount of indebtedness, which could have material adverse consequences for us, including (i) hindering our ability to adjust to changing market, industry or economic conditions, (ii) limiting our ability to access the capital markets to refinance maturing debt or to fund acquisitions or emerging businesses, (iii) limiting the amount of free cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses, (iv) making us more vulnerable to economic or industry downturns, including interest rate increases, and (v) placing us at a competitive disadvantage to those of our competitors that have less indebtedness.

In connection with executing our business strategies, following the EMBARQ merger we expect to continue to evaluate the possibility of acquiring additional communications assets, and we may elect to finance future acquisitions by incurring additional indebtedness. Moreover, to respond to competitive challenges, we may be required to raise substantial additional capital to finance new product or service offerings, including capital necessary to finance any new offerings exploiting the 700MHz spectrum that we purchased in 2008. Our ability to arrange additional financing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain additional financing on terms acceptable to us or at all. If we are able to obtain additional financing, our credit ratings could be adversely affected. As a result, our borrowing costs would likely increase, our access to capital may be adversely affected and our ability to satisfy our obligations under our indebtedness could be adversely affected.

***We cannot assure you that we will be able to continue paying dividends at the current rate.***

As noted elsewhere in this annual report, we plan to continue our current dividend practices. However, you should be aware that our shareholders may not receive the same dividends for reasons that may include any of the following factors:

- we may not have enough cash to pay such dividends due to changes in our cash requirements, capital spending plans, cash flow or financial position;
- while our dividend practices involve the distribution of a substantial portion of our cash available to pay dividends, our board of directors could change its practices at any time;
- the actual amounts of dividends distributed and the decision to make any distribution will remain at all times entirely at the discretion of our board of directors;
- the effects of regulatory reform, including any changes to intercarrier compensation and the Universal Service Fund rules;
- our ability to maintain investment grade credit ratings on our senior debt;
- the amount of dividends that we may distribute is limited by restricted payment and leverage covenants in our credit facilities and, potentially, the terms of any future indebtedness that we may incur; and
- the amount of dividends that we may distribute is subject to restrictions under Louisiana law.

Our board is free to change or suspend our dividend practices at any time. Our common shareholders should be aware that they have no contractual or other legal right to dividends.

***Our current dividend practices could limit our ability to pursue growth opportunities.***

The current practice of our board of directors to pay an annual \$2.80 per common share dividend reflects an intention to distribute to our shareholders a substantial portion of our free cash flow. As a result, we may not retain a sufficient amount of cash to finance a material expansion of our business in the future. In addition, our ability to pursue any material expansion of our business, through acquisitions or increased capital spending, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost.

***As a holding company, we rely on payments from our operating companies to meet our obligations.***

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and the distribution of those earnings to, or upon loans or other payments of funds by those subsidiaries to, us. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. Certain of our subsidiaries may be restricted under loan agreements or regulatory orders from transferring funds to us, including certain loan provisions that restrict the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. The footnotes to our consolidated financial statements included elsewhere herein describe these matters in additional detail.

***Our agreements and organizational documents and applicable law could limit another party's ability to acquire us.***

Our articles of incorporation provide for a classified board of directors, which limits the ability of an insurgent to rapidly replace the board. In addition, a number of other provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyTel unless the takeover is approved by our board of directors. This could deprive our shareholders of any related takeover premium.

***We face other risks.***

The list of risks above is not exhaustive, and you should be aware that we face various other risks. For a description of additional risks, please see "Operations" above, "Forward-Looking Statements" below, and the other items of this annual report, particularly Items 3, 7 and 8.



## Cautionary Statements Regarding Forward-Looking Statements

This report on Form 10-K and other documents filed by us under the federal securities laws include, and future oral or written statements or press releases by us and our management may include, certain forward-looking statements relating to CenturyTel or EMBARQ, the operations of either such company or our pending merger with EMBARQ, including without limitation statements with respect to CenturyTel's or EMBARQ's anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, investment results, financing opportunities and sources (including the impact of financings on our financial position, financial performance or credit ratings), pricing plans, strategic alternatives, business strategies, and other similar statements of expectations or objectives or accompanying statements of assumptions that are highlighted by words such as "expects," "anticipates," "intends," "plans," "believes," "projects," "seeks," "estimates," "hopes," "should," "could," and "may," and variations thereof and similar expressions. Such forward-looking statements are based upon our judgment and assumptions as of the date such statements are made concerning future developments and events, many of which are outside of our control. These forward-looking statements, and the assumptions upon which such statements are based, are inherently speculative and are subject to uncertainties that could cause our actual results to differ materially from such statements. Actual results or performance by CenturyTel or EMBARQ, and issues relating to our pending merger with EMBARQ, may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could impact actual results of CenturyTel or EMBARQ, the combined company or the pending merger include but are not limited to:

- the extent, timing, success and overall effects of competition from wireless carriers, VoIP providers, CLECs, cable television companies, electric utilities and others, including without limitation the risks that these competitors may offer less expensive or more innovative products and services
- the risks inherent in rapid technological change, including without limitation the risk that new technologies will displace our products and services
- the effects of ongoing changes in the regulation of the communications industry, including without limitation (i) increased competition resulting from regulatory changes, (ii) the final outcome of various federal, state and local regulatory initiatives and proceedings that could impact our competitive position, revenues, compliance costs, capital expenditures or prospects, including regulatory changes recently proposed by the chairman of the FCC, and (iii) reductions in revenues received from the federal Universal Service Fund or other current or future federal and state support programs designed to compensate LECs operating in high-cost markets
- our ability to effectively adjust to changes in the communications industry
- our ability to successfully complete our pending merger with EMBARQ, including timely receiving all regulatory approvals
- the possibility that the anticipated benefits from the merger cannot be fully realized in a timely manner or at all, or that integrating EMBARQ's operations into our will be more difficult, disruptive or costly than anticipated

- our ability to effectively manage our expansion opportunities, including without limitation our ability to (i) effectively integrate newly-acquired or newly-developed businesses into our operations, (ii) attract and retain technological, managerial and other key personnel, (iii) achieve projected growth, revenue and cost savings targets from the EMBARQ merger within the anticipated timeframe, and (iv) otherwise monitor our operations, costs, regulatory compliance, and service quality and maintain other necessary internal controls
- possible changes in the demand for, or pricing of, our products and services, including without limitation reduced demand for our traditional telephone or access services caused by greater use of wireless, electronic mail or Internet communications or other factors
- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis, including without limitation our ability to (i) successfully roll out our new video, voice and broadband services, (ii) successfully exploiting the 700 MHz spectrum that we purchased in 2008, (iii) expand successfully our full array of service offerings to new or acquired markets and (iv) offer bundled service packages on terms attractive to our customers
- our continued access to credit markets on favorable terms, including our continued access to financing in amounts, and on terms and conditions, necessary to support our operations and refinance existing indebtedness when it becomes due
- our ability to collect receivables from financially troubled communications companies
- our ability to pay a \$2.80 per common share dividend annually, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position;
- our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages
- regulatory limits on our ability to change the prices for telephone services in response to industry changes
- impediments to our ability to expand through attractively priced acquisitions, whether caused by regulatory limits, financing constraints, a decrease in the pool of attractive target companies, or competition for acquisitions from other interested buyers
- the possible need to make abrupt and potentially disruptive changes in our business strategies due to changes in competition, regulation, technology, product acceptance or other factors

- the lack of assurance that we can compete effectively against better-capitalized competitors
- the impact of potential network disruptions on our business
- general worldwide economic conditions and related uncertainties, including continued access to credit markets on favorable terms
- the effects of adverse weather on our customers or properties
- other risks referenced in this report and from time to time in our other filings with the Securities and Exchange Commission
- the effects of more general factors, including without limitation:
  - ❖ changes in general industry and market conditions and growth rates
  - ❖ changes in labor conditions, including workforce levels and labor costs
  - ❖ 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 or changes that increase our tax rate
  - ❖ increases in capital, operating, medical or administrative costs, or the impact of new business opportunities requiring significant up-front investments
  - ❖ changes in our relationships with vendors, or the failure of these vendors to provide competitive products on a timely basis
  - ❖ failures in our internal controls that could result in inaccurate public disclosures or fraud
  - ❖ changes in our debt ratings
  - ❖ unfavorable outcomes of regulatory or legal proceedings and investigations, including rate proceedings and tax audits
  - ❖ losses or unfavorable returns on our investments in other communications companies
  - ❖ delays in the construction of our networks
  - ❖ changes in accounting policies, assumptions, estimates or practices adopted voluntarily or as required by generally accepted accounting principles, including the possible future discontinuance of Statement of Financial Accounting Standards No. 71 to our wireline subsidiaries.

For additional information, see the description of our business included above, as well as Item 7 of this annual report. Due to these uncertainties, there can be no assurance that our anticipated results will occur, that our judgments or assumptions will prove correct, or that unforeseen developments will not occur. Accordingly, you are cautioned not to place undue reliance upon any of our forward-looking statements, which speak only as of the date made. Additional risks that we currently deem immaterial or that are not presently known to us could also cause our actual results to differ materially from those expected in our forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise.

Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them selectively any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

**Item 1B. Unresolved Staff Comments**

Not applicable.

**Item 2. Properties.**

Our properties consist principally of telephone lines, central office equipment, and land and buildings related to telephone operations. As of December 31, 2008 and 2007, our gross property, plant and equipment of approximately \$8.9 billion and \$8.7 billion, respectively, consisted of the following:

	December 31,	
	2008	2007
Cable and wire	52.5%	52.8
Central office	32.3	32.0
General support	9.2	9.4
Fiber transport	3.7	3.3
Construction in progress	.8	1.1
Other	1.5	1.4
	<u>100.0%</u>	<u>100.0</u>

“Cable and wire” facilities consist primarily of buried cable and aerial cable, poles, wire, conduit and drops used in providing local and long distance services. “Central office” 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. “Fiber transport” consists of network assets and equipment to provide fiber transport services. “Construction in progress” includes property of the foregoing categories that has not been placed in service because it is still under construction.

The properties of certain of our telephone subsidiaries are subject to mortgages securing the debt of such companies. We own substantially all of the central office buildings, local administrative buildings, warehouses, and storage facilities used in our telephone operations.

For further information on the location and type of our properties, see the descriptions of our operations in Item 1.

### **Item 3. Legal Proceedings.**

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

We received an aggregate of approximately \$128 million during 2006 and 2007 from the redemption of our Rural Telephone Bank stock. Some portion of those proceeds, while not estimable at this time, may under certain circumstances be subject to review, reduction or refund by regulatory authorities or judicial process, which in each case could have an adverse effect on our financial results.

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

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

Not applicable.

**Executive Officers of the Registrant** - Information concerning our 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, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our 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 sales prices, along with the quarterly dividends, for each of the quarters indicated.

		Sales prices		Dividend per common share
		High	Low	
2008:				
	First quarter	\$ 42.00	32.00	.0675
	Second quarter	\$ 37.25	30.55	.0675
	Third quarter	\$ 40.35	34.13	1.3325
	Fourth quarter	\$ 40.00	20.45	.70
2007:				
	First quarter	\$ 46.80	42.66	.065
	Second quarter	\$ 49.94	45.14	.065
	Third quarter	\$ 49.91	41.10	.065
	Fourth quarter	\$ 46.90	39.91	.065

Common stock dividends during 2008 and 2007 were paid each quarter.

In June 2008, our board of directors increased our quarterly cash dividend rate from \$.0675 to \$.70 per share, and declared a one-time dividend of \$.6325 per share, payable in July 2008, which, when coupled with the previously-paid second quarter 2008 dividend, equaled the newly-established \$.70 per share quarterly rate.

As of February 20, 2009, there were approximately 3,900 stockholders of record of our common stock. As of February 20, 2009, the closing stock price of our common stock was \$26.17.

In February 2006, our Board of Directors authorized a \$1.0 billion share repurchase program under which, in February 2006, we repurchased \$500 million (or approximately 14.36 million shares) of our common stock under accelerated share repurchase agreements with certain investment banks at an initial average price of \$34.83. The investment banks completed their repurchases in mid-July 2006 and in connection therewith we paid an aggregate of approximately \$28.4 million cash to the investment banks to compensate them for the difference between their weighted average purchase price during the repurchase period and the initial average price. We repurchased the remaining \$500 million of common stock of this program in open-market transactions through June 2007.

In August 2007, our board of directors authorized a \$750 million share repurchase program which expires on September 30, 2009, unless extended by the board. Through December 31, 2008, we had repurchased approximately 13.2 million shares for \$503.9 million under this program. We suspended repurchases in September 2008 pending completion of our acquisition of EMBARQ.

During the fourth quarter of 2008, we withheld 128 shares of stock at an average price of \$26.54 per share to pay taxes due upon the vesting of restricted stock for certain of our employees in October 2008.

For information regarding shares of our common stock authorized for issuance under our equity compensation plans, see Item 12.

## 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, 2008:

### Selected Income Statement Data

	Year ended December 31,				
	2008	2007	2006	2005	2004
(Dollars, except per share amounts, and shares expressed in thousands)					
Operating revenues	\$ 2,599,747	2,656,241	2,447,730	2,479,252	2,407,372
Operating income	\$ 721,352	793,078	665,538	736,403	753,953
Net income	\$ 365,732	418,370	370,027	334,479	337,244
Basic earnings per share	\$ 3.57	3.82	3.17	2.55	2.45
Diluted earnings per share	\$ 3.56	3.72	3.07	2.49	2.41
Dividends per common share	\$ 2.1675	.26	.25	.24	.23
Average basic shares outstanding	102,268	109,360	116,671	130,841	137,215
Average diluted shares outstanding	102,871	113,094	122,229	136,087	142,144



Selected Balance Sheet Data

	December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Net property, plant and equipment	\$ 2,895,892	3,108,376	3,109,277	3,304,486	3,341,401
Goodwill	\$ 4,015,674	4,010,916	3,431,136	3,432,649	3,433,864
Total assets	\$ 8,254,195	8,184,553	7,441,007	7,762,707	7,796,953
Long-term debt	\$ 3,294,119	2,734,357	2,412,852	2,376,070	2,762,019
Stockholders' equity	\$ 3,163,240	3,409,205	3,190,951	3,617,273	3,409,765

The following table presents certain selected consolidated operating data as of the following dates:

	December 31,				
	2008	2007	2006	2005	2004
Telephone access lines (1) (2)	1,998,000	2,135,000	2,094,000	2,214,000	2,314,000
High-speed Internet customers (1)	641,000	555,000	369,000	249,000	143,000

- (1) In connection with our Madison River acquisition in April 2007, we acquired approximately 164,000 telephone access lines and 57,000 high-speed Internet customer
- (2) Excluding adjustments during 2006 to reflect (i) the removal of test lines, (ii) database conversion and clean-up and (iii) the sale of our Arizona properties, access line losses for 2006 were approximately 107,000.

See Items 1 and 2 in Part I and Items 7 and 8 elsewhere herein for additional information.

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

### **RESULTS OF OPERATIONS**

#### **OVERVIEW**

CenturyTel, Inc., together with its subsidiaries, is an integrated communications company engaged primarily in providing an array of communications services to customers in 25 states. We currently derive our revenues from providing (i) local exchange and long distance voice services, (ii) network access services, (iii) data services, which include both high-speed ("DSL") and dial-up Internet services, as well as special access and private line services, (iv) fiber transport, competitive local exchange and security monitoring services and (v) other related services.

On October 26, 2008, we entered into a definitive merger agreement to acquire Embarq Corporation ("EMBARQ") in a stock-for-stock transaction. Under the terms of the agreement, EMBARQ shareholders will receive 1.37 CenturyTel shares for each share of EMBARQ common stock they own at closing. On December 31, 2008, EMBARQ had outstanding approximately 142.4 million shares of common stock and \$5.7 billion of long-term debt. The two companies have a combined operating presence in 33 states with approximately 7.7 million access lines and two million broadband customers. Completion of the transaction is subject to the receipt of regulatory approvals including approvals from the Federal Communications Commission and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction in the second quarter of 2009. For additional information, see Item 1 of Part I of this annual report and Note 1.

As further discussed in Note 11, during the second quarter of 2008, we recognized an \$8.2 million curtailment loss (reflected in selling, general and administrative expense) in connection with amending our Supplemental Executive Retirement Plan ("SERP"). We also recognized a \$4.5 million pre-tax gain (reflected in other income (expense)) upon liquidation of our investments in marketable securities in the SERP trust in the second quarter of 2008. We will record a one-time settlement charge in the first quarter of 2009 of approximately \$7.7 million in connection with the lump sum distributions made in early 2009.

In 2008 and 2007, we recognized net after tax benefits of approximately \$12.8 million and \$32.7 million, respectively, related to the recognition of previously unrecognized tax benefits. See Note 12 for additional information.

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

In the fourth quarter of 2007, we recorded a \$16.6 million pre-tax impairment charge in order to write-down the value of certain long-lived assets in six of our northern competitive local exchange carrier markets to their estimated realizable value. We determined the estimated realizable value based on proposals received during our sales process of such properties commenced in 2007. We sold such properties in separate transactions in May and July 2008. Results of operations for these markets are included in our consolidated results of operations up to the respective sales dates.

During 2007, we recognized approximately \$49.0 million of network access revenues in connection with the settlement of a dispute with a carrier and approximately \$42.2 million of revenues in connection with the lapse of a regulatory monitoring period (of which approximately \$25.4 million is reflected in network access revenues and \$16.8 million is reflected in data revenues). We do not expect this level of favorable revenue settlements to reoccur in the future.

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

Over each of the past few years, we announced reductions of our workforce of an aggregate of approximately 700 jobs and, in connection therewith, incurred net pre-tax charges of approximately \$1.7 million in 2008, \$2.2 million in 2007 and \$7.5 million in 2006 for severance and related costs. See Note 8 for additional information.

In the second quarter of 2006, we recorded a one-time pre-tax gain of approximately \$117.8 million upon redemption of our investment in the stock of the Rural Telephone Bank ("RTB"). Subsequently, in the fourth quarter of 2007, upon final distribution of the remaining proceeds from the RTB dissolution, we recorded a pre-tax gain of approximately \$5.2 million. See Note 15 for additional information.

During the last several years (exclusive of acquisitions and certain non-recurring favorable adjustments), we have experienced revenue declines in our voice and network access revenues primarily due to the loss of access lines and minutes of use. To mitigate these declines, we hope to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission or improvements in our infrastructure, (iii) provide our broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products to new customers.

Our net income for 2008 was \$365.7 million, compared to \$418.4 million during 2007 and \$370.0 million during 2006. Diluted earnings per share for 2008 was \$3.56 compared to \$3.72 in 2007 and \$3.07 in 2006. The number of average diluted shares outstanding declined 9.0% in 2008 and 7.5% in 2007 primarily due to our share repurchases during the past three years.

Year ended December 31,	2008	2007	2006
	(Dollars, except per share amounts, and shares in thousands)		
Operating income	\$ 721,352	793,078	665,538
Interest expense	(202,217)	(212,906)	(195,957)
Other income (expense)	40,954	38,770	121,568
Income tax expense	(194,357)	(200,572)	(221,122)
Net income	<u>\$ 365,732</u>	<u>418,370</u>	<u>370,027</u>
Basic earnings per share	\$ 3.57	3.82	3.17
Diluted earnings per share	\$ 3.56	3.72	3.07
Average basic shares outstanding	<u>102,268</u>	<u>109,360</u>	<u>116,671</u>
Average diluted shares outstanding	<u>102,871</u>	<u>113,094</u>	<u>122,229</u>

Operating income decreased \$71.7 million in 2008 due to a \$56.5 million decrease in operating revenues and a \$15.2 million increase in operating expenses. Operating income increased \$127.5 million in 2007 as a \$208.5 million increase in operating revenues was partially offset by an \$81.0 million increase in operating expenses.

In addition to historical information, this management's discussion and analysis includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry (including the FCC's proposed rules regarding intercarrier compensation and the Universal Service Fund described elsewhere herein); our ability to effectively adjust to changes in the communications industry; our ability to successfully complete our pending merger with EMBARQ, including timely receiving all regulatory approvals and realizing the anticipated benefits of the transaction; our ability to effectively manage our expansion opportunities, including successfully integrating newly-acquired businesses into our operations and retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; our ability to pay a \$2.80 per common share dividend annually, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the effects of adverse weather; other risks referenced from time to time in this report or other of our filings with the Securities and Exchange Commission; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to our business and our pending acquisition of EMBARQ are described in greater detail in Item 1A included herein. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. We undertake no obligation to update any of our forward-looking statements for any reason.

All references to "Notes" in this Item 7 refer to the Notes to Consolidated Financial Statements included in Item 8 of this annual report.

#### OPERATING REVENUES

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Voice	\$ 874,041	889,960	871,767
Network access	820,383	941,506	878,702
Data	524,194	460,755	351,495
Fiber transport and CLEC	162,050	159,317	149,088
Other	219,079	204,703	196,678
Operating revenues	\$ 2,599,747	2,656,241	2,447,730

During 2007, we recognized revenues of approximately \$42.2 million related to the expiration of a regulatory monitoring period, of which approximately \$25.4 million is reflected in network access revenues and \$16.8 million is reflected in data revenues. In addition, in 2007 we recognized approximately \$49.0 million of network access revenues related to the settlement of a dispute with a carrier. We do not expect this level of favorable revenue settlements to reoccur in the future.

*Voice revenues.* We derive voice revenues by providing local exchange telephone services and retail long distance services to customers in our service areas. The \$15.9 million (1.8%) decrease in voice revenues in 2008 is primarily due to (i) a \$22.5 million decrease due to a 5.9% decline in the average number of access lines (exclusive of our acquisition of Madison River properties); (ii) a \$10.8 million decrease in custom calling feature revenues primarily due to the continued migration to bundled service offerings at a lower effective rate; and (iii) a \$7.7 million decline as a result of a decrease in revenues associated with extended area calling plans. These decreases were partially offset by \$17.0 million of additional revenues attributable to the Madison River properties acquired April 30, 2007 and a \$9.9 million increase in long distance revenues attributable to an increase in the percentage of our customer base on fixed rate unlimited calling plans and the implementation of rate increases applicable to several rate plans in late 2007 and early 2008.

The \$18.2 million (2.1%) increase in voice revenues in 2007 is primarily due to \$43.3 million of revenues attributable to the Madison River properties acquired April 30, 2007. Such increase was partially offset by (i) a \$20.7 million decrease due to a 5.2% decline in the average number of access lines (normalized for acquisitions, dispositions and previously-disclosed adjustments made during 2006) and (ii) a \$6.0 million decline as a result of a decrease in revenues associated with extended area calling plans.

Total access lines declined 136,800 (6.4%) during 2008 compared to a normalized decline of 119,700 (5.7%) during 2007. We believe the decline in the number of access lines during 2008 and 2007 is primarily due to the displacement of traditional wireline telephone services by other competitive services and recent economic conditions. Based on our current retention initiatives, we estimate that our access line loss will be between 5.7% and 6.7% in 2009.

*Network access revenues.* We derive our network access revenues primarily from (i) providing services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms. Certain of our interstate network access revenues are based on tariffed access charges filed directly with the Federal Communications Commission ("FCC"); the remainder of such revenues are derived under revenue sharing arrangements with other local exchange carriers ("LECs") administered by the National Exchange Carrier Association. Intrastate network access revenues are based on tariffed access charges filed with state regulatory agencies or are derived under revenue sharing arrangements with other LECs.

Network access revenues decreased \$121.1 million (12.9%) in 2008 and increased \$62.8 million (7.1%) in 2007 due to the following factors:

	2008 increase (decrease)	2007 increase (decrease )
	(Dollars in thousands)	
Favorable settlement of a dispute with a carrier in 2007	\$ (48,987)	48,987
Intrastate revenues due to decreased minutes of use, decreased access rates in certain states and recovery from state support funds	(29,022)	(20,912)
Revenue recognition upon expiration of regulatory monitoring periods in 2007	(25,402)	25,402
Partial recovery of operating costs through revenue sharing arrangements with other telephone companies, interstate access revenues and return on rate base	(15,857)	(21,311)
Recovery from the federal Universal Service High Cost Loop support program	(14,596)	2,231
Acquisition of Madison River	12,345	33,923
Prior year revenue settlement agreements	1,922	(2,346)
Other, net	(1,526)	(3,170)
	<u>\$ (121,123)</u>	<u>62,804</u>

In March 2006, we filed a complaint against a carrier for recovery of unpaid and underpaid access charges for calls made using the carrier's prepaid calling cards and calls that used Internet Protocol for a portion of their transmission. The carrier filed a counterclaim against us, asserting that we improperly billed them terminating intrastate access charges on certain wireless roaming traffic. In April 2007, we entered into a settlement agreement with the carrier and received approximately \$49 million cash from them related to the issues described above.

In 2008 and 2007, we experienced reductions in our intrastate revenues of approximately \$29.0 million and \$20.9 million, respectively, primarily due to a reduction in intrastate minutes (partially due to the displacement of minutes by wireless, electronic mail and other optional calling services). We believe that intrastate minutes will continue to decline in 2009, although we cannot estimate the magnitude of such decrease.

In third quarter 2007, upon the lapse of the applicable 2003/2004 monitoring period for certain of our tariffed billings, we recognized approximately \$42.2 million of revenues (of which approximately \$25.4 million is reflected in network access revenues and \$16.8 million is reflected in data revenues). Such amount represented billings from tariffs prior to July 2004 in excess of the authorized rate of return that we initially recorded as a deferred credit pending completion of such 2003/2004 monitoring period.

Our revenues from the Universal Service High Cost Loop Fund decreased approximately \$14.6 million in 2008 and increased \$2.2 million in 2007. Such decrease in 2008 was primarily due to an increase in the nationwide average cost per loop factor used by the FCC to allocate funds among all recipients. We anticipate our 2009 revenues from the federal Universal Service High Cost Loop support program will decrease between \$12 and \$14 million compared to 2008.

*Data revenues.* We derive our data revenues primarily by providing Internet access services (both DSL and dial-up services) and data transmission services over special circuits and private lines. Data revenues increased \$63.4 million (13.8%) in 2008 substantially due to (i) a \$57.8 million increase in DSL-related revenues primarily due to growth in the number of DSL customers and (ii) \$16.3 million of additional revenues contributed by Madison River. Such increases were partially offset by \$16.8 million of one-time revenues recorded in third quarter 2007 upon expiration of the previously described regulatory monitoring period. While we expect our data revenues to increase in 2009 as compared to 2008, we do not expect to recognize the same level of increase as we experienced in 2008 primarily due to the fact that our customer base is more highly penetrated with DSL services.

Data revenues increased \$109.3 million (31.1%) in 2007 substantially due to (i) a \$66.4 million increase in DSL-related revenues due primarily to growth in the number of DSL customers; (ii) \$34.5 million of revenues contributed by Madison River and (iii) \$16.8 million of one-time revenues recorded in third quarter 2007 upon expiration of the previously described regulatory monitoring period. Such increases were partially offset by a \$5.4 million decrease in special access revenues primarily due to certain customers disconnecting circuits and a \$5.1 million decrease in dial-up Internet revenues due to a decline in the number of dial-up customers.

*Fiber transport and CLEC.* Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier (“CLEC”) and security monitoring businesses. Fiber transport and CLEC revenues increased \$2.7 million (1.7%) in 2008, of which \$6.4 million was due to growth in our incumbent fiber transport business and \$2.5 million was due to additional revenue contributed by Madison River. Such increases were partially offset by a \$2.6 million decrease due to the sales of six CLEC markets that were consummated in the second and third quarters of 2008 and a \$3.5 million decrease in CLEC revenues primarily due to customer disconnects.

Fiber transport and CLEC revenues increased \$10.2 million (6.9%) in 2007, of which \$8.7 million was due to growth in our incumbent fiber transport business and \$4.8 million was contributed by Madison River. Such increases were partially offset by a \$3.5 million decrease in CLEC revenues primarily due to customer disconnects.

*Other revenues.* We derive other revenues primarily by (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for third parties, (iii) participating in the publication of local directories and (iv) providing new service offerings, principally consisting of our new video and wireless reseller services. Other revenues increased \$14.4 million (7.0%) in 2008 primarily due to (i) \$7.7 million of additional revenues contributed by Madison River and (ii) a \$2.8 million increase in directory revenues.



Other revenues increased \$8.0 million (4.1%) in 2007 primarily due to \$13.9 million of revenues contributed by Madison River. In connection with receiving a one-time reimbursement as a result of our above-described change in our contractual relationship with our satellite television service provider, we recorded a \$1.9 million one-time increase to revenues in 2007. The impact of the change in the arrangement from a gross to a net revenue presentation resulted in an \$8.2 million decrease in recurring revenues for the twelve months ended December 31, 2007 compared to 2006.

## OPERATING EXPENSES

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Cost of services and products (exclusive of depreciation and amortization)	\$ 955,473	937,375	888,414
Selling, general and administrative	399,136	389,533	370,272
Depreciation and amortization	523,786	536,255	523,506
Operating expenses	<u>\$ 1,878,395</u>	<u>1,863,163</u>	<u>1,782,192</u>

*Cost of services and products.* Cost of services and products increased \$18.1 million (1.9%) in 2008 primarily due to (i) \$22.7 million of additional costs incurred by the Madison River properties; (ii) a \$12.3 million increase in DSL-related expenses due to growth in the number of DSL customers; (iii) a \$4.9 million increase in costs associated with our recently launched switched digital video offering; and (iv) a \$4.1 million increase due to a one-time reimbursement of costs received from our satellite television service provider in the second quarter of 2007 in connection with the change in our arrangement, as mentioned above. Such increases were partially offset by (i) a \$16.6 million impairment charge recorded in 2007 related to certain of our CLEC assets that were subsequently sold in 2008; (ii) a \$4.4 million reduction in costs due to the six CLEC markets sold and (iii) a \$1.6 million decrease in salaries and benefits.

Cost of services and products increased \$49.0 million (5.5%) in 2007 primarily due to (i) \$52.5 million of costs incurred by our Madison River properties; (ii) a \$20.9 million increase in DSL-related expenses due to growth in the number of DSL customers; (iii) a \$16.6 million impairment charge related to certain of our CLEC assets that were subsequently sold in 2008; and (iv) a \$7.8 million increase in expenses associated with pole attachments primarily due to rate increases. Such increases were partially offset by (i) a \$33.1 million decrease in salaries and benefits due to one-time costs associated with workforce reductions in 2006 and the impact of having fewer incumbent employees resulting from workforce reductions in 2007 and 2006 and (ii) a \$19.7 million decrease in expenses associated with our satellite television service offering due to a change in our arrangement as mentioned above (such reduction includes a \$4.1 million one-time reimbursement of costs received from the service provider in 2007 in connection with the change in the arrangement, as described above).

*Selling, general and administrative.* Selling, general and administrative expenses increased \$9.6 million (2.5%) in 2008 primarily due to (i) an \$11.4 million increase in marketing expenses; (ii) an \$8.2 million increase due to expenses related to the curtailment loss associated with our SERP; (iii) \$5.0 million of costs associated with our pending acquisition of EMBARQ (see Accounting Pronouncements below for additional information) and (iv) \$4.8 million of additional costs incurred by Madison River. Such increases were partially offset by (i) an \$8.8 million decrease in operating taxes; (ii) a \$5.4 million decrease in bad debt expense (most of which is attributable to a favorable settlement with a carrier in first quarter 2008); (iii) a \$4.3 million decrease in salaries and benefits; and (iv) a \$2.7 million decrease in information technology expenses.

Selling, general and administrative expenses increased \$19.3 million (5.2%) in 2007 primarily due to (i) \$16.4 million of costs incurred by Madison River; (ii) an \$8.2 million increase in salaries and benefits; and (iii) a \$5.6 million increase in sales and marketing expenses. Such increases were partially offset by (i) a \$5.7 million reduction in bad debt expense and (ii) a \$4.3 million decrease in information technology expenses.

*Depreciation and amortization .* Depreciation and amortization decreased \$12.5 million (2.3%) primarily due to a \$36.7 million reduction in depreciation expense due to certain assets becoming fully depreciated. Such decrease was partially offset by \$13.7 million of additional depreciation and amortization incurred by Madison River and a \$12.8 million increase due to higher levels of plant in service.

Depreciation and amortization increased \$12.7 million (2.4%) in 2007 primarily due to \$32.5 million of depreciation and amortization incurred by Madison River and a \$14.8 million increase due to higher levels of plant in service. Such increases were substantially offset by a \$31.7 million reduction in depreciation expense due to certain assets becoming fully depreciated.

*Other.* For additional information regarding certain matters that have impacted or may impact our operations, see “Regulation and Competition”.

## INTEREST EXPENSE

Interest expense decreased \$10.7 million (5.0%) in 2008 compared to 2007. An \$18.0 million decrease due to lower average interest rates was partially offset by a \$9.3 million increase due to increased average debt outstanding.

Interest expense increased \$16.9 million (8.6%) in 2007 compared to 2006. A \$22.7 million increase due to increased average debt outstanding (primarily due to the \$750 million of senior notes issued in March 2007 to fund the Madison River acquisition) was partially offset by a \$5.9 million decrease due to lower average interest rates.

## OTHER INCOME (EXPENSE)

Other income (expense) includes the effects of certain items not directly related to our core operations, including gains or losses from nonoperating asset disposition and impairments, our share of the income from our 49% interest in a cellular partnership, interest income and allowance for funds used during construction. Other income (expense) was \$41.0 million in 2008, \$38.8 million in 2007 and \$121.6 million in 2006. The years 2008, 2007 and 2006 were impacted by certain charges and credits that were not expected to occur in the future. Included in 2008 income are (i) approximately \$10 million related to the recognition of previously accrued transaction related and other contingencies, (ii) aggregate pre-tax gains of approximately \$7.3 million from the sales of certain non-operating investments and (iii) a \$4.5 million gain realized upon liquidation of our investments in marketable securities in our SERP trust. Also included in 2008 is a \$3.4 million pre-tax charge related to terminating certain derivative instruments that did not qualify for hedge accounting. The year 2007 includes a non-recurring pre-tax gain of \$10.4 million related to the sale of our interest in a real estate partnership and a \$5.2 million pre-tax gain resulting from the final distribution of funds from the RTB redemption mentioned below. Included in 2006 were pre-tax gains of approximately \$118.6 million (substantially all of which related to the redemption of our RTB stock upon dissolution of the RTB), which was partially offset by pre-tax charges of approximately \$11.7 million due to the impairment of certain non-operating investments.

Our share of income from our 49% interest in a cellular partnership decreased \$2.5 million in 2008 compared to 2007. We record our share of the partnership income based on unaudited results of operations until the time we receive audited financial statements for the partnership from the unaffiliated general partner. Upon receipt of the respective audited financial statements, we recorded unfavorable adjustments in 2008 (upon completion of the 2007 audit) and favorable adjustments in 2007 (upon completion of the 2006 and 2005 audits).

## INCOME TAX EXPENSE

The effective income tax rate was 34.7%, 32.4%, and 37.4% for 2008, 2007 and 2006, respectively. Income tax expense was reduced by approximately \$12.8 million in 2008 and \$32.7 million in 2007 due to the recognition of previously unrecognized tax benefits (see Critical Accounting Policies below and Note 12). Income tax expense was reduced by approximately \$1.7 million in 2008 and \$6.4 million in 2006 due to the resolution of various income tax audit issues.

## ACCOUNTING PRONOUNCEMENTS

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised), “Business Combinations” (“SFAS 141(R)”). Under SFAS 141(R), an acquiring entity will be required to recognize all of the assets acquired and liabilities assumed in a transaction at the acquisition date fair value with limited exceptions. SFAS 141(R) will change the accounting treatment for certain specific items, including acquisition costs, acquired contingent liabilities, restructuring costs, deferred tax asset valuation allowances and income tax uncertainties after the acquisition date. SFAS 141(R) is effective for us for all business combinations for which the acquisition date is on or after January 1, 2009. We will account for our pending acquisition of EMBARQ using the guidance of SFAS 141(R). Because it was probable that the acquisition date of the pending EMBARQ business combination would be subsequent to the January 1, 2009 effective date of SFAS 141(R), we elected to expense our EMBARQ acquisition related costs that had been incurred through December 31, 2008 in the fourth quarter of 2008 (which aggregated approximately \$5.0 million). Such charge is reflected in selling, general and administrative expense in our 2008 consolidated statement of income. We will expense additional acquisition related costs as incurred after December 31, 2008.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 “Fair Value Measurements” (“SFAS 157”). SFAS 157, effective for us beginning January 1, 2008, defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements required or permitted under other accounting pronouncements. SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers include: Level 1 (defined as observable inputs such as quoted market prices in active markets); Level 2 (defined as inputs other than quoted prices in active markets that are either directly or indirectly observable); and Level 3 (defined as unobservable inputs in which little or no market data exists). See Note 17 for additional disclosures regarding SFAS 157.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51” (“SFAS 160”). SFAS 160 requires noncontrolling interests to be recognized as equity in the consolidated financial statements. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income. SFAS 160 is effective for fiscal years, and the interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect SFAS 160 to have a material impact to our consolidated financial statements.

In June 2008, the Financial Accounting Standards Board issued FSP EITF 03-6-1, “Determining Whether Instruments Granted in Share-Based Payment Transaction Are Participating Securities”. Based on this pronouncement, we have concluded that our outstanding non-vested restricted stock is a participating security and therefore should be included in the earnings allocation in computing earnings per share using the two-class method. The pronouncement is effective for us beginning in first quarter 2009 and, upon adoption, will require us to recast our previously reported earnings per share. If our diluted earnings per share would have been calculated using the provisions of FSP EITF 03-6-1 for 2008, our diluted earnings per share would have been \$3.52 per share as compared to \$3.56 per share.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in financial statements. FIN 48 required us, effective January 1, 2007, to recognize and measure tax benefits taken or expected to be taken in a tax return and disclose uncertainties in income tax positions. See Note 12 for additional information related to our income tax uncertainties.

On January 1, 2003, we adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), which addresses financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred and be capitalized as part of the book value of the long-lived asset. Although we generally have no legal obligation to remove obsolete assets, depreciation rates of certain assets established by regulatory authorities for our telephone operations subject to Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"), have historically included a component for removal costs in excess of the related estimated salvage value. Notwithstanding the adoption of SFAS 143, SFAS 71 requires us to continue to reflect this accumulated liability for removal costs in excess of salvage value even though there is no legal obligation to remove the assets. Therefore, we did not adopt the provisions of SFAS 143 for our telephone operations subject to SFAS 71. For these reasons, the adoption of SFAS 143 did not have a material effect on our financial statements. For our telephone operations acquired from Verizon in 2002 (which are not subject to SFAS 71) and our other non-regulated operations, we have not accrued a liability for anticipated removal costs related to tangible long-lived assets.

## CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with accounting principles that are generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We continually evaluate our estimates and assumptions including those related to (i) revenue recognition, (ii) allowance for doubtful accounts, (iii) pension and postretirement benefits, (iv) intangible and long-lived assets, (v) business combinations and (vi) income taxes. Actual results may differ from these estimates and assumptions. We believe these critical accounting policies discussed below involve a higher degree of judgment or complexity.

*Revenue recognition.* Certain of our interstate network access and data revenues are based on tariffed access charges filed directly with the FCC; the remainder of such revenues is derived from revenue sharing arrangements with other LECs administered by the National Exchange Carrier Association, with the exception of DSL-related revenues which were removed from our pooled interstate tariff filing effective July 1, 2006 and are now recognized as revenues when billed. We currently recognize such interstate network access revenues at the authorized rate of return, unless the actual achieved or projected rate of return is lower than authorized.

The Telecommunications Act of 1996 allows local exchange carriers to file access tariffs on a streamlined basis and, if certain criteria are met, deems those tariffs lawful. Tariffs that have been “deemed lawful” in effect nullify an interexchange carrier’s ability to seek refunds should the earnings from the tariffs ultimately result in earnings above the authorized rate of return prescribed by the FCC. Certain of our telephone subsidiaries file interstate tariffs with the FCC using this streamlined filing approach. Since July 2004, we have recognized billings from our tariffs as revenue since we believe such tariffs are “deemed lawful”. There is no assurance that our future tariff filings will be “deemed lawful”. For those billings from tariffs prior to July 2004, we initially recorded as a deferred credit our earnings in excess of the authorized rate of return.

*Allowance for doubtful accounts* . In evaluating the collectibility of our accounts receivable, we assess a number of factors, including a specific customer’s or carrier’s ability to meet its financial obligations to us, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for uncollectible accounts receivable to reduce the related accounts receivable to the amount we ultimately expect to collect from customers and carriers. If circumstances change or economic conditions worsen such that our past collection experience is no longer relevant, we may need to increase our reserves from the levels reflected in our accompanying consolidated balance sheet.

*Pension and postretirement benefits*. Accounting for pensions and postretirement benefits involves estimating the cost of benefits to be provided well into the future and attributing that cost over the time period each employee provides service to us. To accomplish this, extensive use is made of various assumptions, such as discount rates, investment returns, mortality, turnover, medical costs and inflation through a collaborative effort by management and independent actuaries. The results of this effort provide management with the necessary information on which to base its judgment and develop the estimates used to prepare the financial statements. Changes in assumptions used could result in a material impact to our financial results in any given period.

A significant assumption used in determining our pension and postretirement expense is the expected long-term rate of return on plan assets. For 2008 and 2007, we utilized an expected long-term rate of return on plan assets of 8.25%, which we believe reflects the expected long-term rates of return in the financial markets based on our current plan asset allocation. We also reviewed the historical rates of return on those plan assets over long-term periods that ranged from 10 to 20 years. A 25 basis point decrease in the return on plan asset assumption would increase annual combined pension and postretirement expense approximately \$870,000. During 2008, the loss on our pension plan assets was approximately 28%, which was significantly lower than our 8.25% expected return assumption. The effect of this large difference between actual and expected asset returns for 2008 has negatively impacted us in several ways, including (i) contributing largely to the \$80.8 million after-tax increase in our accumulated other comprehensive loss (which reduced our consolidated stockholders' equity balance as of December 31, 2008); (ii) an expected increase in our pension expense for 2009 compared to 2008 estimated to be approximately \$20 million; and (iii) anticipated higher contributions to our pension plans in the near future than previously expected. We contributed \$50 million to our primary pension plan in late 2008. Since our previous contributions to our primary pension plan have exceeded the minimum amount of contributions required by law, we have accumulated a positive "credit balance" under the plan. We currently estimate that our existing accumulated credit balance will be sufficient to fully satisfy our required minimum contribution under the plan for 2009 and partially satisfy our 2010 required minimum contribution. Based on actuarial estimates as of December 31, 2008 that assume the utilization of our existing credit balance to satisfy future cash contributions and assuming no discretionary contributions are made, our required minimum contribution to our primary pension plan is estimated to be \$4 million in 2010 and \$30 million in 2011. Our minimum required contributions to our other pension plans are immaterial.

Another assumption used in the determination of our pension and postretirement benefit plan obligations is the appropriate discount rate. The discount rate is an assumed rate of return derived from high-quality debt securities that, if applicable at the measurement date to a specified amount of principal, would provide the necessary future cash flows to pay our pension benefit obligations when they become due. For our pension plans, the discount rate used for the December 31, 2008 measurement date was derived by matching projected benefit payments to bond yields obtained from the CitiGroup Pension Discount Curve (Above Median) which are ultimately derived from the AA-rated corporate bond sector. For the year ended December 31, 2007, we utilized the CitiGroup Pension Discount Curve to derive our discount rate. Our discount rate for determining benefit obligations under our primary pension plan at December 31, 2008 was 6.6% compared to 6.3% at December 31, 2007. The utilization of a different methodology to derive the discount rate is considered a change in estimate for accounting purposes. Such change (i) had no impact to the amount of pension expense recognized in 2008, (ii) will have an immaterial impact to the amount of pension expense recognized in 2009 and (iii) reduced our projected benefit obligation by approximately \$26 million as of December 31, 2008. The discount rate can change from year to year based on market conditions that impact corporate bond yields. We use a similar methodology to determine the discount rate for our postretirement plan by utilizing as a reference the Hewitt Top Quartile Yield Curve as of the end of the year. Our discount rate for determining benefit obligations under our postretirement plan at December 31, 2008 was 6.9% compared to 6.5% at December 31, 2007. A 25 basis point decrease in the assumed discount rate would increase annual combined pension and postretirement expense approximately \$1.4 million.

*Intangible and long-lived assets.* We are subject to testing for impairment of long-lived assets under two accounting standards, Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144").

SFAS 142 requires goodwill recorded in business combinations to be reviewed for impairment at least annually and requires write-downs only in periods in which the recorded amount of goodwill exceeds the fair value. The vast majority of our goodwill is attributable to our telephone operations, which we internally operate and manage based on three geographic regions. We test for goodwill impairment for our telephone operations at the region level due to the similar economic characteristics of the individual reporting units that comprise each region. Under SFAS 142, impairment of goodwill is tested by comparing the fair value of the reporting unit to its carrying value (including goodwill). Estimates of the fair value of the reporting unit of our telephone operations are based on valuation models using techniques such as multiples of earnings (before interest, taxes and depreciation and amortization). We also evaluate goodwill impairment of our other operations primarily based on multiples of revenues and discounted cash flow analyses. If the fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to its carrying value. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

We completed the required annual test of goodwill impairment (as of September 30, 2008) under SFAS 142 and determined our goodwill was not impaired as of such date. Due to the deterioration in the overall stock market subsequent to September 30, 2008, our market capitalization as of December 31, 2008 decreased to a level below our current stockholders' equity balance. As a result, we reviewed the specific factors outlined in SFAS 142 that would indicate whether or not a triggering event had occurred that would necessitate us to perform an interim goodwill impairment test. Based on our review of such factors and considering that our market capitalization substantially exceeds our stockholders' equity balance after consideration of a reasonable control premium of 35% based on identified industry transactions, we concluded that we did not have a triggering event that would require us to perform an interim evaluation of our goodwill for potential impairment. We based such conclusion on the fact that we do not believe there have been any significant fundamental changes since our annual impairment test to (i) our business as a whole or our reporting units, including regulatory changes, (ii) our level of operating cash flows, (iii) our expectation of future levels of operating cash flows, (iv) our executive management team and (v) the carrying value of our other long-lived assets.

Under SFAS 144, the carrying value of long-lived assets other than goodwill is reviewed for impairment whenever events or circumstances indicate that such carrying amount cannot be recoverable by assessing the recoverability of the carrying value through estimated undiscounted net cash flows expected to be generated by the assets. If the undiscounted net cash flows are less than the carrying value, an impairment loss would be measured as the excess of the carrying value of a long-lived asset over its fair value. We recognized a \$16.6 million pre-tax impairment charge in 2007 related to certain of our CLEC assets that were subsequently sold in 2008.



*Business combinations.* As described above, SFAS 141(R) is effective for us for all business combinations consummated on or after January 1, 2009 and requires an acquiring entity to recognize all of the assets acquired and liabilities assumed at the acquisition date fair value. We have concluded that we are the accounting acquirer in our pending acquisition of EMBARQ, which we expect to complete in the second quarter of 2009. The allocation of the purchase price to the assets acquired and liabilities assumed of EMBARQ (and the related estimated lives of depreciable tangible and identifiable intangible assets) will require a significant amount of judgment and will be considered a critical estimate. Such allocation of the purchase price will be performed by an independent valuation firm. For additional information concerning this pending acquisition, see Item 1 of Part I of this annual report.

*Income taxes.* We estimate our current and deferred income taxes based on our assessment of the future tax consequences of transactions that have been reflected in our financial statements or applicable tax returns. Actual income taxes paid could vary from these estimates due to future changes in income tax law or the resolution of audits by federal and state taxing authorities. We maintain liabilities for unrecognized tax benefits for various uncertain tax positions taken in our tax returns. These liabilities are estimated based on our judgment of the probable outcome of the uncertain tax positions and are adjusted periodically based on changing facts and circumstances. Changes to the liabilities for unrecognized tax benefits could materially affect operating results in the period of change. During 2008 and 2007, we recognized approximately \$12.8 million and \$32.7 million, respectively, of previously unrecognized tax benefits (including related interest and net of federal tax benefit) in accordance with FIN 48. Such benefits were recorded primarily as a result of the favorable resolution of audits, administrative practices and the lapse of statute of limitations in certain jurisdictions. See Note 12 for additional information regarding our unrecognized tax benefits.

For additional information on our critical accounting policies, see “Accounting Pronouncements” and “Regulation and Competition – Other Matters” below, and the footnotes to our consolidated financial statements included elsewhere herein.

## INFLATION

Historically, we have mitigated the effects of increased costs by recovering over time certain costs applicable to our regulated telephone operations through the rate-making process. However, LECs operating over 72% of our total access lines are now governed by state alternative regulation plans, some of which restrict or delay our ability to recover increased costs. Additional future regulatory changes and competitive situations may further alter our ability to recover increased costs in our regulated operations. For our properties acquired from Verizon in 2002, which are regulated under price-cap regulation for interstate purposes, price changes for certain revenue components are limited to the rate of inflation. As operating expenses in our nonregulated lines of business increase as a result of inflation, we, to the extent permitted by competition, attempt to recover the costs by increasing prices for our services and equipment.

## MARKET RISK

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

At December 31, 2008, the fair value of our long-term debt was estimated to be \$2.7 billion based on the overall weighted average rate of our long-term debt of 6.2% and an overall weighted maturity of 7 years compared to terms and rates available on such date in long-term financing markets. Market risk is estimated as the potential decrease in fair value of our long-term debt resulting from a hypothetical increase of 62 basis points in interest rates (ten percent of our overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a \$66.5 million decrease in the fair value of our long-term debt. As of December 31, 2008, approximately 83% of our long-term debt obligations were fixed rate.

We seek to maintain a favorable mix of fixed and variable rate debt in an effort to limit interest costs and cash flow volatility resulting from changes in rates. From time to time over the past several years, we have used derivative instruments to (i) lock-in or swap our exposure to changing or variable interest rates for fixed interest rates or (ii) to swap obligations to pay fixed interest rates for variable interest rates. We have established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative instrument activities. We do not hold or issue derivative financial instruments for trading or speculative purposes. Management periodically reviews our exposure to interest rate fluctuations and implements strategies to manage the exposure.

In January 2008, we terminated all of our existing “fixed to variable” interest rate swaps associated with the full \$500 million principal amount of our Series L senior notes, due 2012. In connection with the termination of these derivatives, we received aggregate cash payments of approximately \$25.6 million, which has been reflected as premium of the associated long-term debt and is being amortized as a reduction of interest expense through 2012 using the effective interest method. In addition, in January 2008, we also terminated certain other derivatives that were not deemed to be effective hedges. Upon the termination of these derivatives, we paid an aggregate of approximately \$4.9 million (and recorded a \$3.4 million pre-tax charge in the first quarter of 2008 related to the settlement of these derivatives). As of December 31, 2008 we had no derivative instruments outstanding.

We are also exposed to market risk from changes in the fair value of our pension plan assets. For 2008, the loss on our pension plan assets was approximately 28%. Should our actual return on plan assets continue to be significantly lower than our 8.25% expected return assumption, our net periodic pension expense will increase in future periods and we will be required to contribute additional funds to our pension plan after 2009. See Critical Accounting Policies above for additional information.

Certain shortcomings are inherent in the method of analysis presented in the computation of fair value of financial instruments. Actual values may differ from those presented if market conditions vary from assumptions used in the fair value calculations. The analysis above incorporates only those risk exposures that existed as of December 31, 2008.

## **LIQUIDITY AND CAPITAL RESOURCES**

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

The recent disruption in the credit markets has had a significant adverse impact on a number of financial institutions and other companies. To date, our liquidity has not been materially impacted by the current credit environment and we do not expect that it will materially impact us in the near future. We will continue to closely monitor our liquidity and the credit markets; however, we cannot predict with certainty the impact to us of any further disruption in the overall credit markets.

*Operating activities.* Net cash provided by operating activities was \$853.3 million, \$1.0 billion and \$840.7 million in 2008, 2007 and 2006, respectively. Payments for income taxes aggregated \$208.8 million, \$185.3 million and \$212.4 million in 2008, 2007 and 2006, respectively. We also made contributions to our pension plans that aggregated approximately \$52.5 million in 2008, \$1.5 million in 2007 and \$31.5 million in 2006. Our 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 our operations, see “Results of Operations” above.

*Investing activities.* Net cash used in investing activities was \$389.0 million, \$619.2 million and \$193.7 million in 2008, 2007 and 2006, respectively. We used \$306.8 million of cash (net of approximately \$20.0 million of acquired cash) to purchase Madison River Communications Corp. (“Madison River”) and pay related closing costs on April 30, 2007 (see below and Note 2 for additional information). We received approximately \$122.8 million cash from the redemption of our RTB stock upon dissolution of the RTB during 2006. See Note 15 for additional information. Capital expenditures during 2008, 2007 and 2006 were \$286.8 million, \$326.0 million and \$314.1 million, respectively.

During 2008, we paid an aggregate of approximately \$149 million for 69 licenses in the FCC's auction of 700 megahertz ("MHz") wireless spectrum. The 700 MHz spectrum is not expected to be cleared for usage until mid-2009. We are still in the planning stages regarding the use of this spectrum. However, based on our preliminary analysis, we are considering developing wireless voice and data service capabilities based on equipment using LTE (Long-Term Evolution) technology. Given that this equipment is not expected to be commercially available until 2010, we do not expect our deployment to result in any material impact on our capital and operating budgets in 2009.

In anticipation of making lump sum distributions to certain participants of our SERP in early 2009, we liquidated our investments in marketable securities in the SERP trust during the second quarter of 2008 and thereby increased our cash and cash equivalents by \$34.9 million. The lump sum distributions were paid in early 2009 and aggregated approximately \$37 million.

*Financing activities.* Net cash used in financing activities was \$255.4 million in 2008, \$402.1 million in 2007 and \$780.2 million in 2006. In the first quarter of 2008, we paid our \$240 million Series F Senior Notes at maturity using borrowings from our credit facility. In late March 2007, we publicly issued an aggregate of \$750 million of Senior Notes (see Note 5 for additional information). The net proceeds from the issuance of such Senior Notes aggregated approximately \$741.8 million and were used (along with cash on hand and approximately \$50 million of borrowings under our commercial paper program) to (i) finance the initial purchase price for the April 30, 2007 acquisition of Madison River (\$322 million) and (ii) pay off Madison River's existing indebtedness (including accrued interest) at closing (\$522 million). Payments of debt were \$285.4 million in 2008, \$713.0 million in 2007 and \$82.0 million in 2006.

As previously mentioned, because of concerns with the overall state of the credit markets, we increased our cash position at the end of 2008 by borrowing funds under our credit facility to insure we had sufficient cash to fulfill our near term cash requirements. See below for additional information regarding our credit facility.

As discussed in Note 1, we have entered into a definitive agreement to merge with Embarq Corporation. Assuming we timely receive all regulatory approvals (and all other closing conditions are met), we hope to consummate the merger in the second quarter of 2009. In connection with the closing, we intend to finance our merger transaction expenses with (i) available cash of the combined company and (ii) proceeds from CenturyTel's or EMBARQ's existing revolving credit facilities. As previously announced, EMBARQ amended its credit facility in January 2009 to enable the facility to remain in place as an \$800 million unsecured revolving credit facility after the completion of the pending merger through May 2011. The amendment will take effect only upon the completion of the merger and the satisfaction of certain other conditions specified in the amendment. For Note 20 for additional information.

In accordance with previously announced stock repurchase programs, we repurchased 9.7 million shares (for \$347.3 million), 10.2 million shares (for \$460.7 million), and 21.4 million shares (for \$802.2 million) in 2008, 2007 and 2006, respectively. The 2006 repurchases include 14.36 million shares repurchased (for an aggregate final adjusted price of approximately \$528.4 million) under accelerated share repurchase agreements with investment banks (see Note 9 for additional information). We have suspended our current share repurchase program pending completion of our acquisition of EMBARQ.

In June 2008, our Board of Directors determined to (i) increase our annual cash dividend to \$2.80 from \$.27 per share and (ii) declare a one-time dividend of \$.6325 per share, which was paid in July 2008, effectively adjusting the total second quarter dividend to the new \$.70 quarterly dividend rate. We plan to continue our current dividend practice through the consummation of the EMBARQ merger. Following the closing of the EMBARQ merger, we expect to continue our current dividend practice and resume share repurchases, subject to our intention to maintain investment grade credit ratings on our senior debt.

In the first quarter of 2008, we received a net cash settlement of approximately \$20.7 million from the termination of all of our existing derivative instruments. See "Market Risk" for additional information concerning the termination of these derivatives.

As described further in Note 5, we called for redemption on August 14, 2007, all of our \$165 million aggregate principal amount of Series K convertible senior debentures, subject to the right of holders to convert their debentures into shares of our common stock at a conversion price of \$40.455. In lieu of cash redemption, holders of approximately \$149.6 million aggregate principal amount of the debentures elected to convert their holdings into approximately 3.7 million shares of CenturyTel common stock. The remaining \$15.4 million of outstanding debentures were retired for cash (including premium and accrued and unpaid interest).

*Other.* For 2009, we have budgeted between \$280-300 million for capital expenditures, excluding nonrecurring capital expenditures expected to arise out of our pending EMBARQ acquisition. A few years ago, we concluded that our prior extensive capital investment in our wireline network permitted us to reduce wireline network capital spending to maintenance levels. Our 2009 capital expenditure budget also includes amounts for expanding our new service offerings and expanding our data networks.

The following table contains certain information concerning our material contractual obligations as of December 31, 2008.

Contractual obligations	Payments due by period				
	Total	2009	2010-2011	2012-2013	After 2013 and Other
(Dollars in thousands)					
Long-term debt, including current maturities and capital lease obligations (1)	\$ 3,314,526	20,407	1,098,921	775,759	1,419,439
Interest on long-term debt obligations	\$ 1,345,267	191,326	316,128	215,950	621,863
Unrecognized tax benefits (2)	17,285	-	-	-	17,285

(1) For additional information on the terms of our outstanding debt instruments, see Note 5 to the consolidated financial statements included in Item 8 of this annual report.

(2) Represents the amount of tax and interest we would pay assuming we are required to pay the entire amount that we have reserved for our unrecognized tax benefits (see Note 12 for additional information). The timing of any payments for our unrecognized tax benefits cannot be predicted with certainty; therefore, such amount is reflected in the "After 2013 and Other" column in the above table.

We continually evaluate the possibility of acquiring additional communications operations and expect to continue our long-term strategy of pursuing the acquisition of attractively-priced communications properties in exchange for cash, securities or both. At any given time, we may be engaged in discussions or negotiations regarding additional acquisitions. We generally do not announce our acquisitions or dispositions until we have entered into a preliminary or definitive agreement. We may require additional financing in connection with any such acquisitions, the consummation of which could have a material impact on our financial condition or operations. Approximately 4.1 million shares of our common stock and 200,000 shares of our preferred stock remain available for future issuance in connection with acquisitions under our acquisition shelf registration statement. We also have access to debt and equity capital markets.

We have available a five-year, \$708 million revolving credit facility which expires in December 2011. The credit facility contains financial covenants that require us to meet a consolidated leverage ratio (as defined in the facility) not exceeding 4 to 1 and a minimum interest coverage ratio (as defined in the facility) of at least 1.5 to 1. The interest rate on revolving loans under the facility is based on our choice of several prevailing commercial lending rates plus an additional margin that varies depending on our credit ratings and aggregate borrowings under the facility. We must pay a quarterly commitment fee on the unutilized portion of the facility, the amount of which varies based on our credit ratings. Up to \$150 million of the credit facility can be used for letters of credit, which reduces the amount available for other extensions of credit. Available borrowings under our credit facility are also effectively reduced by any outstanding borrowings under our commercial paper program. Our commercial paper program borrowings in turn are effectively limited to the total amount available under our credit facility. As of December 31, 2008, we had \$563 million outstanding under our credit facility. We had no commercial paper outstanding as of December 31, 2008.

Moody's Investors Service ("Moody's"), which currently rates our debt Baa2, indicated our debt rating is currently under review for a possible downgrade to Baa3. Standard & Poor's ("S&P") rates our long-term debt BBB- (with a stable outlook). Our commercial paper program is rated P2 by Moody's and A3 by S&P. Any downgrade in our credit ratings will increase our borrowing costs and commitment fees under our \$708 million revolving credit facility. Downgrades could also restrict our access to the capital markets, increase our borrowing costs under new or replacement debt financings, or otherwise adversely affect the terms of future borrowings by, among other things, increasing the scope of our debt covenants and decreasing our financial or operating flexibility.

The following table reflects our debt to total capitalization percentage and ratio of earnings to fixed charges and preferred stock dividends as of and for the years ended December 31, 2008, 2007 and 2006. Our debt to capitalization ratio has increased primarily due to share repurchases we have made during the last few years.

	2008	2007	2006
Debt to total capitalization	51.2%	46.9	44.8
Ratio of earnings to fixed charges and preferred stock dividends*	3.74	3.85	3.94

\* For purposes of the chart above, "earnings" consist of income before income taxes and fixed charges, and "fixed charges" include our interest expense, including amortized debt issuance costs, and our preferred stock dividend costs.

## REGULATION AND COMPETITION

The communications industry continues to undergo various fundamental regulatory, legislative, competitive and technological changes. These changes may have a significant impact on the future financial performance of all communications companies.

*Events affecting the communications industry.* Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. This trend is more pronounced among residential customers, which comprise 73% of our access line customers. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services, and offer enhanced new services.

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. Under the 1996 Act’s rural telephone company exemption, approximately half of our telephone access lines are exempt from certain of these interconnection requirements unless and until the appropriate state regulatory commission overrides the exemption upon receipt from a competitor of a bona fide request meeting certain criteria.

Federal USF programs have undergone substantial changes since 1997, and are expected to experience more changes in the coming years as modernization of the overall program moves forward. As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies by adopting an interim mechanism for a five-year period based on embedded, or historical, costs that provide relatively predictable levels of support to many LECs, including substantially all of our LECs. In May 2006, the FCC extended this interim mechanism until such time that new high-cost support rules are adopted for rural telephone companies. Wireless and other competitive service providers continue to seek to qualify to receive USF support. This trend, coupled with changes in usage of telecommunications services, have placed stress on the funding mechanism of the USF, which is subject to annual caps on disbursements. These developments have placed additional financial pressure on the amount of money that is necessary and available to provide support to all eligible service providers, including support payments we receive from the USF High Cost Loop support program. Increases in the nationwide average cost per loop factor used to allocate funds among all USF recipients caused our revenues from the USF High Cost Loop support program to decrease approximately \$14.6 million in 2008 when compared to 2007. We anticipate that our 2009 revenues from the USF High Cost Loop support program will be lower than 2008 by approximately \$12-14 million.



Since May 2007, the FCC and the Federal-State Joint Board on Universal Service have each proposed a series of reforms that could, if adopted, substantially restructure current USF programs, including comprehensive reform proposals released for public comment in November 2008. Until the FCC acts on those recommendations or issues final rules, we cannot estimate the impact that such proposals would have on our operations. In addition, there are a number of judicial appeals challenging several aspects of the FCC's universal service rules and various Congressional proposals seeking to substantially modify USF programs, none of which have been resolved at this time. We will continue to be active in monitoring these developments.

Technological developments have led to the development of new services that compete with traditional LEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively pursued this opportunity. Additionally, several large electric utilities have announced plans to offer communications services that compete with LECs. Improvements in the quality of "Voice-over-Internet Protocol" ("VoIP") service have led several cable, Internet, data and other communications companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers frequently use existing broadband networks to deliver flat-rate, all distance calling plans that may offer features that cannot readily be provided by traditional LECs and may be priced below those currently charged for traditional local and long distance telephone services. In late 2003, the FCC initiated rulemaking proceedings to address the regulation of VoIP, and has adopted orders establishing some initial broad regulatory guidelines. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for our customers.

In 2003, the FCC opened a broad intercarrier compensation proceeding with the ultimate goal of creating a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, carrying or delivering telecommunications traffic. The FCC has received intercarrier compensation proposals from several industry groups, and industry negotiations are continuing with the goal of developing a consensus plan that addresses the concerns of carriers from all industry segments. In late 2008, the FCC issued a document that, among other things, requested public comment on the chairman's draft proposal which would require carriers to reduce access charges to a rate that was significantly lower than what we currently charge. It is currently unclear when the FCC may take action with respect to the draft proposals. Adoption of the chairman's original proposal, which is included in the latest draft order, could result in a material adverse impact on our results of operations. Until the FCC's proceeding concludes and the changes, if any, to the existing rules are established, we cannot estimate the impact this proceeding will have on our results of operations.

Many cable, technology or other communication companies that previously offered a limited range of services are now, like us, offering diversified bundles of services. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Several of these companies started offering full service bundles before us, which could give them an advantage in building customer loyalty. Such activities will continue to place downward pressure on the demand for our access lines.

*Recent events affecting us.* During the last few years, all of the states in which we provide telephone services have taken legislative or regulatory steps to further introduce competition into the LEC business. The number of companies which have requested authorization to provide local exchange service in our service areas has increased in recent years, especially in the markets we acquired from Verizon in 2002 and 2000, and it is anticipated that similar action may be taken by others in the future.

Certain long distance carriers continue to request that certain of our LECs reduce intrastate access tariffed rates. In addition, we have recently experienced reductions in intrastate traffic, partially due to the displacement of minutes by wireless, electronic mail and other optional calling services. In 2008 we incurred a reduction in our intrastate revenues of approximately \$29.0 million compared to 2007 primarily due to these factors. The corresponding decrease in 2007 compared to 2006 was \$20.9 million. We believe this trend of decreased intrastate minutes will continue in 2009, although the magnitude of such decrease is uncertain.

Over the past several years, each of the Federal Communications Commission, Universal Service Administrative Company and certain Congressional committees has initiated wide-ranging reviews of the administration of the federal USF program. As part of this process, we, along with a number of other USF recipients, have undergone a number of USF audits and have also received requests for information from the FCC's Office of Inspector General ("OIG") and Congressional committees. In addition, in July 2008 we received a subpoena from the OIG requesting a broad range of information regarding our depreciation rates and methodologies since 2000. The OIG has not identified to us any specific issues with respect to our participation in the USF program and none of the audits completed to date has identified any material issues regarding our participation in the USF program. While we believe our participation is in compliance with FCC rules and in accordance with accepted industry practices, we cannot predict with certainty the timing or outcome of these various reviews. We have complied with and are continuing to respond to all requests for information.

Exclusive of acquisitions, we expect our operating revenues in 2009 to decline as we continue to experience downward pressure primarily due to continued access line losses, reduced universal service funding and lower network access revenues. We expect such declines to be partially offset primarily due to increased demand for our high-speed Internet service offering.

For a more complete description of regulation and competition impacting our operations and various attendant risks, please see Items 1 and 1A of this annual report.

*Other matters.* We currently account for our regulated telephone operations (except for the properties acquired from Verizon in 2002) in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). Actions by regulators can provide reasonable assurance of the recognition 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. We continuously monitor the ongoing applicability of SFAS 71 to our regulated telephone operations 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 our telephone operations no longer being subject to SFAS 71 in the near future. As of December 31, 2008, we believe that SFAS 71 still applies.

In September 2008, we filed a petition with the FCC to convert our remaining rate-of-return study areas to price cap regulation effective January 1, 2009 and, to the extent necessary, requested limited waivers of certain pricing and universal service high-cost support rules related to our election. Such petition was not addressed by the FCC in 2008 and remains pending. Should the petition be approved by the FCC, we believe this would require us to discontinue the accounting requirements of SFAS 71 as of the effective date of the conversion to price cap regulation. In that event, implementation of Statement of Financial Accounting Standards No. 101 ("SFAS 101"), "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71," would require the write-off of previously established regulatory assets and liabilities. Depreciation rates of certain assets established by regulatory authorities for our telephone operations subject to SFAS 71 have historically included a component for removal costs in excess of the related salvage value. Notwithstanding the adoption of Statement of Financial Accounting Standards No. 143 "Accounting for Asset Retirement Obligations" ("SFAS 143"), SFAS 71 requires us to continue to reflect this accumulated liability for removal costs in excess of salvage value even though there is no legal obligation to remove the assets. Therefore, we did not adopt the provisions of SFAS 143 for our telephone operations subject to SFAS 71. SFAS 101 further provides that the carrying amounts of property, plant and equipment are to be adjusted only to the extent the assets are impaired and that impairment shall be judged in the same manner as for nonregulated enterprises.

Our consolidated balance sheet as of December 31, 2008 included regulatory liabilities of approximately \$216.5 million related to estimated removal costs embedded in accumulated depreciation (as described above). Upon the discontinuance of SFAS 71, such amount (on an after-tax basis) will be reflected as an extraordinary gain on our consolidated statement of income for the period in which the discontinuance takes effect.

When our regulated operations cease to qualify for the application of SFAS 71, we do not expect to record an impairment charge related to the carrying value of the property, plant and equipment of our regulated telephone operations. Additionally, upon the discontinuance of SFAS 71, we would be required to revise the lives of our property, plant and equipment to reflect the estimated useful lives of the assets. We do not expect such revisions in asset lives, or the elimination of other regulatory assets and liabilities, to have a material unfavorable impact on our results of operations. Upon the discontinuance of SFAS 71, we also would be required to eliminate certain intercompany transactions with regulated affiliates that currently are not eliminated under the application of SFAS 71. For 2008, approximately \$197 million of revenues (and related costs) would have been eliminated had we not been subject to the provisions of SFAS 71. For regulatory purposes, the accounting and reporting of our telephone subsidiaries would not be affected by the discontinued application of SFAS 71.

If the FCC adopts new rules on intercarrier compensation, we may withdraw our petition for price cap regulation. If we have not discontinued the accounting requirements of SFAS 71 prior to the effective date of the acquisition of EMBARQ, we believe the consummation of this acquisition would require us to discontinue the application of SFAS 71 effective as of the closing date.

We have certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2008 have not been material, and we currently do not believe that such costs will become material.

**Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

For information pertaining to the our market risk disclosure, see “Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Risk”.

## Item 8 . Financial Statements and Supplementary Data

### Report of Management

The Shareholders  
CenturyTel, Inc.:

Management has prepared and is responsible for the integrity and objectivity of our consolidated financial statements. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts determined using our best judgments and estimates.

Our consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm, who have expressed their opinion with respect to the fairness of the consolidated financial statements. Their audit was conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

Management is responsible for establishing and maintaining adequate internal control over financial reporting, a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our evaluation under the framework of COSO , management concluded that our internal control over financial reporting was effective as of December 31, 2008. The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by KPMG LLP, as stated in their report which is included herein.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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

/s/ R. Stewart Ewing, Jr.

R. Stewart Ewing, Jr.

Executive Vice President and Chief Financial Officer

February 27, 2009

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
CenturyTel, Inc.:

We have audited the consolidated financial statements of CenturyTel, Inc. and subsidiaries (the Company) as listed in Item 15a(1). In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15a(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 the Company as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 12 to the consolidated financial statements, effective January 1, 2007, the Company changed its method of accounting for uncertain tax positions. In addition, as discussed in Note 1 to the consolidated financial statements, in 2006, the Company changed its method of accounting for share-based payments (effective January 1, 2006) and pension and postretirement benefits (as of December 31, 2006).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 27, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP  
Shreveport, Louisiana  
February 27, 2009

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

CenturyTel, Inc.:

We have audited CenturyTel, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) . The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Report of Management* . Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of CenturyTel, Inc. and subsidiaries as listed in Item 15(a)(1), and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP  
Shreveport, Louisiana  
February 27, 2009



**CENTURYTEL, INC.**  
Consolidated Statements of Income

	Year ended December 31,		
	2008	2007	2006
	(Dollars, except per share amounts, and shares in thousands)		
<b>OPERATING REVENUES</b>	<b>\$ 2,599,747</b>	<b>2,656,241</b>	<b>2,447,730</b>
<b>OPERATING EXPENSES</b>			
Cost of services and products (exclusive of depreciation and amortization)	955,473	937,375	888,414
Selling, general and administrative	399,136	389,533	370,272
Depreciation and amortization	523,786	536,255	523,506
Total operating expenses	1,878,395	1,863,163	1,782,192
<b>OPERATING INCOME</b>	<b>721,352</b>	<b>793,078</b>	<b>665,538</b>
<b>OTHER INCOME (EXPENSE)</b>			
Interest expense	(202,217)	(212,906)	(195,957)
Other income (expense)	40,954	38,770	121,568
Total other income (expense)	(161,263)	(174,136)	(74,389)
<b>INCOME BEFORE INCOME TAX EXPENSE</b>	<b>560,089</b>	<b>618,942</b>	<b>591,149</b>
Income tax expense	194,357	200,572	221,122
<b>NET INCOME</b>	<b>\$ 365,732</b>	<b>418,370</b>	<b>370,027</b>
<b>BASIC EARNINGS PER SHARE</b>	<b>\$ 3.57</b>	<b>3.82</b>	<b>3.17</b>
<b>DILUTED EARNINGS PER SHARE</b>	<b>\$ 3.56</b>	<b>3.72</b>	<b>3.07</b>
<b>DIVIDENDS PER COMMON SHARE</b>	<b>\$ 2.1675</b>	<b>.26</b>	<b>.25</b>
<b>AVERAGE BASIC SHARES OUTSTANDING</b>	<b>102,268</b>	<b>109,360</b>	<b>116,671</b>
<b>AVERAGE DILUTED SHARES OUTSTANDING</b>	<b>102,871</b>	<b>113,094</b>	<b>122,229</b>

See accompanying notes to consolidated financial statements

**CENTURYTEL, INC.**  
Consolidated Statements of Comprehensive Income

	Year ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
<b>NET INCOME</b>	<b>\$ 365,732</b>	<b>418,370</b>	<b>370,027</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAXES</b>			
Minimum pension liability adjustment, net of \$965 tax	-	-	1,548
Marketable securities:			
Unrealized gain (loss) on investments, net of (\$332), \$547 and \$411 tax	(533)	877	659
Reclassification adjustment for gain included in net income, net of (\$1,730) tax	(2,776)	-	-
Derivative instruments:			
Net gains on derivatives hedging variability of cash flows, net of \$294 tax	-	471	-
Reclassification adjustment for gains included in net income, net of \$267, \$254 and \$234 tax	429	407	375
Items related to employee benefit plans*:			
Change in net actuarial loss, net of (\$48,656) and \$28,583 tax	(82,505)	52,485	-
Change in net prior service credit, net of (\$589) and \$1,724 tax	(945)	2,766	-
Reclassification adjustment for gains (losses) included in net income:			
Amortization of net actuarial loss, net of \$1,198 and \$4,409 tax	1,921	6,554	-
Amortization of net prior service credit, net of \$2,261 and (\$771) tax	3,627	(1,236)	-
Amortization of unrecognized transition asset, net of (\$55) tax	-	(89)	-
Net change in other comprehensive income (loss) (net of reclassification adjustment), net of taxes	(80,782)	62,235	2,582
<b>COMPREHENSIVE INCOME</b>	<b>\$ 284,950</b>	<b>480,605</b>	<b>372,609</b>

\* Reflected in 2008 and 2007 due to the December 31, 2006 adoption of SFAS 158.

See accompanying notes to consolidated financial statements.

**CENTURYTEL, INC.**  
Consolidated Balance Sheets

	December 31,	
	2008	2007
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 243,327	34,402
Accounts receivable		
Customers, less allowance of \$10,973 and \$12,129	153,838	152,809
Interexchange carriers and other, less allowance of \$5,317 and \$8,232	76,454	70,218
Materials and supplies, at average cost	8,862	8,558
Other	72,926	26,412
Total current assets	555,407	292,399
NET PROPERTY, PLANT AND EQUIPMENT		
	2,895,892	3,108,376
GOODWILL AND OTHER ASSETS		
Goodwill	4,015,674	4,010,916
Other	787,222	772,862
Total goodwill and other assets	4,802,896	4,783,778
TOTAL ASSETS	\$ 8,254,195	8,184,553
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 20,407	279,898
Accounts payable	135,086	120,381
Accrued expenses and other current liabilities		
Salaries and benefits	99,648	64,380
Income taxes	-	54,233
Other taxes	44,137	48,961
Interest	75,769	80,103
Other	26,773	30,942
Advance billings and customer deposits	56,570	57,637
Total current liabilities	458,390	736,535
LONG-TERM DEBT	3,294,119	2,734,357
DEFERRED CREDITS AND OTHER LIABILITIES	1,338,446	1,304,456
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 350,000,000 shares, issued and outstanding 100,277,216 and 108,491,736 shares	100,277	108,492
Paid-in capital	39,961	91,147
Accumulated other comprehensive loss, net of tax	(123,489)	(42,707)
Retained earnings	3,146,255	3,245,302
Preferred stock - non-redeemable	236	6,971
Total stockholders' equity	3,163,240	3,409,205
TOTAL LIABILITIES AND EQUITY	\$ 8,254,195	8,184,553

See accompanying notes to consolidated financial statements.

**CENTURYTEL, INC.**  
Consolidated Statements of Cash Flows

	Year ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
OPERATING ACTIVITIES			
Net income	\$ 365,732	418,370	370,027
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	523,786	536,255	523,506
Gains on asset dispositions and liquidation of marketable securities	(12,452)	(15,643)	(118,649)
Deferred income taxes	67,518	1,018	49,685
Share-based compensation	16,390	19,962	11,904
Income from unconsolidated cellular entity	(12,045)	(14,578)	(5,861)
Distributions from unconsolidated cellular entity	15,960	10,229	-
Changes in current assets and current liabilities:			
Accounts receivable	(7,978)	15,920	7,909
Accounts payable	14,043	(13,698)	24,906
Accrued taxes	(64,778)	11,604	(49,735)
Other current assets and other current liabilities, net	(15,612)	23,782	10,269
Retirement benefits	(26,066)	27,350	5,963
Excess tax benefits from share-based compensation	(1,123)	(6,427)	(12,034)
Decrease in noncurrent assets	9,744	12,718	9,078
Increase (decrease) in other noncurrent liabilities	(27,561)	(20,781)	709
Other, net	7,742	23,905	13,042
Net cash provided by operating activities	853,300	1,029,986	840,719
INVESTING ACTIVITIES			
Payments for property, plant and equipment	(286,817)	(326,045)	(314,071)
Purchase of wireless spectrum	(148,964)	-	-
Acquisitions, net of cash acquired	-	(306,805)	-
Proceeds from liquidation of marketable securities	34,945	-	-
Proceeds from redemption of Rural Telephone Bank stock	-	5,206	122,819
Proceeds from sale of assets	15,809	8,231	5,865
Other, net	(3,968)	225	(8,344)
Net cash used in investing activities	(388,995)	(619,188)	(193,731)
FINANCING ACTIVITIES			
Payments of debt	(285,401)	(712,980)	(81,995)
Proceeds from issuance of debt	563,115	741,840	23,000
Repurchase of common stock	(347,264)	(460,676)	(802,188)
Net proceeds from settlement of hedges	20,745	-	-
Proceeds from issuance of common stock	14,599	49,404	97,803
Excess tax benefits from share-based compensation	1,123	6,427	12,034
Cash dividends	(220,266)	(29,052)	(29,203)
Other, net	(2,031)	2,973	383
Net cash used in financing activities	(255,380)	(402,064)	(780,166)
Net increase (decrease) in cash and cash equivalents	208,925	8,734	(133,178)
Cash and cash equivalents at beginning of year	34,402	25,668	158,846
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 243,327	34,402	25,668

See accompanying notes to consolidated financial statements.

**CENTURYTEL, INC.**  
Consolidated Statements of Stockholders' Equity

	Year ended December 31,		
	2008	2007	2006
	(Dollars, except per share amounts, and shares in thousands)		
COMMON STOCK (represents dollars and shares)			
Balance at beginning of year	\$ 108,492	113,254	131,074
Repurchase of common stock	(9,676)	(10,213)	(21,432)
Conversion of debt into common stock	-	3,699	-
Conversion of preferred stock into common stock	367	26	22
Issuance of common stock through dividend reinvestment, incentive and benefit plans	1,094	1,726	3,590
Balance at end of year	100,277	108,492	113,254
PAID-IN CAPITAL			
Balance at beginning of year	91,147	24,256	129,806
Repurchase of common stock	(93,075)	(155,036)	(222,998)
Conversion of debt into common stock	-	142,732	-
Conversion of preferred stock into common stock	6,368	453	378
Issuance of common stock through dividend reinvestment, incentive and benefit plans	13,505	47,678	94,213
Excess tax benefits from share-based compensation	1,123	6,427	12,034
Share based compensation and other	20,893	24,637	10,823
Balance at end of year	39,961	91,147	24,256
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX			
Balance at beginning of year	(42,707)	(104,942)	(9,619)
Effect of adoption of SFAS 158, net of tax (see Note 1)	-	-	(97,905)
Net change in other comprehensive loss (net of reclassification adjustment), net of tax	(80,782)	62,235	2,582
Balance at end of year	(123,489)	(42,707)	(104,942)
RETAINED EARNINGS			
Balance at beginning of year	3,245,302	3,150,933	3,358,162
Net income	365,732	418,370	370,027
Repurchase of common stock	(244,513)	(295,427)	(557,758)
Cumulative effect of adoption of SAB 108 (see Note 1)	-	-	9,705
Cumulative effect of adoption of FIN 48 (see Note 12)	-	478	-
Cash dividends declared			
Common stock - \$2.1675, \$.26 and \$.25 per share	(220,086)	(28,684)	(28,823)
Preferred stock	(180)	(368)	(380)
Balance at end of year	3,146,255	3,245,302	3,150,933
PREFERRED STOCK - NON-REDEEMABLE			
Balance at beginning of year	6,971	7,450	7,850
Conversion of preferred stock into common stock	(6,735)	(479)	(400)
Balance at end of year	236	6,971	7,450
TOTAL STOCKHOLDERS' EQUITY	\$ 3,163,240	3,409,205	3,190,951

See accompanying notes to consolidated financial statements.

**CENTURYTEL, INC.**  
Notes to Consolidated Financial Statements  
December 31, 2008

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Pending acquisition* - On October 26, 2008, we entered into a definitive merger agreement to acquire Embarq Corporation ("EMBARQ") in a stock-for-stock transaction. Under the terms of the agreement, EMBARQ shareholders will receive 1.37 CenturyTel shares for each share of EMBARQ common stock they own at closing. On December 31, 2008, EMBARQ had outstanding approximately 142.4 million shares of common stock and \$5.7 billion of long-term debt. The two companies have a combined operating presence in 33 states with approximately 7.7 million access lines and two million broadband customers. Completion of the transaction is subject to the receipt of regulatory approvals, including approvals from the Federal Communications Commission ("FCC") and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction in the second quarter of 2009.

*Principles of consolidation* - Our consolidated financial statements include the accounts of CenturyTel, Inc. and its majority-owned subsidiaries.

*Regulatory accounting* - Our regulated telephone operations (except for the properties acquired from Verizon in 2002) are subject to the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). Actions by regulators can provide reasonable assurance of the recognition 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. We continuously monitor the ongoing applicability of SFAS 71 to our regulated telephone operations 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 our telephone operations no longer being subject to SFAS 71 in the near future. As of December 31, 2008, we believe that SFAS 71 still applies.

In September 2008, we filed a petition with the FCC to convert our remaining rate-of-return study areas to price cap regulation. Such petition was not addressed by the FCC in 2008 and remains pending. Should the petition be approved by the FCC, we believe such an event would require us to discontinue the accounting requirements of SFAS 71 as of the effective date of the conversion to price cap regulation. Our consolidated balance sheet as of December 31, 2008 included regulatory liabilities of approximately \$216.5 million related to estimated removal costs embedded in accumulated depreciation (as required to be recorded by regulators). Net deferred income tax assets related to the regulatory assets and liabilities quantified above were \$84.4 million. Upon the discontinuance of SFAS 71, such net amount (\$132.1 million) will be reflected as an extraordinary gain on our consolidated statement of income. Upon the discontinuance of SFAS 71, we also would be required to eliminate certain intercompany transactions with regulated affiliates that currently are not eliminated under the application of SFAS 71. For 2008, approximately \$197 million of revenues (and related costs) would have been eliminated had we not been subject to the provisions of SFAS 71. For regulatory purposes, the accounting and reporting of our telephone subsidiaries would not be affected by the discontinued application of SFAS 71.

*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 generally recognized when services are provided or when products are delivered to customers. Revenue that is billed in advance includes monthly recurring network access services, special access services and monthly recurring local line charges. The unearned portion of this revenue is initially deferred as a component of advance billings and customer deposits on our balance sheet and recognized as revenue over the period that the services are provided. Revenue that is billed in arrears includes switched access services, nonrecurring network access services, nonrecurring local services and long distance services. The earned but unbilled portion of this revenue is recognized as revenue in the period that the services are provided. Revenues from installation activities are deferred and recognized as revenue over the estimated life of the customer relationship. The costs associated with such installation activities, up to the related amount of deferred revenue, are deferred and recognized as an operating expense over the same period.

Certain of our telephone subsidiaries' revenues are based on tariffed access charges filed directly with the FCC; the remainder of our telephone subsidiaries participate in revenue sharing arrangements with other telephone companies for interstate revenue (except for broadband related revenues) 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 certain sharing arrangements are initially recorded based on our estimates.

*Allowance for doubtful accounts* . In evaluating the collectibility of our accounts receivable, we assess a number of factors, including a specific customer's or carrier's ability to meet its financial obligations to us, the length of time the receivable has been past due and historical collection experience. Based on these assessments, we record both specific and general reserves for uncollectible accounts receivable to reduce the stated amount of applicable accounts receivable to the amount we ultimately expect to collect.

*Property, plant and equipment* - Telephone plant is stated 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 average rates range from 2% to 20%.

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 two to 35 years.

*Intangible assets* – Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”), requires goodwill recorded in a business combination to be reviewed for impairment and to be written down only in periods in which the recorded amount of goodwill exceeds its fair value. SFAS 142 also stipulates certain factors to consider regarding whether or not a triggering event has occurred that would require performance of an interim goodwill impairment test. We test impairment of goodwill at least annually by comparing the fair value of the reporting unit to its carrying value (including goodwill). We base our estimates of the fair value of the reporting unit on valuation models using criterion such as multiples of earnings. See Note 3 for additional information.

*Long-lived assets* - Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), addresses financial accounting and reporting for the impairment or disposal of long-lived assets (exclusive of goodwill). During 2007, we recognized a \$16.6 million pre-tax impairment charge in order to write-down the value of certain of our long-lived assets in certain of our CLEC markets to their estimated realizable value. Such assets were subsequently sold in two separate transactions in 2008.

*Affiliated transactions* - Certain of our service subsidiaries provide installation and maintenance services, materials and supplies, and managerial, operational, technical, accounting and administrative services to other subsidiaries. In addition, CenturyTel provides and bills management services to subsidiaries and in certain instances makes interest bearing advances to finance construction of plant and purchases of equipment and to meet working capital requirements. These transactions are recorded by our telephone subsidiaries at their cost to the extent permitted by regulatory authorities. Intercompany transactions with regulated affiliates subject to SFAS 71 have not been eliminated in connection with consolidating the results of operations of CenturyTel and its subsidiaries. Intercompany transactions with affiliates not subject to SFAS 71 have been eliminated.

*Income taxes* - We file a consolidated federal income tax return with our eligible subsidiaries. We use 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.



*Postretirement and pension plans* – We adopted the provisions of Statement of Financial Accounting Standards No. 158, “Employers’ Accounting for Defined Benefit Plans and Other Postretirement Plans” (“SFAS 158”) as of December 31, 2006. SFAS 158 requires us to recognize the overfunded or underfunded status of our defined benefit and postretirement plans as an asset or a liability on our balance sheet, with an adjustment to stockholders’ equity (reflected as an increase or decrease in accumulated other comprehensive income or loss). The effect of applying SFAS 158 reduced our stockholders’ equity by approximately \$97.9 million as of December 31, 2006.

*Cumulative effect adjustment* – In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, “Considering the Effect of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Results” (“SAB 108”). SAB 108 addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using both a balance sheet approach and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of the relevant quantitative and qualitative factors.

As of December 31, 2006, we identified two misstatements that previously were deemed immaterial using the income statement approach that were deemed material upon application of the balance sheet approach. Such misstatements relate to (i) the failure to capitalize interest in connection with the development of our billing system, which began in the late 1990’s; and (ii) the failure to defer the revenues and costs associated with installation activities related to our service offerings. Using the guidance of SAB 108, we recorded a net cumulative effect adjustment to retained earnings (as of January 1, 2006), which increased retained earnings approximately \$9.7 million (presented on an after-tax basis). Of the \$9.7 million net increase to retained earnings, approximately \$14.0 million related to the capitalized interest adjustment, which was partially offset by a reduction to retained earnings of approximately \$4.3 million related to the installation activities adjustment.

*Stock-based compensation* – Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), “Share-Based Payment”, which require us to measure our cost of awarding employees with equity instruments based upon the fair value of the award on the grant date. See Note 14 for additional information.

*Derivative financial instruments* – We account for derivative instruments and hedging activities in accordance with Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS 133”), as amended. SFAS 133, as amended, requires that all derivative instruments, such as interest rate swaps, be recognized in the financial statements and measured at fair value regardless of the purpose or intent of holding them. On the date a derivative contract is entered into, we designate the derivative as either a fair value or cash flow hedge. A hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment is a fair value hedge. A hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability is a cash flow hedge. We also formally assess, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If we determine that a derivative is not, or is no longer, highly effective as a hedge, we would discontinue hedge accounting prospectively. We recognize all derivatives on the balance sheet at their fair value. Changes in the fair value of derivative financial instruments are either recognized in income or stockholders' equity (as a component of accumulated other comprehensive income (loss)), depending on the use of the derivative and whether it qualifies for hedge accounting. We do not hold or issue derivative financial instruments for trading or speculative purposes. Management periodically reviews our exposure to interest rate fluctuations and implements strategies to manage the exposure. See Note 6 for additional information.

*Earnings per share* - Basic earnings per share amounts are determined on the basis of the weighted average number of common shares outstanding during the applicable accounting period. Diluted earnings per share gives effect to all potential dilutive common shares that were outstanding during the period. See Note 13 for additional information.

*Cash equivalents* - We consider short-term investments with a maturity at date of purchase of three months or less to be cash equivalents.

## (2) ACQUISITIONS

On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. (“Madison River”) from Madison River Telephone Company, LLC for an initial aggregate purchase price of approximately \$322 million cash. In connection with the acquisition, we also paid all of Madison River's existing indebtedness (including accrued interest), which approximated \$522 million. At the time of this acquisition, Madison River operated approximately 164,000 predominantly rural access lines in four states with more than 30% high-speed Internet penetration and its network included ownership in a 2,100 route mile fiber network. We believe this acquisition adds attractive markets with good demographics and growth prospects and its fiber network is complementary to our existing operations.

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

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

The total cost of the Madison River acquisition is composed of the following components (amounts in thousands):

Cash paid (1)	\$ 321,516
Closing costs (2)	5,268
Total purchase price	<u>\$ 326,784</u>

(1) Reflects the cash payment of \$671,000 we received in third quarter 2007 in accordance with the purchase agreement upon finalization of the working capital portion of the purchase price.

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

The purchase price was allocated to the assets acquired and liabilities assumed as follows (amounts in thousands):

Current assets (1)	\$ 33,761
Net property, plant and equipment	208,317
Identifiable intangible assets	
Customer list	156,800
Franchise	6,400
Goodwill	579,780
Other assets	21,998
Current liabilities (2)	(25,578)
Long-term debt (2)	(520,000)
Deferred income taxes	(105,168)
Other liabilities	<u>(29,526)</u>
Total purchase price	<u>\$ 326,784</u>

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

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

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 (revised), “Business Combinations” (“SFAS 141(R)”), which is effective for us for all business combinations for which the acquisition date is on or after January 1, 2009. We will account for our pending acquisition of EMBARQ using the guidance of SFAS 141(R). Because it was probable that the acquisition date of the pending EMBARQ business combination would be subsequent to the January 1, 2009 effective date of SFAS 141(R), we elected to expense our EMBARQ acquisition related costs that had been incurred through December 31, 2008 in the fourth quarter of 2008 (which aggregated approximately \$5.0 million). Such charge is reflected in selling, general and administrative expense in our 2008 consolidated statement of income. We will expense additional acquisition related costs as incurred after December 31, 2008.

(3) GOODWILL AND OTHER ASSETS

Goodwill and other assets at December 31, 2008 and 2007 were composed of the following:

December 31,	2008	2007
	(Dollars in thousands)	
Goodwill	\$ 4,015,674	4,010,916
Billing system development costs, less accumulated amortization of \$49,979 and \$38,285	181,210	192,904
Investment in 700 MHz wireless spectrum licenses	148,964	-
Intangible assets subject to amortization		
Customer list, less accumulated amortization of \$35,026 and \$18,149	146,283	163,160
Cash surrender value of life insurance contracts	96,606	95,654
Deferred costs associated with installation activities	77,202	81,908
Pension asset	-	28,536
Intangible assets not subject to amortization	42,750	42,750
Marketable securities	-	35,811
Investment in unconsolidated cellular partnership	33,662	33,714
Deferred interest rate hedge contracts	19,149	23,692
Investment in debt security	-	22,807
Other	41,396	51,926
	<u>\$ 4,802,896</u>	<u>4,783,778</u>

Our goodwill was derived from numerous previous acquisitions whereby the purchase price exceeded the fair value of the net assets acquired. Goodwill increased in 2008 as a result of resolving various income tax uncertainties related to our Madison River acquisition. The vast majority of our goodwill is attributable to our telephone operations, which we internally operate and manage based on three geographic regions. We test for goodwill impairment for our telephone operations at the region level due to the similar economic characteristics of the individual reporting units that comprise each region. Under SFAS 142, impairment of goodwill is tested by comparing the fair value of the reporting unit to its carrying value (including goodwill). Estimates of the fair value of the reporting unit of our telephone operations are based on valuation models using techniques such as multiples of earnings (before interest, taxes and depreciation and amortization). We also evaluate goodwill impairment of our other operations primarily based on multiples of revenues and discounted cash flow analyses. If the fair value of the reporting unit is less than the carrying value, a second calculation is required in which the implied fair value of goodwill is compared to its carrying value. If the implied fair value of goodwill is less than its carrying value, goodwill must be written down to its implied fair value.

We completed the required annual test of goodwill impairment (as of September 30, 2008) under SFAS 142 and determined our goodwill was not impaired as of such date. Due to the deterioration in the overall stock market subsequent to September 30, 2008, our market capitalization as of December 31, 2008 decreased to a level below our current stockholders' equity balance. As a result, we reviewed the specific factors outlined in SFAS 142 that would indicate whether or not a triggering event had occurred that would necessitate us to perform an interim goodwill impairment test. Based on our review of such factors and considering that our market capitalization substantially exceeds our stockholders' equity balance after consideration of a reasonable control premium of 35% based on identifiable industry transactions, we concluded that we did not have a triggering event that would require us to perform an interim evaluation of our goodwill for potential impairment. We based such conclusion on the fact that we do not believe there have been any significant fundamental changes since our annual impairment test to (i) our business as a whole or our underlying reporting units, including regulatory changes, (ii) our level of operating cash flows, (iii) our expectation of future levels of operating cash flows, (iv) our executive management team and (v) the carrying value of our other long-lived assets.

We accounted for the costs to develop an integrated billing and customer care system in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Aggregate capitalized costs (before accumulated amortization) totaled \$231.2 million and are being amortized over a twenty-year period.

During 2008, we paid an aggregate of approximately \$149 million for 69 licenses in the FCC's auction of 700 megahertz ("MHz") wireless spectrum. The 700 MHz spectrum is not expected to be cleared for usage until mid-2009 and we are still in the planning stages regarding the use of this spectrum.

In connection with various acquisitions we have made over the past several years, we have allocated amounts to a customer list intangible asset, including \$156.8 million from our Madison River acquisition in 2007 and \$22.7 million from our acquisition of properties from Verizon Communications, Inc. ("Verizon") in 2002. Such assets are being amortized on a straight-line basis over periods that range from 5-15 years. Total amortization expense for these customer base and other intangible assets for 2008, 2007 and 2006 was \$16.9 million, \$12.2 million and \$3.1 million, respectively, and is expected to be \$16.5 million annually from 2009 through 2011, \$16.1 million in 2012 and \$16.0 million in 2013 (excluding the effects of any acquisitions consummated after the date hereof).

The costs associated with installation activities are deferred and recognized as an operating expense over the estimated life of the customer relationship (10 years). Such costs are only deferred to the extent of the related deferred revenue.

In connection with the acquisitions of properties from Verizon in 2002 and Madison River in 2007, we assigned an aggregate of \$41.7 million of the respective purchase prices as an intangible asset associated with franchise costs (which includes amounts necessary to maintain eligibility to provide telecommunications services in its licensed service areas). Such assets have an indefinite life and therefore are not subject to amortization currently.

In anticipation of making lump sum distributions to certain participants of our Supplemental Executive Retirement Plan ("SERP") in early 2009, we liquidated our marketable security investments in the SERP trust during the second quarter of 2008 and thereby increased our cash and cash equivalents. The lump sum distributions were paid in early 2009 and aggregated approximately \$37 million (see Note 11 for additional information).

In the third quarter of 2004, we entered into an agreement with DISH Network Corporation (“DISH”) to provide co-branded DISH satellite television services to our residential customers. As part of the transaction, we invested \$25 million in a DISH convertible subordinated debt security, which had a fair value at date of issuance of approximately \$20.8 million and matures in 2011. Commencing August 25, 2009, we can require DISH to purchase all or a portion of the debt security without premium. Therefore, as of December 31, 2008, the \$23.4 million balance has been reflected in “Other current assets” on the balance sheet in lieu of the previous classification of this asset under “Goodwill and other assets”.

(4) PROPERTY, PLANT AND EQUIPMENT

Net property, plant and equipment at December 31, 2008 and 2007 was composed of the following:

December 31,	2008	2007
	(Dollars in thousands)	
Cable and wire	\$ 4,659,001	4,570,930
Central office	2,861,929	2,775,479
General support	815,638	811,488
Fiber transport	327,010	289,392
Information origination/termination	81,296	78,981
Construction in progress	72,129	99,641
Other	51,448	40,195
	8,868,451	8,666,106
Accumulated depreciation	(5,972,559)	(5,557,730)
Net property, plant and equipment	\$ 2,895,892	3,108,376

Depreciation expense was \$506.9 million, \$524.1 million and \$520.4 million in 2008, 2007 and 2006, respectively.

(5) LONG-TERM DEBT

Our long-term debt as of December 31, 2008 and 2007 was as follows:

December 31,	2008	2007
	(Dollars in thousands)	
CenturyTel		
4.32%* Senior credit facility	\$ 563,115	-
Senior notes and debentures:		
7.20% Series D, due 2025	100,000	100,000
6.30% Series F	-	240,000
6.875% Series G, due 2028	425,000	425,000
8.375% Series H, due 2010	500,000	500,000
7.875% Series L, due 2012	500,000	500,000
5.0% Series M, due 2015	350,000	350,000
6.0% Series N, due 2017	500,000	500,000
5.5% Series O, due 2013	250,000	250,000
Unamortized net discount	(6,539)	(7,840)
Unamortized premium associated with derivative instruments:		
Series H senior notes	5,128	7,991
Series L senior notes	20,018	3,048
Total CenturyTel	3,206,722	2,868,199
Subsidiaries		
First mortgage debt		
5.36%* notes, payable to agencies of the U. S. government and cooperative lending associations, due in installments through 2028	107,704	120,788
Other debt		
Unsecured medium-term notes	-	25,000
10.0% notes	100	100
Capital lease obligations	-	168
Total subsidiaries	107,804	146,056
Total long-term debt	3,314,526	3,014,255
Less current maturities	20,407	279,898
Long-term debt, excluding current maturities	\$ 3,294,119	2,734,357

\* Weighted average interest rate at December 31, 2008

The approximate annual debt maturities for the five years subsequent to December 31, 2008 are as follows: 2009 - \$20.4 million; 2010 - \$518.9 million; 2011 - \$580.0 million; 2012 - \$514.6 million; and 2013 - \$261.2 million.

Certain of our loan agreements contain various restrictions, among which are limitations regarding issuance of additional debt, payment of cash dividends, reacquisition of capital stock and other matters. In addition, the transfer of funds from certain consolidated subsidiaries to CenturyTel 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 CenturyTel, but may pay dividends if certain financial ratios are met. At December 31, 2008, approximately \$2.0 billion of our consolidated retained earnings reflected on the balance sheet was available under our loan agreements for the declaration of dividends.

The senior notes and debentures of CenturyTel referred to above were issued under an indenture dated March 31, 1994. This indenture does not contain any financial covenants, but does include restrictions that limit our ability to (i) incur, issue or create liens upon our property and (ii) consolidate with or merge into, or transfer or lease all or substantially all of its assets to, any other party. The indenture does not contain any provisions that are impacted by our credit ratings, or that restrict the issuance of new securities in the event of a material adverse change to us.

Approximately 13% of our property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

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

We called for redemption on August 14, 2007 all of our \$165 million aggregate principal amount 4.75% convertible senior debentures, Series K, due 2032 at a redemption price of \$1,023.80 per \$1,000 principal amount of debentures, plus accrued and unpaid interest through August 13, 2007. In accordance with the indenture, holders could elect to convert their debentures into shares of CenturyTel common stock at a conversion price of \$40.455 per share prior to August 10, 2007. In lieu of cash redemption, holders of approximately \$149.6 million aggregate principal amount of the debentures elected to convert their holdings into approximately 3.7 million shares of CenturyTel common stock. The remaining \$15.4 million of outstanding debentures were retired for cash (including premium and accrued and unpaid interest). As a result we no longer have any of the Series K debentures outstanding.

As of December 31, 2008, we had available a \$708 million five-year revolving credit facility which expires in December 2011. The interest rate on revolving loans under the facility is based on our choice of several prevailing commercial lending rates plus an additional margin that varies depending on our credit ratings and aggregate borrowings under the facility. We also have a commercial paper program under which borrowings are effectively limited to the total amount available under our credit facility. As of December 31, 2008, we had approximately \$563 million outstanding under our credit facility. We had no amounts outstanding under our commercial paper program as of December 31, 2008.



(6) DERIVATIVE INSTRUMENTS

In 2003, we entered into four separate fair value interest rate hedges associated with the full \$500 million principal amount of our Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. These hedges were “fixed to variable” interest rate swaps that effectively converted our fixed rate interest payment obligations under these notes into obligations to pay variable rates. In January 2008, we terminated all of our existing “fixed to variable” interest rate swaps associated with the full \$500 million principal amount of our Series L senior notes. In connection with the termination of these derivatives, we received aggregate cash payments of approximately \$25.1 million, which has been reflected as a premium of the associated long-term debt and is being amortized as a reduction of interest expense through 2012 using the effective interest method. In addition, in January 2008, we also terminated certain other derivatives that were not deemed to be effective hedges. Upon the termination of these derivatives, we paid an aggregate of approximately \$4.9 million (and recorded a \$3.4 million pre-tax charge in the first quarter of 2008 related to the settlement of these derivatives). As of December 31, 2008, we had no derivative instruments outstanding.

In anticipation of the issuance of Senior Notes in connection with the Madison River acquisition, we entered into four cash flow hedges that effectively locked in the interest rate on an aggregate of \$400 million of debt. The issuance of these Senior Notes was completed in late March 2007 with the issuance of \$500 million of 6.0% Senior Notes, due 2017, and \$250 million of 5.5% Senior Notes, due 2013. We locked in the interest rate on (i) \$200 million of 10-year debt at 5.0675% and (ii) \$200 million of 10-year debt at 5.05%. In March 2007, upon settlement of the hedges, we received an aggregate of \$765,000 cash, which is being amortized as a reduction of interest expense over the 10-year term of the debt.

(7) DEFERRED CREDITS AND OTHER LIABILITIES

Deferred credits and other liabilities at December 31, 2008 and 2007 were composed of the following:

December 31,	2008	2007
	(Dollars in thousands)	
Deferred federal and state income taxes	\$ 854,102	810,571
Accrued postretirement benefit costs	276,082	278,230
Deferred revenue	99,549	105,491
Accrued pension costs	72,058	37,296
Other	36,655	72,868
	<u>\$ 1,338,446</u>	<u>1,304,456</u>

For additional information on deferred federal and state income taxes, accrued postretirement benefit costs and accrued pension costs, see Notes 12, 10 and 11, respectively.

(8) REDUCTIONS IN WORKFORCE

During each of the last three years, we have announced workforce reductions involving an aggregate of approximately 700 jobs, primarily due to (i) increased competitive pressures and the loss of access lines over the last several years; (ii) completion of our Madison River integration plan; and (iii) the elimination of certain customer service personnel due to reduced call volumes. In connection therewith, we incurred net pre-tax charges of approximately \$1.7 million in 2008 (consisting of a \$2.0 million charge to operating expenses, net of a \$307,000 favorable revenue impact related to such expenses as allowed through our rate-making process), \$2.2 million in 2007 (consisting of a \$2.7 million charge to operating expenses, net of a \$527,000 favorable revenue impact) and \$7.5 million in 2006 (consisting of a \$9.4 million charge to operating expenses, net of a \$1.9 million favorable revenue impact) for severance and related costs.

The following table reflects additional information regarding the severance-related liability for 2008, 2007 and 2006 (in thousands):

Balance at December 31, 2005	\$ -
Amount accrued to expense	9,431
Adjustments to accrual amounts	(529)
Amount paid	(8,445)
Balance at December 31, 2006	\$ 457
Amount accrued to expense	2,741
Amount paid	(1,363)
Balance at December 31, 2007	\$ 1,835
Amount accrued to expense	2,046
Amount paid	(2,083)
Balance at December 31, 2008	\$ 1,798

(9) STOCKHOLDERS' EQUITY

*Common stock* - Unissued shares of CenturyTel common stock were reserved as follows:

December 31,	2008
	(In thousands)
Incentive compensation programs	5,513
Acquisitions	4,064
Employee stock purchase plan	4,321
Dividend reinvestment plan	188
Conversion of convertible preferred stock	13
	14,099

In accordance with stock repurchase programs described below, we repurchased 9.7 million shares (for \$347.3 million), 10.2 million shares (for \$460.7 million) and 21.4 million shares (for \$802.2 million) in 2008, 2007 and 2006, respectively. The 2006 repurchases included 14.36 million shares repurchased (for a total price of \$528.4 million) under accelerated share repurchase agreements (see below for additional information).

In August 2007, our board of directors authorized a \$750 million share repurchase program which expires on September 30, 2009, unless extended by the board. Through December 31, 2008, we had repurchased approximately 13.2 million shares for \$503.9 million under this program. We have suspended our current share repurchase program pending completion of our acquisition of EMBARQ.

On February 21, 2006, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$1.0 billion of our common stock and terminated the approximately \$13 million remaining balance of our \$200 million share repurchase program approved in February 2005. In February 2006, we repurchased the first \$500 million of common stock through accelerated share repurchase agreements entered into with various investment banks, repurchasing and retiring approximately 14.36 million shares of common stock at an average initial price of \$34.83 per share. We funded repurchases under these agreements through short-term borrowings and cash on hand. As part of the accelerated share repurchase transactions, we simultaneously entered into forward contracts with the investment banks whereby the investment banks purchased an aggregate of 14.36 million shares of our common stock during the terms of the contracts. At the end of the repurchase period in mid-July 2006, we paid an aggregate of approximately \$28.4 million cash to the investment banks to compensate them for the difference between their weighted average purchase price during the repurchase period and the initial average price. We reflected such settlement amount as an adjustment to retained earnings in our financial statements during 2006. We repurchased the remaining \$500 million of common stock of this program through open market transactions through June 2007.

During 2006, our stockholders' equity was reduced by approximately \$97.9 million upon the adoption of SFAS 158 and increased approximately \$9.7 million upon the application of SAB 108. See Note 1 for additional information.

Under CenturyTel'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, 2008, the holders of 4.3 million shares of common stock (or 31% of our total voting power) were entitled to ten votes per share. In January 2009, in connection with the special meeting of shareholders to approve share issuances in connection with the pending EMBARQ merger, our shareholders also approved a charter amendment to eliminate these special voting rights of long-term shareholders upon the consummation of the EMBARQ merger.

*Preferred stock* - As of December 31, 2008, we had 2.0 million shares of authorized preferred stock, \$25 par value per share. At December 31, 2008 and 2007, there were approximately 9,400 and 279,000 shares, respectively, of outstanding convertible preferred stock. Holders of outstanding CenturyTel preferred stock are entitled to receive cumulative dividends, receive preferential distributions equal to \$25 per share plus unpaid dividends upon CenturyTel's liquidation and vote as a single class with the holders of common stock.

(10) POSTRETIREMENT BENEFITS

We sponsor a health care plan (which uses a December 31 measurement date) that provides postretirement benefits to all qualified retired employees. Over the past few years, we amended certain retiree contribution and retirement eligibility provisions of our plan, including a 2008 amendment that increased the level of prescription drug co-payment obligations by retirees.

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

December 31,	2008	2007	2006
	(Dollars in thousands)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 306,633	357,417	353,942
Service cost	4,926	6,923	6,982
Interest cost	19,395	20,133	18,980
Participant contributions	2,789	2,016	1,583
Plan amendments	(9,093)	(4,552)	(7,978)
Acquisition	-	2,277	-
Direct subsidy receipts	1,092	1,299	717
Actuarial (gain) loss	(11,992)	(60,312)	319
Benefits paid	(20,863)	(18,568)	(17,128)
Benefit obligation at end of year	<u>\$ 292,887</u>	<u>306,633</u>	<u>357,417</u>
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 28,324	30,080	29,545
Return (loss) on plan assets	(6,166)	1,916	3,280
Employer contributions	12,721	12,880	12,800
Participant contributions	2,789	2,016	1,583
Benefits paid	(20,863)	(18,568)	(17,128)
Fair value of plan assets at end of year	<u>\$ 16,805</u>	<u>28,324</u>	<u>30,080</u>

Net periodic postretirement benefit cost for 2008, 2007 and 2006 included the following components:

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Service cost	\$ 4,926	6,923	6,982
Interest cost	19,395	20,133	18,980
Expected return on plan assets	(2,337)	(2,482)	(2,437)
Amortization of unrecognized actuarial loss	-	3,595	3,719
Amortization of unrecognized prior service credit	(2,606)	(2,020)	(855)
Net periodic postretirement benefit cost	<u>\$ 19,378</u>	<u>26,149</u>	<u>26,389</u>

The following table sets forth the amounts recognized as liabilities on the balance sheet for postretirement benefits at December 31, 2008, 2007 and 2006.

December 31,	2008	2007	2006
	(Dollars in thousands)		
Benefit obligation	\$ (292,887)	(306,633)	(357,417)
Fair value of plan assets	16,805	28,324	30,080
Accrued benefit cost	\$ (276,082)	(278,309)	(327,337)

In accordance with SFAS 158, the unamortized prior service credit (\$17.9 million as of December 31, 2008) and unrecognized net actuarial loss (\$11.6 million as of December 31, 2008) components have been reflected as a \$7.2 million after-tax decrease to accumulated other comprehensive loss within stockholders' equity. The estimated amount of amortization income of the above unrecognized items that will be amortized from accumulated other comprehensive loss and reflected as a component of net periodic postretirement cost during 2009 is \$3.5 million for the prior service credit.

Assumptions used in accounting for postretirement benefits as of December 31, 2008 and 2007 were:

	2008	2007
<b>Determination of benefit obligation</b>		
Discount rate	6.90%	6.50
Healthcare cost increase trend rates (Medical/Prescription Drug)		
Following year	7.0%/10.0%	7.0/10.0
Rate to which the cost trend rate is assumed to decline (the ultimate cost trend rate)	5.0%/5.0%	5.0/5.0
Year that the rate reaches the ultimate cost trend rate	2011/2014	2010/2013
<b>Determination of benefit cost</b>		
Discount rate	6.50%	5.75
Expected return on plan assets	8.25%	8.25

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long term. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. We measure and monitor investment risk on an ongoing basis through annual liability measurements, periodic asset studies and periodic portfolio reviews.

Our postretirement benefit plan weighted-average asset allocations at December 31, 2008 and 2007 by asset category are as follows:

	2007	2008
Equity securities	46.7%	55.8
Debt securities	26.4	26.8
Cash and cash equivalents	26.9	17.3
Other	-	0.1
Total	100.0%	100.0

In determining the expected return on plan assets, we study historical markets and apply the widely-accepted capital market principle that assets with higher volatility and risk generate a greater return over the long term. We evaluate current market factors such as inflation and interest rates before determining long-term capital market assumptions. We also review peer data and historical returns to check for reasonableness.

Assumed health care cost trends have a significant effect on the amounts reported for postretirement benefit plans. 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 annual total of service and interest cost components	\$ 214	(282)
Effect on postretirement benefit obligation	\$ 2,763	(3,632)

We expect to contribute approximately \$13 million to our postretirement benefit plan in 2009.

Our estimated future projected benefit payments under our postretirement benefit plan are as follows:

	Before Medicare Subsidy	Medicare Subsidy	Net of Medicare Subsidy
Year	(Dollars in thousands)		
2009	\$ 19,377	1,212	18,165
2010	\$ 21,514	1,394	20,120
2011	\$ 23,388	1,595	21,793
2012	\$ 24,316	1,842	22,474
2013	\$ 25,465	2,035	23,430
2014-2018	\$ 137,634	6,384	131,250

## (11) DEFINED BENEFIT AND OTHER RETIREMENT PLANS

We sponsor defined benefit pension plans for substantially all employees. We also sponsor a Supplemental Executive Retirement Plan (“SERP”) to provide certain officers with supplemental retirement, death and disability benefits. In late February 2008, our board of directors approved certain actions related to our SERP, including (i) the freezing of additional benefit accruals effective February 29, 2008 and (ii) amending the plan to permit participants to receive in 2009 a lump sum distribution of the present value of their accrued plan benefits. Because of the elimination of future benefit accruals, we also enhanced plan termination benefits by (i) crediting each active participant with three additional years of service and (ii) crediting each participant who is not currently in pay status under the plan with three additional years of age in connection with calculating the present value of any lump sum distribution to be made in 2009. We recorded a curtailment loss of approximately \$8.2 million in 2008 related to the above-described items. In anticipation of making the lump sum distributions in early 2009, we liquidated our investments in marketable securities in the SERP trust and recognized a \$4.5 million pre-tax gain in the second quarter of 2008. We also will record a one-time settlement charge in the first quarter of 2009 of approximately \$7.7 million in connection with the lump sum distributions that were made in early 2009. We use a December 31 measurement date for all our plans.

The following is a reconciliation of the beginning and ending balances for the aggregate benefit obligation and the plan assets for our above-referenced defined benefit plans.

December 31,	2008	2007	2006
	(Dollars in thousands)		
Change in benefit obligation			
Benefit obligation at beginning of year	\$ 469,437	474,302	460,599
Service cost	13,761	16,431	17,679
Interest cost	29,373	28,180	25,935
Plan amendments	2,393	61	(3,827)
Acquisition	-	15,266	-
Actuarial (gain) loss	(24,819)	(16,153)	6,789
Curtailment	8,235	-	-
Settlements	(1,945)	(410)	(13,232)
Benefits paid	(33,734)	(48,240)	(19,641)
Benefit obligation at end of year	<u>\$ 462,701</u>	<u>469,437</u>	<u>474,302</u>
Change in plan assets			
Fair value of plan assets at beginning of year	\$ 459,198	452,293	407,367
Return (loss) on plan assets	(123,210)	41,537	46,297
Acquisition	-	12,502	-
Employer contributions	52,521	1,516	31,502
Settlements	(1,945)	(410)	(13,232)
Benefits paid	(33,734)	(48,240)	(19,641)
Fair value of plan assets at end of year	<u>\$ 352,830</u>	<u>459,198</u>	<u>452,293</u>

Net periodic pension expense for 2008, 2007 and 2006 included the following components:

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Service cost	\$ 13,761	16,431	17,679
Interest cost	29,373	28,180	25,935
Expected return on plan assets	(36,667)	(36,780)	(32,706)
Curtailment loss	8,235	-	-
Settlements	410	410	3,344
Recognized net losses	3,119	7,367	9,670
Net amortization and deferral	258	(131)	19
Net periodic pension expense	<u>\$ 18,489</u>	<u>15,477</u>	<u>23,941</u>

The following table sets forth the combined plans' funded status and amounts recognized in our consolidated balance sheet at December 31, 2008, 2007 and 2006.

December 31,	2008	2007	2006
	(Dollars in thousands)		
Benefit obligation	\$ (462,701)	(469,437)	(474,302)
Fair value of plan assets	<u>352,830</u>	<u>459,198</u>	<u>452,293</u>
Net amount recognized	<u>\$ (109,871)</u>	<u>(10,239)</u>	<u>(22,009)</u>

In accordance with SFAS 158, the unamortized prior service cost (\$1.2 million as of December 31, 2008) and unrecognized net actuarial loss (\$206.9 million as of December 31, 2008) components have been reflected as a \$208.1 million net reduction (\$128.2 million after-tax) to accumulated other comprehensive loss within stockholders' equity. The estimated amount of amortization expense (income) of the above unrecognized amounts that will be amortized from accumulated other comprehensive loss and reflected as a component of net periodic pension cost for 2009 are (i) \$238,000 for the prior service cost and (ii) \$24.2 million for the net actuarial loss (which includes the \$7.7 million settlement charge mentioned above).

Amounts recognized on the balance sheet consist of:

December 31,	2008	2007
	(Dollars in thousands)	
Pension asset (reflected in Other Assets)*	\$ -	28,536
Accrued expenses and other current liabilities*	(37,813)	(1,479)
Other deferred credits*	(72,058)	(37,296)
Net amount recognized	<u>\$ (109,871)</u>	<u>(10,239)</u>

\* In accordance with SFAS 158, those plans that are overfunded are reflected as assets; those plans that are underfunded are reflected as liabilities.

Our aggregate accumulated benefit obligation as of December 31, 2008 and 2007 was \$418.8 million and \$410.6 million, respectively.



Assumptions used in accounting for pension plans as of December 31, 2008 and 2007 were:

	2008	2007
Determination of benefit obligation		
Discount rate	6.60-6.90%	6.30-6.50
Weighted average rate of compensation increase	4.0%	4.0
Determination of benefit cost		
Discount rate	6.30-6.50%	5.80
Weighted average rate of compensation increase	4.0%	4.0
Expected return on plan assets	8.25%	8.25

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long term. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. We measure and monitor investment risk on an ongoing basis through annual liability measurements, periodic asset studies and periodic portfolio reviews. The fair value of substantially all of our pension plan assets is determined by reference to observable market data consisting of published market quotes.

Our pension plans weighted-average asset allocations at December 31, 2008 and 2007 by asset category are as follows:

	2008	2007
Equity securities	64.3%	70.8
Debt securities	32.7	27.2
Other	3.0	2.0
Total	100.0%	100.0

In determining the expected return on plan assets, we study historical markets and apply the widely-accepted capital market principle that assets with higher volatility and risk generate a greater return over the long term. We evaluate current market factors such as inflation and interest rates before determining long-term capital market assumptions. We also review peer data and historical returns to check for reasonableness.

During 2008, we contributed approximately \$52.5 million to our pension plans. The amount of the 2009 contribution will be determined based on a number of factors, including the results of the 2009 actuarial valuation report. While we expect our required minimum cash contribution for these plans for 2009 to be minimal, we may make discretionary contributions in 2009.

Our estimated future projected benefit payments under our defined benefit pension plans are as follows: 2009 - \$68.1 million (which includes approximately \$37 million of lump sum distributions made in early 2009 related to the SERP); 2010 - \$34.6 million; 2011 - \$34.1 million; 2012 - \$35.3 million; 2013 - \$37.6 million; and 2014-2018 - \$204.7 million.

Through December 31, 2006, we also sponsored an Employee Stock Ownership Plan ("ESOP") which covered most employees with one year of service and was funded by our contributions determined annually by the Board of Directors. Our expense related to the ESOP during 2006 was \$7.9 million. Our contribution to the ESOP was discontinued after 2006.

We also sponsor qualified profit sharing plans pursuant to Section 401(k) of the Internal Revenue Code (the “401(k) Plans”) which are available to substantially all employees. Our matching contributions to the 401(k) Plans were \$10.5 million in 2008, \$10.6 million in 2007 and \$8.6 million in 2006.

(12) INCOME TAXES

Income tax expense included in the Consolidated Statements of Income was as follows:

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Federal			
Current	\$ 141,604	192,424	146,201
Deferred	59,669	2,220	37,687
State			
Current	(14,765)	7,130	25,236
Deferred	7,849	(1,202)	11,998
	<u>\$ 194,357</u>	<u>200,572</u>	<u>221,122</u>

Income tax expense was allocated as follows:

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Income tax expense in the consolidated statements of income	\$ 194,357	200,572	221,122
Stockholders' equity:			
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(1,123)	(6,427)	(12,034)
Tax effect of the change in accumulated other comprehensive loss	(47,581)	(34,985)	(63,837)

The following is a reconciliation from the statutory federal income tax rate to our effective income tax rate:

Year ended December 31,	2008	2007	2006
	(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	2.0	2.8	4.1
Recognition of previously unrecognized tax benefits	(2.3)	(5.3)	-
Other, net	-	(0.1)	(1.7)
Effective income tax rate	<u>34.7%</u>	<u>32.4</u>	<u>37.4</u>

In 2008 and 2007, we recognized net after-tax benefits of approximately \$12.8 million and \$32.7 million, respectively, which includes related interest and is net of federal benefit, related to the recognition of previously unrecognized tax benefits. See below for additional information. Income tax expense was reduced by approximately \$1.7 million in 2008 and \$6.4 million in 2006 due to the resolution of various income tax audit issues.

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 were as follows:

December 31,	2008	2007
	(Dollars in thousands)	
Deferred tax assets		
Postretirement and pension benefit costs	\$ 155,772	119,119
Net state operating loss carryforwards	35,548	31,646
Other employee benefits	24,474	22,229
Other	37,946	49,841
Gross deferred tax assets	253,740	222,835
Less valuation allowance	(33,858)	(30,907)
Net deferred tax assets	219,882	191,928
Deferred tax liabilities		
Property, plant and equipment, primarily due to depreciation differences	(343,812)	(373,181)
Goodwill and other intangible assets	(688,765)	(604,809)
Other	(11,986)	(12,900)
Gross deferred tax liabilities	(1,044,563)	(990,890)
Net deferred tax liability	\$ (824,681)	(798,962)

Of the \$824.7 million net deferred tax liability as of December 31, 2008, approximately \$854.1 million is reflected as a net long-term liability (in “Other deferred credits”) and approximately \$29.4 million is reflected as a net current deferred tax asset (in “Other current assets”).

We establish valuation allowances when necessary to reduce the deferred tax assets to amounts we expect to realize. As of December 31, 2008, we had available tax benefits associated with net state operating loss carryforwards, which expire through 2028, of \$35.5 million. The ultimate realization of the benefits of the carryforwards is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider our scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. As a result of such assessment, we reserved \$33.9 million through the valuation allowance as of December 31, 2008 as it is more likely than not that this amount of net operating loss carryforwards will not be utilized prior to expiration.

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

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

During 2008, primarily as a result of certain issues being effectively settled through examination, our tax expense was reduced approximately \$12.8 million (including related interest and net of federal benefit) upon the recognition of amounts that were previously reflected as a liability for unrecognized tax benefits.

During 2007, primarily as a result of certain issues being effectively settled through examination and the lapse of statute of limitations, our tax expense was reduced approximately \$32.7 million (including related interest and net of federal benefit) upon the recognition of amounts that were previously reflected as a liability for unrecognized tax benefits.

The following table reflects the activity of our gross unrecognized tax benefits (excluding both interest and any related federal benefit) during 2008 (amounts expressed in thousands).

Unrecognized tax benefits at January 1, 2008	\$ 33,829
Increase in tax positions taken in the current year	320
Decrease due to the reversal of tax positions taken in a prior year	(12,315)
Decrease from the lapse of statute of limitations	(1,840)
Unrecognized tax benefits at December 31, 2008	<u>\$ 19,994</u>

Of the above ending balance of \$20.0 million, approximately \$4.1 million is included as a component of "Deferred credits and other liabilities" and the remainder is included in "Other current assets". If we were to prevail on all unrecognized tax benefits recorded on our balance sheet, approximately \$17.3 million (including interest and net of federal benefit) would benefit the effective tax rate.

Our policy is to reflect accrued interest associated with unrecognized tax benefits as income tax. We had accrued interest (presented before related tax benefits) of approximately \$5.3 million and \$12.9 million as of December 31, 2008 and December 31, 2007.

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

<u>Jurisdiction</u>	<u>Open tax years</u>
Federal	2005-current
State	
Georgia	2002-current
Louisiana	2005-current
Oregon	2002-current
Wisconsin	2003-current
Other states	2002-current

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

Based on (i) the potential outcomes of these ongoing examinations, (ii) the expiration of statute of limitations for specific jurisdictions, (iii) the negotiated settlement of certain disputed issues, or (iv) a jurisdiction's administrative practices, it is reasonably possible that the related unrecognized tax benefits for tax positions previously taken may decrease by up to \$12.3 million within the next 12 months. The actual amount of such decrease, if any, will depend on several future developments and events, many of which are outside our control.

## (13) EARNINGS PER SHARE

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

Year ended December 31,	2008	2007	2006
	(Dollars, except per share amounts, and shares in thousands)		
Income (Numerator):			
Net income	\$ 365,732	418,370	370,027
Dividends applicable to preferred stock	(155)	(368)	(380)
Net income applicable to common stock for computing basic earnings per share	365,577	418,002	369,647
Interest on convertible debentures, net of tax	-	2,832	4,828
Dividends applicable to preferred stock	155	368	380
Net income as adjusted for purposes of computing diluted earnings per share	<u>\$ 365,732</u>	<u>421,202</u>	<u>374,855</u>
Shares (Denominator):			
Weighted average number of shares:			
Outstanding during period	103,467	110,183	117,363
Nonvested restricted stock	(1,199)	(823)	(692)
Weighted average number of shares outstanding during period for computing basic earnings per share	102,268	109,360	116,671
Incremental common shares attributable to dilutive securities:			
Shares issuable under convertible securities	169	2,951	4,493
Shares issuable upon settlement of accelerated share repurchase agreements	-	-	365
Shares issuable under incentive compensation plans	434	783	700
Number of shares as adjusted for purposes of computing diluted earnings per share	<u>102,871</u>	<u>113,094</u>	<u>122,229</u>
Basic earnings per share	<u>\$ 3.57</u>	<u>3.82</u>	<u>3.17</u>
Diluted earnings per share	<u>\$ 3.56</u>	<u>3.72</u>	<u>3.07</u>

In July 2007, we called for redemption on August 14, 2007 all of our \$165 million aggregate principal amount 4.75% convertible senior debentures, Series K, due 2032. In accordance with the indenture, holders could elect to convert their debentures into shares of CenturyTel common stock at a conversion price of \$40.455 per share prior to August 10, 2007. In lieu of cash redemption, holders of approximately \$149.6 million aggregate principal amount of the debentures elected to convert their holding into approximately 3.7 million shares of CenturyTel common stock.

In connection with calculating our diluted earnings per share in 2006 for our accelerated share repurchase program discussed in Note 9, we assumed the accelerated share repurchase market price adjustment would be settled through our issuance of additional shares of common stock, which was allowed (at our discretion) in the agreement. Accordingly, the estimated shares issuable based on the fair value of the forward contract was included in the weighted average shares outstanding for the computation of diluted earnings per share.

The weighted average number of shares of common stock subject to issuance under outstanding options 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 2.1 million for 2008, 792,000 for 2007 and 1.0 million for 2006.

In June 2008, the Financial Accounting Standards Board issued FSP EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities". Based on this pronouncement, we have concluded that our outstanding non-vested restricted stock is a participating security and therefore should be included in the earnings allocation in computing earnings per share using the two-class method. The pronouncement is effective for us beginning in first quarter 2009 and, upon adoption, will require us to recast our previously reported earnings per share. If our diluted earnings per share would have been calculated using the provisions of FSP EITF 03-6-1 for 2008, our diluted earnings per share would have been \$3.52 per share as compared to \$3.56 per share.

#### (14) STOCK COMPENSATION PROGRAMS

Effective January 1, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123 (R)"). SFAS 123(R) requires us to measure our cost of awarding employees with equity instruments based upon the fair value of the award on the grant date. Such cost will be recognized as compensation expense over the period during which the employee is required to provide service in exchange for the award. Compensation cost is also recognized over the applicable remaining vesting period for any outstanding options that were not fully vested as of January 1, 2006. We did not have any unvested outstanding options as of January 1, 2006 since our Board of Directors accelerated the vesting of all unvested options effective as of December 31, 2005. We elected the modified prospective transition method as permitted by SFAS 123(R); accordingly, we did not restate prior period results.

We currently maintain programs which allow the Board of Directors, through its Compensation Committee, to grant incentives to certain employees and our outside directors in any one or a combination of several forms, including incentive and non-qualified stock options; stock appreciation rights; restricted stock; and performance shares. As of December 31, 2008, we had reserved approximately 5.5 million shares of common stock which may be issued in connection with awards under our current incentive programs. We also offer an Employee Stock Purchase Plan whereby employees can purchase our common stock at a 15% discount based on the lower of the beginning or ending stock price during recurring six-month periods stipulated in such program.

In late February 2008, the Compensation Committee authorized all long-term incentive grants for 2008 to be in the form of restricted stock instead of a mix of stock options and restricted stock as had been granted in recent years. During 2008, prior to this authorization, 25,700 options were granted with a weighted average grant date fair value of \$8.85 per share using a Black-Scholes option pricing model using the following assumptions: dividend yield - .6%; expected volatility - 25%; weighted average risk free interest rate - 2.9%; and expected term - 4.5 years.

During 2007 we granted 983,920 stock options with exercise prices at market value. The weighted average fair value of each option was estimated as of the date of grant to be \$14.57 using a Black-Scholes option pricing model using the following assumptions: dividend yield - .6%; expected volatility - 28% (executive officers) and 25% (all other employees); weighted average risk free interest rate - 4.6% (rates ranged from 3.5% to 5.1%); and expected term - 6.5 years (executive officers) and 4.5 years (all other employees).

During 2006 we granted 1,007,175 stock options with exercise prices at market value. The weighted average fair value of each of the 2006 options was estimated as of the date of grant to be \$12.75 using a Black-Scholes option-pricing model with the following assumptions: dividend yield - .7%; expected volatility - 30%; weighted average risk-free interest rate - 4.65% (rates ranged from 4.28% to 5.22%); and expected option life - 7 years (executive officers) and 5 years (all other employees).

All of the options described in the preceding three paragraphs expire ten years after the date of grant and have a three-year vesting period.

The expected volatility was based on the historical volatility of our common stock over the 6.5- and 4.5- year terms mentioned above. The expected term was determined based on the historical exercise and forfeiture rates for similar grants.

Stock option transactions during 2008 were as follows:

	Number	Average	Remaining	Aggregate
	of options	price	contractual	intrinsic
			term (in years)	value
Outstanding December 31, 2007	3,632,205	\$ 36.80		
Granted	25,700	36.14		
Exercised	(43,210)	32.52		
Forfeited/Cancelled	(87,548)	42.40		
Outstanding December 31, 2008	3,527,147	\$ 36.71	5.7	\$ 59,000
Exercisable December 31, 2008	2,617,969	\$ 34.72	4.9	\$ 59,000

During 2008, we issued 643,397 shares of restricted stock to certain employees and our outside directors at a weighted-average price of \$34.86 per share. During 2007, we issued 288,896 shares of restricted stock to certain employees and our outside directors at a weighted-average price of \$45.89 per share. During 2006, we issued 293,943 shares of restricted stock to certain employees and our outside directors at a weighted-average price of \$36.02 per share. Such restricted stock vests over a five-year period (for employees) and a three-year period (for outside directors). Nonvested restricted stock transactions during 2008 were as follows:



	Number of shares	Average grant date fair value
Nonvested at January 1, 2008	846,880	\$ 36.85
Granted	643,397	34.86
Vested	(181,310)	38.30
Forfeited	(19,350)	35.63
Nonvested at December 31, 2008	1,289,617	\$ 35.67

The total compensation cost for share-based payment arrangements in 2008, 2007 and 2006 was \$16.4 million, \$20.0 million and \$11.9 million, respectively. We recognized a tax benefit related to such arrangements of approximately \$5.8 million in 2008, \$7.5 million in 2007 and \$4.5 million in 2006. As of December 31, 2008, there was \$35.3 million of total unrecognized compensation cost related to the share-based payment arrangements, which is expected to be recognized over a weighted-average period of 3.2 years.

We received net cash proceeds of \$1.4 million during 2008 in connection with option exercises. The total intrinsic value of options exercised (the amount by which the market price of the stock on the date of exercise exceeded the market price of the stock on the date of grant) was \$208,000 during 2008, \$17.2 million during 2007 and \$31.0 million during 2006. The excess tax benefit realized from stock options exercised and restricted stock released during 2008 was \$90,000. The total fair value of restricted stock that vested during 2008, 2007, and 2006 was \$6.2 million, \$6.4 million, and \$2.6 million, respectively.

#### (15) GAIN ON ASSET DISPOSITIONS

In third quarter 2008, we sold our interest in a non-operating investment for approximately \$7.2 million and recorded a pre-tax gain of approximately \$3.2 million. In anticipation of making the lump sum distributions in early 2009, we liquidated our investments in marketable securities in the SERP trust and recognized a \$4.5 million pre-tax gain in the second quarter of 2008. In first quarter 2008, we sold a non-operating investment for approximately \$4.2 million and recorded a pre-tax gain of approximately \$4.1 million.

In the third quarter of 2007, we recorded a pre-tax gain of approximately \$10.4 million related to the sale of our interest in a real estate partnership. In April 2006, upon dissolution of the Rural Telephone Bank ("RTB"), we received \$122.8 million in cash for redemption of our investment in stock of the RTB and recorded a pre-tax gain of approximately \$117.8 million in the second quarter of 2006 related to this transaction. Upon final distribution of all funds related to the RTB dissolution in November 2007, we received an additional \$5.2 million cash and recorded a pre-tax gain of such amount. Such gains are included in "Other income (expense)" on our Consolidated Statements of Income.

(16) SUPPLEMENTAL CASH FLOW AND OTHER DISCLOSURES

The amount of interest actually paid, net of amounts capitalized of \$2.4 million, \$1.3 million, and \$1.9 million during 2008, 2007 and 2006, respectively, was \$204.1 million, \$205.2 million, and \$191.9 million during 2008, 2007 and 2006, respectively. Income taxes paid were \$208.8 million in 2008, \$185.3 million in 2007, and \$212.4 million in 2006. Income tax refunds totaled \$4.6 million in 2008, \$1.1 million in 2007, and \$3.0 million in 2006.

We have consummated the acquisitions of various operations, along with certain other assets, during the three years ended December 31, 2008. In connection with these acquisitions, the following assets were acquired and liabilities assumed:

Year ended December 31,	2008	2007	2006
	(Dollars in thousands)		
Property, plant and equipment, net	\$ -	208,317	-
Goodwill	-	579,780	-
Long-term debt, deferred credits and other liabilities	-	(654,694)	-
Other assets and liabilities, excluding cash and cash equivalents	-	173,402	5,222
Decrease in cash due to acquisitions	\$ -	306,805	5,222

See Note 2 for additional information related to our acquisition of Madison River in 2007.

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

We collect various taxes from our customers and subsequently remit such funds to governmental authorities. Substantially all of these taxes are recorded through the balance sheet. We are required to contribute to several universal service fund programs and generally include a surcharge amount on our customers' bills which is designed to recover our contribution costs. Such amounts are reflected on a gross basis in our statement of income (included in both operating revenues and expenses) and aggregated approximately \$42 million for 2008, \$41 million for 2007 and \$40 million for 2006.

## (17) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of certain of our financial instruments at December 31, 2008 and 2007.

	Carrying Amount	Fair value
	(Dollars in thousands)	
December 31, 2008		
Financial assets		
Other	\$ 129,981	129,981 (2)
Financial liabilities		
Long-term debt (including current maturities)	\$ 3,314,526	2,720,227 (1)
Other	\$ 56,570	56,570 (2)
December 31, 2007		
Financial assets		
Interest rate swaps	\$ 3,048	3,048 (2)
Other	\$ 168,039	172,175 (2)
Financial liabilities		
Long-term debt (including current maturities)	\$ 3,014,255	2,975,707 (1)
Interest rate swaps	\$ 834	834 (2)
Other	\$ 57,637	57,637 (2)

(1) Fair value was estimated by discounting the scheduled payment streams to present value based upon rates currently available to us for similar debt.

(2) Fair value was estimated by us to approximate carrying value or is based on current market information.

We believe the carrying amount of cash and cash equivalents, accounts receivable, short-term debt, accounts payable and accrued expenses approximates the fair value due to the short maturity of these instruments, which have not been reflected in the above table.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("SFAS 157"). SFAS 157, effective for us beginning January 1, 2008, defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements required or permitted under other accounting pronouncements. SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers include: Level 1 (defined as observable inputs such as quoted market prices in active markets); Level 2 (defined as inputs other than quoted prices in active markets that are either directly or indirectly observable); and Level 3 (defined as unobservable inputs in which little or no market data exists).

As of December 31, 2008, we held life insurance contracts with cash surrender value that are required to be measured at fair value on a recurring basis. The following table depicts those assets held and the related tier designation pursuant to SFAS 157.

Description	Balance			
	Dec. 31, 2008	Level 1	Level 2	Level 3
(Dollars in thousands)				
Cash surrender value of life insurance contracts	\$ 96,606	96,606	-	-

(18) BUSINESS SEGMENTS

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

Our operating revenues for our products and services include the following components:

Year ended December 31,	2008	2007	2006
(Dollars in thousands)			
Voice	\$ 874,041	889,960	871,767
Network access	820,383	941,506	878,702
Data	524,194	460,755	351,495
Fiber transport and CLEC	162,050	159,317	149,088
Other	219,079	204,703	196,678
Total operating revenues	\$ 2,599,747	2,656,241	2,447,730

For a description of each of the sources of revenues, see “Items 1 and 7” elsewhere in this report.

Interexchange carriers and other accounts receivable on the balance sheets 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 equipment during 2009 are estimated to be between \$280-300 million , excluding nonrecurring capital expenditures expected to arise out of our pending EMBARQ acquisition . We generally do not enter into firm, committed contracts for such activities.

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

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

(20) SUBSEQUENT EVENT

On January 23, 2009, EMBARQ announced that it had entered into an amendment to its Credit Agreement dated as of May 10, 2006. Amendment No. 1 will become effective only upon the consummation of the pending merger between a subsidiary of CenturyTel and EMBARQ, and the satisfaction of other conditions specified in Amendment No. 1. Amendment No. 1 effects a waiver of the event of default that would have arisen under the Credit Agreement solely as a result of the merger and enables the Credit Agreement, as amended, to remain in place after the merger is completed. Previously, in connection with the merger agreement dated October 26, 2008, we had entered into a commitment letter with various lenders which provided for an \$800 million bridge facility that would be available to, among other things, refinance borrowings under the Credit Agreement in the event a waiver of the event of default arising from the consummation of the merger could not have been obtained and other financing was unavailable. On January 23, 2009, we terminated the commitment letter. Upon entering into and terminating the commitment letter, we paid an aggregate of \$8 million to the lenders. Such amount will be reflected as an expense in the first quarter of 2009.

On January 27, 2009, EMBARQ stockholders approved the proposed merger and CenturyTel shareholders approved the issuance of CenturyTel common stock to EMBARQ shareholders in connection with the proposed merger.

**CENTURYTEL, INC.**  
Consolidated Quarterly Income Statement Information  
(Unaudited)

	First quarter	Second quarter	Third quarter	Fourth quarter
(Dollars in thousands, except per share amounts)				
2008	(unaudited)			
Operating revenues	\$ 648,614	658,106	650,073	642,954
Operating income	\$ 183,493	180,690	180,727	176,442
Net income	\$ 88,760	92,167	84,733	100,072
Basic earnings per share	\$ .84	.89	.84	1.01
Diluted earnings per share	\$ .83	.88	.84	1.01
2007				
Operating revenues	\$ 600,855	689,991	708,833	656,562
Operating income	\$ 168,083	231,836	224,185	168,974
Net income	\$ 77,870	112,265	113,202	115,033
Basic earnings per share	\$ .70	1.03	1.04	1.05
Diluted earnings per share	\$ .68	1.00	1.01	1.04
2006				
Operating revenues	\$ 611,291	608,907	619,837	607,695
Operating income	\$ 157,924	164,993	168,942	173,679
Net income	\$ 69,260	152,210	76,324	72,233
Basic earnings per share	\$ .57	1.32	.66	.63
Diluted earnings per share	\$ .55	1.26	.64	.62

In the first quarter of 2008, we recognized a \$4.1 million pre-tax gain upon the sale of a non-operating investment. In the second quarter of 2008, we recognized an \$8.2 million curtailment loss in connection with amending our SERP. We also recognized a \$4.5 million pre-tax gain upon liquidation of our investments in marketable securities in the SERP trust in the second quarter of 2008. In the third quarter of 2008, we recorded a one-time pre-tax gain of approximately \$3.2 million related to the sale of a non-operating investment. In the fourth quarter of 2008, we recognized (i) a net benefit of approximately \$12.8 million after-tax related to the recognition of previously unrecognized tax benefits, (ii) a pre-tax benefit of approximately \$10.0 million related to the recognition of previously accrued transaction related and other contingencies and (iii) a \$5.0 million charge associated with costs associated with our pending acquisition of EMBARQ.

In the third quarter of 2007, we recorded a one-time pre-tax gain of approximately \$10.4 million related to the sale of our interest in a real estate partnership. The results of operations of the Madison River properties are reflected in the above table subsequent to the April 30, 2007 acquisition date. In second quarter 2007, we recorded \$49 million of revenues upon the settlement of a dispute with a carrier. In third quarter 2007, we recognized \$42.2 million of revenues upon the expiration of a regulatory monitoring period. In fourth quarter 2007, we recognized a net benefit of approximately \$32.7 million after-tax related to the release of previously unrecognized tax benefits. In fourth quarter 2007, we recorded a pre-tax charge of approximately \$16.6 million related to the impairment of certain of our CLEC assets.

The fourth quarter of 2006 included an \$11.7 million pre-tax charge related to the impairment of certain non-operating investments. The second quarter of 2006 included a \$117.8 million pre-tax gain recorded upon the redemption of Rural Telephone Bank stock and a \$6.4 million net tax benefit due to the resolution of various income tax audit issues.

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

None.

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures.* We maintain disclosure controls and procedures designed to provide reasonable assurances that information required to be disclosed by us in the reports we file under the Securities Exchange Act of 1934 is timely recorded, processed, summarized and reported as required. Our Chief Executive Officer, Glen F. Post, III, and our Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated our disclosure controls and procedures as of December 31, 2008. Based on the evaluation, Messrs. Post and Ewing concluded that our disclosure controls and procedures have been effective in providing reasonable assurance that they have been timely alerted of material information required to be filed in this annual report. Since the date of Messrs. Post's and Ewing's most recent evaluation, we did not make any change to our internal control over financial reporting that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events and contingencies, and there can be no assurance that any design will succeed in achieving its stated goals. Because of inherent limitations in any control system, misstatements due to error or fraud could occur and not be detected.

*Reports on Internal Control Over Financial Reporting.* We incorporate by reference into this Item 9A the reports appearing at the forefront of Item 8, "Financial Statements and Supplementary Data".

**Item 9B. Other Information**

In February 2009, the Compensation Committee of the Board granted equity awards and took other related actions, including establishing for senior management bonus targets for 2009 based upon attaining certain specified levels of operating cash flow and end-user revenues.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The name, age and office(s) held by each of our executive officers are shown below. Each of the executive officers listed below serves at the pleasure of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Office(s) held with CenturyTel</u>
Glen F. Post, III	56	Chairman of the Board of Directors and Chief Executive Officer
Karen A. Puckett	48	President and Chief Operating Officer
R. Stewart Ewing, Jr.	57	Executive Vice President and Chief Financial Officer
David D. Cole	51	Senior Vice President – Operations Support
Stacey W. Goff	43	Senior Vice President, General Counsel and Secretary
Michael Maslowski	61	Senior Vice President and Chief Information Officer

Each of our executive officers has served as an officer of CenturyTel and one or more of its subsidiaries in varying capacities for more than the past five years.

The balance of the information required by Item 10 is incorporated by reference to our definitive proxy statement relating to our 2008 annual meeting of stockholders (the "Proxy Statement"), which Proxy Statement will be filed pursuant to Regulation 14A within the first 120 days of 2009.



**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 following table provides information about shares of CenturyTel common stock authorized for issuance under our existing equity compensation plans as of December 31, 2008.

	(c) Number of securities remaining available for future issuance under plans (excluding securities reflected in column (a))		
Plan category	(a) Number of securities to be issued upon conversion of outstanding options	(b) Weighted-average exercise price of outstanding options	
Equity compensation plans approved by security holders	3,527,147	\$ 36.71	1,987,301
Employee Stock Purchase Plan approved by shareholders	-	-	4,321,248
Equity compensation plans not approved by security holders	-	-	-
Totals	<u>3,527,147</u>	<u>-</u>	<u>6,308,549</u>

The balance of 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.

**Item 14. Principal Accountant Fees and Services**

The information required by Item 14 is incorporated by reference to the Proxy Statement.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a). Documents filed as a part of this report

(1) The following Consolidated Financial Statements are included in Part II, Item 8:

Report of Management, including its assessment of the effectiveness of its internal control over financial reporting

Reports of Independent Registered Public Accounting Firm on Consolidated Financial Statements, Financial Statement Schedule and Effectiveness of the Company's Internal Control over Financial Reporting

Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Comprehensive Income for the years ended December 31, 2008, 2007 and 2006

Consolidated Balance Sheets - December 31, 2008 and 2007

Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

Consolidated Quarterly Income Statement Information (unaudited)

(2) The attached Schedule II, Valuation and Qualifying Accounts, is the only applicable schedule that we are required to file.

(3) Exhibits:

- 1 Agreement and Plan of Merger, dated as of October 26, 2008 among CenturyTel, Embarq Corporation and Cajun Acquisition Company (incorporated by reference to Exhibit 99.1 of our Current Report on Form 8-K filed on October 30, 2008).
- 3.1 Articles of Incorporation, as amended and restated through November 14, 2008 (incorporated by reference to Exhibit 4.1 of CenturyTel's registration statement on Form S-3 filed February 9, 2009, File No. 333-157188).
- 3.2 Bylaws, as amended and restated through August 26, 2003 (incorporated by reference to Exhibit 3.1 of our Current Report on Form 8-K dated August 29, 2003 and filed on September 2, 2003).
- 3.3 Corporate Governance Guidelines, as amended through August 21, 2007 (incorporated by reference to Exhibit 3 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2007).
- 3.4 Charters of Committees of Board of Directors
  - (a) Charter of the Audit Committee of the Board of Directors, as amended through November 15, 2006 (incorporated by reference to Exhibit 3.4 (a) of our Annual Report on Form 10-K for the year ended December 31, 2006).
  - (b) Charter of the Compensation Committee of the Board of Directors, as amended through February 27, 2007 (incorporated by reference to Exhibit 3.4 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).
  - (c) Charter of the Nominating and Corporate Governance Committee of the Board of Directors, as amended through February 25, 2004 (incorporated by reference to Exhibit 3.3 of our Annual Report on Form 10-K for the year ended December 31, 2003).
  - (d) Charter of the Risk Evaluation Committee of the Board of Directors, as amended through February 26, 2008, (incorporated by reference to Exhibit 3.4(d) of our Annual Report on Form 10-K for the year ended December 31, 2007).

- 4.1 Form of common stock certificate (incorporated by reference to Exhibit 4.3 of our Annual Report on Form 10-K for the year ended December 31, 2000).
- 4.2 Instruments relating to our public senior debt
- (a) Indenture dated as of March 31, 1994 between CenturyTel and Regions Bank (formerly First American Bank & Trust of Louisiana), as Trustee (incorporated by reference to Exhibit 4.1 of our Registration Statement on Form S-3, Registration No. 33-52915).
  - (b) Form of CenturyTel's 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 to our Annual Report on Form 10-K for the year ended December 31, 1995).
  - (c) Form of CenturyTel's 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 to our Annual Report on Form 10-K for the year ended December 31, 1997).
  - (d) Form of 8.375% Senior Notes, Series H, Due 2010, issued October 19, 2000 (incorporated by reference to Exhibit 4.2 of our Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
  - (e) Form of CenturyTel's 7.875% Senior Notes, Series L, due 2012 (incorporated by reference to Exhibit 4.2 of our Registration Statement on Form S-4, File No. 333-100480).
  - (f) Third Supplemental Indenture dated as of February 14, 2005 between CenturyTel and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyTel's 5% Senior Notes, Series M, due 2015 (incorporated by reference to Exhibit 4.1 of our Current Report on Form F-1 dated February 15, 2005).

- (g) Form of 5% Senior Notes, Series M, due 2015 (included in Exhibit 4.2(f)).
  - (h) Fourth Supplemental Indenture dated as of March 26, 2007 between CenturyTel and Regions Bank, as Trustee, designating and outlining the terms and conditions of CenturyTel's 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (incorporated by reference to Exhibit 4.1 of our Current Report on Form 8-K dated March 29, 2007).
  - (i) Form of 6.0% Senior Notes, Series N, due 2017 and 5.5% Senior Notes, Series O, due 2013 (included in Exhibit 4.2(h)).
- 4.3 Five-Year Revolving Credit Facility, dated December 14, 2006, between CenturyTel and the lenders named therein (incorporated by reference to Exhibit 4.3 of our Annual Report on Form 10-K for the year ended December 31, 2006).
- 10.1 Qualified Employee Benefit Plans (excluding several narrow-based qualified plans that cover union employees or other limited groups of employees)
- (a) CenturyTel Dollars & Sense 401(k) Plan and Trust, as amended and restated as of December 31, 2006 (incorporated by reference to Exhibit 10.1(a) of our Annual Report on Form 10-K for the year ended December 31, 2006), amendments thereto dated December 31, 2007 (incorporated by reference to Exhibit 10.1(a) of our Annual Report on Form 10-K for the year ended December 31, 2007) and amendment thereto dated November 20, 2008, included elsewhere herein.
  - (b) CenturyTel Union 401(k) Plan and Trust, as amended and restated through December 31, 2006 (incorporated by reference to Exhibit 10.1(b) of our Annual Report on Form 10-K for the year ended December 31, 2006) and amendment thereto dated December 31, 2007, (incorporated by reference to Exhibit 10.1(b) of our Annual Report on Form 10-K for the year ended December 31, 2007), amendment thereto dated December 31, 2006 (incorporated by reference to Exhibit 10.1(b) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008) and amendment thereto dated November 20, 2008, included elsewhere herein.

- (c) Amended and Restated Retirement Plan, effective as of December 31, 2006 (incorporated by reference to Exhibit 10.1(c) of our Annual Report on Form 10-K for the year ended December 31, 2006) and amendment thereto dated December 31, 2007 (incorporated by reference to Exhibit 10.1(c) of our Annual Report on Form 10-K for the year ended December 31, 2007), amendment thereto dated as of April 2, 2007 (incorporated by reference to Exhibit 10.1(c) of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008) and amendment thereto dated October 24, 2008, included elsewhere herein.

## 10.2 Stock-based Incentive Plans

- (a) 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 our 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) of our 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 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), and amendment thereto dated April 25, 2001 (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001), and amendment thereto dated April 17, 2000 (incorporated by reference to Exhibit 10.2(a) of our Annual Report on Form 10-K for the year ended December 31, 2001).
- (b) 1995 Incentive Compensation Plan approved by CenturyTel'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) of our 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 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 1997) and amendment thereto dated May 29, 2003 (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).

- (i) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of February 21, 2000, entered into by CenturyTel and its officers (incorporated by reference to Exhibit 10.1 (t) of our Annual Report on Form 10-K for the year ended December 31, 1999).
- (c) Amended and Restated 2000 Incentive Compensation Plan, as amended through May 23, 2000 (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2000) and amendment thereto dated May 29, 2003 (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2003).
- (i) Form of Stock Option Agreement, pursuant to the 2000 Incentive Compensation Plan and dated as of May 21, 2001, entered into by CenturyTel and its officers (incorporated by reference to Exhibit 10.2(e) of our Annual Report on Form 10-K for the year ended December 31, 2001).
  - (ii) Form of Stock Option Agreement, pursuant to the 2000 Incentive Compensation Plan and dated as of February 25, 2002, entered into by CenturyTel and its officers (incorporated by reference to Exhibit 10.2(d)(ii) of our Annual Report on Form 10-K for the year ended December 31, 2002).
- (d) Amended and Restated 2002 Directors Stock Option Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(e) of our Annual Report on Form 10-K for the year ended December 31, 2003) and amendment thereto dated October 24, 2008, included elsewhere herein.
- (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into by CenturyTel in connection with options granted to the outside directors as of May 10, 2002 (incorporated by reference to Exhibit 10.2 of Registrant's Quarterly Report on Form 10-Q for the period ended September 30, 2002).

- (ii) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into by CenturyTel in connection with options granted to the outside directors as of May 9, 2003 (incorporated by reference to Exhibit 10.2(e)(ii) of our Annual Report on Form 10-K for the year ended December 31, 2003).
  - (iii) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into by CenturyTel in connection with options granted to the outside directors as of May 7, 2004 (incorporated by reference to Exhibit 10.2(d)(iii) of our Annual Report on Form 10-K for the year ended December 31, 2005).
- (e) Amended and Restated 2002 Management Incentive Compensation Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(f) of our Annual Report on Form 10-K for the year ended December 31, 2003) and amendment thereto dated October 24, 2008, included elsewhere herein.
  - (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyTel and certain of its officers and key employees at various dates since May 9, 2002 (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q for the period ended September 30, 2002).
  - (ii) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 24, 2003, entered into by CenturyTel and its officers (incorporated by reference to Exhibit 10.2(f)(ii) of our Annual Report on Form 10-K for the year ended December 31, 2002).
  - (iii) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 25, 2004, entered into by CenturyTel and its officers (incorporated by reference to Exhibit 10.2(f)(iii) of our Annual Report on Form 10-K for the year ended December 31, 2003).



- (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 24, 2003, entered into by CenturyTel and its executive officers (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended March 31, 2003).
- (v) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 25, 2004, entered into by CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2(f)(v) of our Quarterly Report on Form 10-Q for the period ended March 31, 2004).
- (vi) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 17, 2005, entered into by CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2(e)(v) of our Annual Report on Form 10-K for the year ended December 31, 2004).
- (vii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 17, 2005, entered into by CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2(e)(vi) of our Annual Report on Form 10-K for the year ended December 31, 2004).
- (f) 2005 Directors Stock Plan (incorporated by reference to our 2005 Proxy Statement filed April 15, 2005) and amendment thereto dated October 24, 2008, included elsewhere herein.
  - (i) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyTel and each of its outside directors as of May 13, 2005 (incorporated by reference to Exhibit 10.4 of our Current Report on Form 8-K dated May 13, 2005).
  - (ii) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyTel and each of its outside directors as of May 12, 2006 (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the period ended June 30, 2006).

- (iii) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyTel and each of its outside directors as of May 11, 2007, included elsewhere herein.
- (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyTel and each of its outside directors as of May 9, 2008, included elsewhere herein.
- (g) 2005 Management Incentive Compensation Plan (incorporated by reference to our 2005 Proxy Statement filed April 15, 2005) and amendment thereto dated October 24, 2008, included elsewhere herein.
  - (i) Form of Stock Option Agreement, pursuant to the foregoing plan, entered into between CenturyTel and certain officers and key employees at various dates since May 12, 2005 (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the period ended September 30, 2005).
  - (ii) Form of Restricted Stock Agreement, pursuant to the foregoing plan, entered into between CenturyTel and certain officers and key employees at various dates since May 12, 2005 (incorporated by reference to Exhibit 10.3 of our Quarterly Report on Form 10-Q for the period ended September 30, 2005).
  - (iii) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2(g)(iii) of our Annual Report on Form 10-K for the year ended December 31, 2005).
  - (iv) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 21, 2006, entered into between CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2(g)(iv) of our Annual Report on Form 10-K for the year ended December 31, 2005).

- (v) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyTel and its executive offices (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).
- (vi) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 26, 2007, entered into between CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2007).
- (vii) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 21, 2008, entered into between CenturyTel and its executive officers (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).

### 10.3 Other Non-Qualified Employee Benefit Plans

- (a) 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) of our 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) of our Annual Report on Form 10-K for the year ended December 31, 1996), amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), amendment thereto dated April 25, 2001 (incorporated by reference to Exhibit 10.2 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2001), amendment thereto dated April 17, 2000 (incorporated by reference to Exhibit 10.3(a) of our Annual Report on Form 10-K for the year ended December 31, 2001) and amendment thereto dated February 27, 2007 (incorporated by reference to Exhibit 10.1 of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007).

- (b) Supplemental Executive Retirement Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(b) of our Annual Report on Form 10-K for the year ended December 31, 2007) and amendment thereto dated May 5, 2008, included elsewhere herein, and amendment thereto dated October 24, 2008, included elsewhere herein.
- (c) Supplemental Dollars & Sense Plan, 2008 Restatement, effective January 1, 2008, (incorporated by reference to Exhibit 10.3(c) of our Annual Report on Form 10-K for the year ended December 31, 2007) and amendment thereto dated October 24, 2008, included elsewhere herein.
- (d) Supplemental Defined Benefit Plan, 2008 Restatement, effective as of January 1, 2008, (incorporated by reference to Exhibit 10.3(d) of our Annual Report on Form 10-K for the year ended December 31, 2007) and amendment thereto dated October 24, 2008, included elsewhere herein.
- (e) Amended and Restated Salary Continuation (Disability) Plan for Officers, dated November 26, 1991 (incorporated by reference to Exhibit 10.16 of our Annual Report on Form 10-K for the year ended December 31, 1991).
- (f) 2005 Executive Officer Short-Term Incentive Program (incorporated by reference to our 2005 Proxy Statement filed April 5, 2005).
- (g) 2001 Employee Stock Purchase Plan (incorporated by reference to our 2001 Proxy Statement).

#### 10.4 Employment, Severance and Related Agreements

- (a) Amended and Restated Change of Control Agreement, effective January 1, 2008, by and between Glen F. Post, III and CenturyTel, (incorporated by reference to Exhibit 10.4(a) of our Annual Report on Form 10-K for the year ended December 31, 2007).
- (b) Form of Amended and Restated Change of Control Agreement, effective January 1, 2008, by and between CenturyTel and each of its other executive officers (incorporated by reference to Exhibit 10.4(b) of our Annual Report on Form 10-K for the year ended December 31, 2007).

- (c) Form of Indemnification Agreement for Officers and Directors (incorporated by reference to Exhibit 10.4(e) of our Annual Report on Form 10-K for the year ended December 31, 2005).
  - (d) Amended and Restated CenturyTel, Inc. Bonus Life Insurance Plan for Executive Officers, dated as of April 3, 2008, (incorporated by reference to Exhibit 10.4 of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008).
- 12 Ratio of Earnings to Fixed Charges and Preferred Stock Dividends, included elsewhere herein.
  - 14 Corporate Compliance Program (incorporated by reference to Exhibit 14 of our Annual Report on Form 10-K for the year ended December 31, 2003).
  - 21 Subsidiaries of CenturyTel, included elsewhere herein.
  - 23 Independent Registered Public Accounting Firm Consent, included elsewhere herein.
  - 31.1 Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, included elsewhere herein.
  - 31.2 Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, included elsewhere herein.
  - 32 Chief Executive Officer and Chief Financial Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, included elsewhere herein.
- (b) Reports on Form 8-K.

The following Form 8-Ks were filed on the dates indicated during the fourth quarter of 2008.

October 27, 2008

Items 2.02 and 9.01 – Results of Operations and Financial Condition and Financial Statements and Exhibits. Press release announcing third quarter 2008 results of operations.

Items 8.01 and 9.01 – Other Events and Financial Statements and Exhibits. Documents concerning the announced merger under which CenturyTel will acquire Embarq Corporation, including (i) joint press release announcing the merger; (ii) joint investor presentation principally concerning the merger; (iii) transcript of joint investor presentation and (iv) letter to CenturyTel employees concerning the execution of the merger

October 30, 2008

Items 1.01 and 9.01 – Entry Into a Material Definitive Agreement and Financial Statements and Exhibits. Agreement and Plan of Merger dated as of October 26, 2008 among Registrant, Embarq Corporation and Cajun Acquisition Company.

November 18, 2008

Items 5.03 and 9.01 – Other Events and Financial Statements and Exhibits. Articles of Amendment to the Amended and Restated Articles of Incorporation of CenturyTel, Inc.

## 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.

### CenturyTel, Inc.,

Date: February 27, 2009

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

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.

<u>/s/ Glen F. Post, III</u> Glen F. Post, III	Chairman of the Board and Chief Executive Officer	February 27, 2009
<u>/s/ R. Stewart Ewing, Jr.</u> R. Stewart Ewing, Jr.	Executive Vice President and Chief Financial Officer	February 27, 2009
<u>/s/ Neil A. Sweasy</u> Neil A. Sweasy	Vice President and Controller	February 27, 2009
<u>/s/ William R. Boles, Jr.</u> William R. Boles, Jr.	Director	February 27, 2009
<u>/s/ Virginia Boulet</u> Virginia Boulet	Director	February 27, 2009
<u>/s/ Calvin Czeschin</u> Calvin Czeschin	Director	February 27, 2009
<u>/s/ James B. Gardner</u> James B. Gardner	Director	February 27, 2009

<u>/s/ W. Bruce Hanks</u> W. Bruce Hanks	Director	February 27, 2009
<u>/s/ Gregory J. McCray</u> Gregory J. McCray	Director	February 27, 2009
<u>/s/ C. G. Melville, Jr.</u> C. G. Melville, Jr.	Director	February 27, 2009
<u>/s/ Fred R. Nichols</u> Fred R. Nichols	Director	February 27, 2009
<u>/s/ Harvey P. Perry</u> Harvey P. Perry	Director	February 27, 2009
<u>/s/ Jim D. Reppond</u> Jim D. Reppond	Director	February 27, 2009
<u>/s/ Joseph R. Zimmer</u> Joseph R. Zimmer	Director	February 27, 2009



SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
CENTURYTEL, INC.

For the years ended December 31, 2008, 2007 and 2006

Description	Balance a beginning of period	Additions charged to costs and expenses	Deduction from allowance	Other changes	Balance at end of period
			(Dollars in thousands)		
Year ended December 31, 2008					
Allowance for doubtful accounts	\$ 20,361	9,866	(13,524) (1)	(413) (2)	16,290
Valuation allowance for deferred tax assets	\$ 30,907	1,603	-	1,348	33,858
Year ended December 31, 2007					
Allowance for doubtful accounts	\$ 20,905	14,466	(16,617) (1)	1,607 (2)	20,361
Valuation allowance for deferred tax assets	\$ 61,049	3,744	(33,886)	-	30,907
Year ended December 31, 2006					
Allowance for doubtful accounts	\$ 21,721	20,199	(21,009) (1)	(6) (2)	20,905
Valuation allowance for deferred tax assets	\$ 54,412	6,637	-	-	61,049

(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.



**THIRD AMENDMENT TO THE  
CENTURYTEL DOLLARS & SENSE 401(K) PLAN  
AS AMENDED AND RESTATED  
EFFECTIVE DECEMBER 31, 2006**

CENTURYTEL, INC., represented herein by its Executive Vice-President and Chief Financial Officer, R. Stewart Ewing, Jr., as Plan Sponsor and Employer, does hereby execute the following amendment to the CenturyTel Dollars & Sense 401(k) Plan and Trust, each amendment effective as of November 20, 2008:

1. Section 1.12 of the Plan ("Company Stock") is amended to read in its entirety as follows:

**Company Stock.** Shares of voting common stock, \$1.00 par value, issued by CenturyTel, Inc., and which constitute "qualifying employer securities," as defined in Section 4975(e)(8) of the Code.

2. A new Section 1.12A ("Company Stock Account") is added after Section 1.12 ("Company Stock") to read in its entirety as follows:

**Company Stock Account.** The portion of a Participant's Accrued Benefit that consists of assets in the form of Company Stock that are held in the Company Stock Investment Fund in the CenturyTel Dollars & Sense 401(k) Trust. The Company Stock Investment Fund is intended to be invested primarily in shares of Company Stock, and shall also consist of cash or cash equivalents in which shall be invested cash dividends that may be paid on Company Stock that are accumulated in the ESOP prior to being distributed pursuant to Section 10.7 of the Plan. Such cash dividends that are not so distributed shall be invested in Company Stock. A Participant's Company Stock Account may consist of assets held in one or more of the subaccounts listed in Section 1.1 of the Plan. Effective November 20, 2008, the Company Stock Account shall constitute a portion of the ESOP.

3. A new Section 1.13A ("CT ESOP") is added after Section 1.13 ("Compensation") to read as follows:

**CT ESOP.** CT ESOP shall have the meaning set forth in Section 10.1 of the Plan.

4. A new Section 1.23A ("ESOP") is added after Section 1.23 ("ERISA") to read as follows:

**ESOP.** The portion of the Plan that is intended to be a stock bonus plan as defined in Treasury Regulations Section 1.401-1(b)-1(iii) and a non-leveraged employee stock ownership plan satisfying the requirements of Sections 401(a), 409 and 4975(e)(7) of the Code. The assets of the ESOP Account, the PAYSOP Account, the Stock Bonus Account, and effective November 20, 2008, the Company Stock Account are intended to constitute an ESOP. The ESOP is intended to be invested primarily in Company Stock.

5. All references to the "ESOP" in Section 3.8 ("Restoration of Forfeitures") are redesignated as references to the "CT ESOP".

6. Section 6.4(a)(2)(ii) of the Plan ("Hardship") is amended to read in its entirety as follows:

The Participant must have obtained all currently available distributions (including electing to receive distributions of ESOP dividends under Section 404(k) of the Code) and nontaxable loans currently available under all plans maintained by the Employer (unless such loan would disqualify the participant from obtaining other necessary financing); and

7. Section 6.4(a)(3)(iv) of the Plan ("Hardship") is amended to read in its entirety as follows:

By other currently available distributions (including distributions of ESOP dividends under Section 404(k) of the Code) and nontaxable loans, under plans maintained by the Employer or by any other employer; or

8. Section 10.1 of the Plan ("Status of ESOP") is amended to read in its entirety as follows:

The Company adopted the CenturyTel, Inc. Stock Bonus Plan and PAYSOP on October 1, 1975 and the CenturyTel, Inc. Employee Stock Ownership Plan (the "CT ESOP") on January 1, 1987. By merger agreement dated September 18, 1981, the Century Tel, Inc. Stock Bonus Plan and PAYSOP were merged into the CT ESOP. The Accounts of Participants who were actively employed with the Employer on November 6, 2006 are fully vested. Effective December 31, 2006, the CT ESOP merged into this Plan. Effective November 20, 2008, the Company Stock Account, together with the CT ESOP, was designated as an ESOP.

9. Section 10.2 of the Plan ("Trust or Trusts") is amended by adding the following sentence at the end thereof, to read as follows:

The assets of the Company Stock Account portion of the ESOP are held in the CenturyTel Dollars & Sense 401(k) Trust.

10. Section 10.4 ("Company Stock Distributions") is amended by inserting the words "Company Stock Account," in front of the words "ESOP Account" wherever they appear therein.

11. Section 10.6 ("Payment in Shares or Cash") is amended to read in its entirety as follows:

**Payment in Shares or Cash.** Any distributions from the Company Stock Account, an ESOP Account, Stock Bonus Account, and PAYSOP Account shall be made in cash unless the participant elects to receive the value of such Accounts in the form of Company Stock. Any distributions of Company Stock from the Company Stock Account, the ESOP Account, Stock Bonus Account, and PAYSOP Account shall be made by distributing the whole shares of Company Stock, as determined by the Trustees, including the Trustees of ESOP Trusts I and II, as applicable, at the market value of such shares on a national securities exchange or a national quotation system, with the value of any fractional shares paid in cash.

12. Section 10.7 of the Plan ("Dividends") is amended to read in its entirety as follows:

**Dividends.** Except as otherwise provided in this Section 10.7, dividends and other distributions received by the Trustees with respect to Company Stock shall be invested in Company Stock. On and after November 20, 2008, cash dividends paid on shares of Company Stock in which a Participant or Beneficiary has a vested interest shall, at the election of the Participant or Beneficiary pursuant to procedures set forth by the Committee, be distributed to the Participant or Beneficiary. Cash dividends that are distributed pursuant to an election hereunder shall be paid, at the discretion of the Committee, by the Company in cash to Participants and Beneficiaries, or paid by the Company to the Trusts and distributed from the Trusts to Participants and Beneficiaries, not later than ninety (90) days after the close of the Plan Year in which paid to the Trusts, including the Plan Year ending December 31, 2008. Notwithstanding the foregoing, in no event shall the amount paid to a Participant or Beneficiary pursuant to such election exceed the vested amount of the Participant's or Beneficiary's account in the ESOP Account, PAYSOP Account, Stock Bonus Account and Company Stock Account at the time of such payment.

13. A new Section 10.8 ("Miscellaneous") is added after Section 10.7 ("Dividends") to read as follows:

**Miscellaneous.** Effective November 20, 2008, in accordance with Code Section 401(a)(28)(C), valuation of Company Stock that ceases to be readily tradable on an established securities market shall be made by an independent appraiser who meets the requirements similar to the requirements of the regulations prescribed under Code Section 170(a)(1).

Further, in accordance with Code Sections 409(h)(4), (5) and (6), if the Company Stock ceases to be readily tradable on an established market, then any Participant who is otherwise entitled to a total distribution from the Plan shall have the right to require that his Company Stock be repurchased by the Company. The Trustee may elect to repurchase such Company Stock, in lieu of the Company. This election shall only be exercisable during the sixty-day (60) period immediately following the date of distribution, and if the election made within such sixty-day (60) period, it can be made for an additional sixty (60) days in the following Plan Year.

The amount paid for Company Stock pursuant to this election as part of a lump sum distribution shall be paid in substantially equal periodic payments (not less frequently than annually) over a period beginning not later than thirty (30) days after the request for total distribution and not exceeding five (5) years. There shall be adequate security provided and reasonable interest paid on any unpaid balance due under this paragraph.

If the Company is required to repurchase Company Stock as part of an installment distribution, the amount to be paid for Company Stock will be paid not later than thirty (30) days after the election is made.

**THIS DONE AND SIGNED this 20th day of November, 2008.**

CENTURYTEL, INC.

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

**THIRD AMENDMENT TO THE  
CENTURYTEL UNION 401(k) PLAN  
AS AMENDED AND RESTATED  
EFFECTIVE DECEMBER 31, 2006**

**CENTURYTEL, INC.**, represented herein by its Executive Vice President and Chief Financial Officer, R. Stewart Ewing, Jr., as Plan Sponsor and Employer, does hereby execute the following amendment to the CenturyTel Union 401(k) Plan and Trust, each amendment effective as of November 20, 2008:

1. Section 1.13 of the Plan ("Company Stock") is amended to read in its entirety as follows:

**Company Stock**. Shares of voting common stock, \$1.00 par value, issued by CenturyTel, Inc., and which constitute "qualifying employer securities," as defined in Section 4975(e)(8) of the Code.

2. A new Section 1.13A of the Plan ("Company Stock Account") is added after Section 1.13 ("Company Stock") to read in its entirety as follows:

**Company Stock Account**. The portion of a Participant's Accrued Benefit that consists of assets in the form of Company Stock that is held in the Company Stock Investment Fund in the Union 401(k) Trust. The Company Stock Investment Fund is intended to be invested primarily in shares of Company Stock, and shall also consist of cash or cash equivalents in which shall be invested cash dividends that may be paid on Company Stock that are accumulated in the ESOP prior to being distributed pursuant to Section 15.6 of the Plan. Such cash dividends that are not so distributed shall be invested in Company Stock. A Participant's Company Stock Account may consist of assets held in one or more of the subaccounts listed in Section 1.1 of the Plan. Effective November 20, 2008, the Company Stock Account shall constitute an ESOP.

3. A new Section 1.24A of the Plan ("ESOP") is added after Section 1.24 ("ERISA") to read in its entirety as follows:

**ESOP**. The portion of the Plan that is intended to be a stock bonus plan as defined in Treasury Regulations Section 1.401-1(b)-1(iii) and a non-leveraged employee stock ownership plan satisfying the requirements of Sections 401(a), 409 and 4975(e)(7) of the Code. Effective November 20, 2008, the assets of the Company Stock Account are intended to constitute an ESOP. The ESOP is intended to be invested primarily in Company Stock.

4. Section 6.6(a)(2)(ii) of the Plan ("Hardship") is amended to read in its entirety as follows:

The Participant must have obtained all currently available distributions (including electing to receive distribution of ESOP dividends under Section 404(k) of the Code) and all nontaxable loans currently available under all Plans maintained by the Employer (unless such loan would disqualify the Participant from obtaining other necessary financing); and

5. Section 6.6(a)(3)(iv) of the Plan ("Hardship") is amended to read in its entirety as follows:

By other currently available distributions (including distributions of ESOP dividends under Section 404(k) of the Code) and nontaxable loans, under plans maintained by the Employer or by any other employer; or

6. Section 7.2 of the Plan ("Method of Distribution") is amended by adding the following sentence at the ending of the last paragraph thereof to read in its entirety as follows:

See Article XV for special rules relating to ESOP distributions.

7. A new Article XV of the Plan ("ESOP Provisions") is added to read in its entirety as follows:

**15.1      Status of ESOP**. Effective November 20, 2008, the Company designated the Company Stock Account as an ESOP. The ESOP is intended to be invested primarily in shares of Company Stock held on behalf of Participants. Participants have a nonforfeitable right to Company Stock allocated to his Company Stock Account in the ESOP. These accounts shall also consist of cash or cash equivalents in which shall be invested cash dividends paid on Company Stock that are accumulated in the accounts prior to being distributed pursuant to Section 15.6. Cash dividends that are not to be so distributed shall be invested in Company Stock.

**15.2      Investment Diversification**. Each Participant in the Plan is permitted to diversify the investment of 100% of his ESOP Account, at any time in accordance with Section 4.6. The net cash proceeds realized from the sale by the Plan of the shares of Company Stock for which diversification is elected shall be invested in the Investment Options designated.

**15.3      Company Stock Distributions**.

(a) Notwithstanding the provisions of Article VII, distributions of Company Stock to a Participant from the ESOP shall be made in accordance with this Section 15.3, unless the application of Article VII would result in an earlier distribution date.

(b) Unless the Participant (or his beneficiary, if the Participant is deceased) elects otherwise, if a Participant retires, dies or becomes disabled while employed by the Employer, distribution of Company Stock from the ESOP will be made or commenced as soon as practicable following the date on which the Participant retires, dies or becomes disabled, but not later than the sixtieth (60th) day next following the close of the Plan Year during which the Participant retires, dies or becomes disabled.

(c) Unless the Participant elects otherwise, upon termination of employment of the Participant with the Employer for reasons other than retirement, death or disability, distribution of Company Stock from the ESOP will be made not later than the later of:

(1) one (1) year after the close of the Plan Year which is the fifth (5th) Plan Year following the Plan Year in which his employment terminates, unless the Participant is

reemployed by the Employer before the end of such year; or

(2) the sixtieth (60th) day following the end of the Plan Year in which the Participant attains Normal Retirement Age.

(d) Any distribution hereunder shall comply with the consent requirements contained in Section 7.7.

**15.4 Optional Methods of Payment Available at Retirement**. Upon actual retirement at or after age 55 ("Normal Retirement Date"), a Participant shall be entitled to receive the full amount credited to the Company Stock Account in the ESOP as of the Valuation Date immediately preceding the month in which payment is to be made, which amount shall be paid to the Participant in one lump sum within the later of: (i) sixty (60) days after the close of the Plan Year in which the Participant retires, or (ii) sixty (60) days after the distributable amount has been determined, unless prior to the date of his retirement he elects, in the manner prescribed by the Committee, any one of the following method or methods:

(a) Payment of the entire amount of the Participant's Account in one lump sum at some future date, not later than one year after Normal Retirement Date;

(b) Payment in substantially equal annual, quarterly or monthly installments (including net investment income, gain or loss) until the value of such Participant's Company Stock Account in the ESOP is exhausted. Unless the Participant elects otherwise, the payment period for a Participant's Company Stock Account in the ESOP shall not exceed five (5) years. This five (5) year payment period for Company Stock Account in the ESOP shall be extended by one (1) year, up to five (5) additional years, for each \$160,000 (or fraction thereof) by which such Participant's Account balance exceeds \$800,000 (the dollar amounts herein are subject to cost of living adjustments prescribed by the Secretary of the Treasury; or

(c) Any combination of the foregoing.

Notwithstanding anything contained in this Section 15.4, lump sum, installment or any other benefits may not be paid directly from the Plan in any form of a life annuity or through the distribution of property in any form of a life annuity.

In addition, if the Participant's spouse is not the designated beneficiary, the method of distribution selected must assure that at least fifty percent (50%) of the present value of the amount available for distribution is paid within the life expectancy of the Participant.

All distributions required under this Section shall be determined and made in accordance with Section 7.5. Any distribution under this Section 15.4 shall comply with the consent requirements contained in Section 7.7.

**15.5 Payment in Shares or Cash**. Any distributions from the ESOP shall be made in cash unless the Participant elects to receive the value of such Accounts in the form of Company Stock. Any distributions of Company Stock from the ESOP shall be made by distributing whole shares of Company Stock, as determined by the Trustee, at the market value of such shares on a national securities exchange or a national quotation system, with the value of any fractional shares paid in cash.

**15.6 Dividends**. Except as otherwise provided in this Section 15.6, dividends and other distributions received by the Trustee with respect to Company Stock shall be invested in Company Stock.

On and after November 20, 2008, cash dividends paid on shares of Company Stock in which a Participant or Beneficiary has a vested interest shall, at the election of the Participant or Beneficiary pursuant to procedures set forth by the Committee, be distributed to the Participant or Beneficiary. Cash dividends that are distributed pursuant to an election hereunder shall be paid, at the discretion of the Committee, by the Company in cash to Participants and Beneficiaries, or paid by the Company to the Trust and distributed from the Trust to Participants and Beneficiaries, not later than ninety (90) days after the close of the Plan Year in which paid to the Trust, including the Plan Year ending December 31, 2008. Notwithstanding the foregoing, in no event shall the amount paid to a Participant or Beneficiary pursuant to such election exceed the vested amount of the Participant's or Beneficiary's account in the Company Stock Account at the time of such payment.

**15.7 Miscellaneous**. Effective November 20, 2008, in accordance with Code Section 401(a)(28)(C), valuation of Company Stock that ceases to be readily tradable on an established securities market shall be made by an independent appraiser who meets the requirements similar to the requirements of the regulations prescribed under Code Section 170(a)(1).

Further, in accordance with Code Sections 409(h)(4), (5) and (6), if the Company Stock ceases to be readily tradable on an established market, then any Participant who is otherwise entitled to a total distribution from the Plan shall have the right to require that his Company Stock be repurchased by the Company. The Trustee may elect to repurchase such Company Stock, in lieu of the Company. This election shall only be exercisable during the sixty-

day (60) period immediately following the date of distribution, and if the election made within such sixty-day (60) period, it can be made for an additional sixty (60) days in the following Plan Year.

The amount paid for Company Stock pursuant to this election as part of a lump sum distribution shall be paid in substantially equal periodic payments (not less frequently than annually) over a period beginning not later than thirty (30) days after the request for total distribution and not exceeding five (5) years. There shall be adequate security provided and reasonable interest paid on any unpaid balance due under this paragraph.

If the Company is required to repurchase Company Stock as part of an installment distribution, the amount to be paid for Company Stock will be paid not later than thirty (30) days after the election is made.

**THIS DONE AND SIGNED this 20<sup>th</sup> day of November, 2008.**

CENTURYTEL, INC.

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

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

**AMENDMENT NO. 3  
TO THE  
CENTURYTEL RETIREMENT PLAN**

**WHEREAS**, the CenturyTel Retirement Plan ("Plan") was amended and restated by CenturyTel, Inc. (the "Company") effective December 31, 2006;

**WHEREAS**, certain benefits have been revised via adoption of new collective bargaining agreements applicable to certain participants in the Plan;

**WHEREAS**, certain clarifications must be made to the December 31, 2006 restated Plan document in order to preserve the intent of the Plan and the Company;  
and

**WHEREAS**, the Company reserved the right to amend the Plan in Section 12.2 of the Plan.

**NOW, THEREFORE**, effective as of the dates shown below, the Plan is amended as follows:

**I.**

**Section 6.1(a)(6) of the Plan is amended effective December 31, 2006 to read as follows:**

- (6) In no event shall a Participant's Accrued Benefit, expressed as an annual benefit at Normal Retirement Date, be less than \$650, and in no event shall a Participant's Accrued Benefit be less than his or her Accrued Benefit (if any) as of December 31, 2006. The \$650 minimum benefit noted in the previous sentence shall not apply to Participants whose Accrued Benefit is determined solely under Section 6.1(b) or one of the Constituent Plans, and shall not apply to Participants who become Eligible Employees after December 31, 2008.

**II.**

**Section 6.1(b) of the Plan is amended effective December 31, 2006, to read as follows:**

- (b) Except as provided in Section 6.1(d) below, for Participants covered by a collective bargaining agreement that provides for participation in this Plan, and subject to the limitations contained in Section 5.7, the Accrued 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 number of Years of Credited Service (YCS), 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:

$$\text{YCS (up to 30)} \times ((1.3\% \times \text{FAP}) + (.65\% \times (\text{FAP} - \text{SSCC}))).$$

**III.**

**Section 6.1(e) of the Plan is amended and restated effective December 31, 2006, to read as follows:**

- (e) The minimum benefit provisions of the Plan at Section 6.1(a)(6) and in the Constituent Plans, are mutually exclusive and shall not be added to each other, or to any other benefit, when determining a Participant's minimum benefit under the Plan as a whole.

Effective on and after January 1, 2007, if a Participant: (i) ceases accruing benefits under a Constituent Plan portion of this Plan and begins accruing benefits under Section 6.1(a) or (b) or (ii) ceases accruing benefits under Section 6.1(a) or (b) and begins accruing benefits under a Constituent Plan portion of this Plan (the date of such cessation and beginning being his "Transfer Date"), then his combined benefit under this Plan and the Constituent Plan shall be the greatest of: (1) his benefit under the Constituent Plan(s) plus his benefit under Section 6.1(a) and/or (b) (determined without regard to Section 6.1(a)(6)), (2) his Minimum Benefit (if applicable) under the Constituent Plan(s) or (3) the benefit under Section 6.1(a)(6) of this Plan (but only if the Participant accrued at least some benefits under Section 6.1(a)). Thus, in accordance with the preambles of the Constituent Plans and Sections 2.27, 2.35 and 2.44, if a Participant is entitled to a Minimum Benefit under a Constituent Plan, he or she shall not be entitled to a Minimum Benefit under this Plan (as such Minimum Benefit under the Constituent Plan would be greater than, and partially duplicative of, the Minimum Benefit under this Plan). Furthermore, if a Participant ceases accruing benefits under a Constitutional Plan portion of this Plan and begins accruing benefits under Section 6.1(a), then his Credited Service for purposes of calculating his Normal Retirement Benefit under the Constituent Plan Portion(s) of this Plan will not increase after his Transfer Date.

**IV.**

**Sections 6.5 (a) and (b) of the Plan are amended and restated, effective December 31, 2006, as follows:**

- (a) If at death the Participant is age fifty-five (55) or over with five (5) or more Years of Credited Service, or actively employed by the Employer with thirty (30) or more Years of Service and five (5) or more Years of Credited Service, the benefit of the Spouse shall be the amount payable to the Spouse as Beneficiary under the survivor annuity portion of the Qualified Joint and Survivor Annuity with respect to the Participant, determined as though the Participant had retired on the first day of the month in which death occurs. On the death of a Participant with thirty (30) or more Years of Service and five (5) or more Years of Credited Service before age fifty-five (55), the Participant shall be assumed to be age fifty-five (55) for purposes of this subparagraph (a).



- (b) If the Participant does not meet the requirements of (a), above, at death, the benefit of the Spouse shall be the amount payable to the Spouse as Beneficiary under the survivor annuity portion of the Qualified Joint and Survivor Annuity with respect to the Participant, determined as though the Participant had separated from service on the date of death (if not already separated) and had survived until age fifty-five (55) (if the Participant was over age 55 at death, then his or her actual age at death shall be used in determining the benefit).

**V.**

**Paragraph 7, Nonrepresented Participants or Nonrepresented Employees, of Schedule 6.1(f)-3, Hourly Plan Portion of CenturyTel Retirement Plan, is amended to add the following at the end of the parenthetical:**

(A listing of such agreements is provided at Schedule 2 of the Hourly Plan and shall be updated from time to time, without the necessity of an amendment to the Plan, such list merely being reflective of revisions to the collective bargaining agreements.)

**VI.**

**Schedule 6.1(f)-3, Hourly Plan Portion of CenturyTel Retirement Plan, is amended to add a new Schedule 2, to read initially as follows:**

**Schedule 2  
Hourly Plan Portion of Plan  
Nonrepresented Participants**

Employees entering the respective bargaining units on or after the dates indicated will participate under the CenturyTel Retirement Plan and will not be eligible for the Hourly Plan portion of the Plan.

<b>Union</b>	<b>Date</b>
CWA 6171 Central	August 16, 2007
CWA 6171 Northwest	June 13, 2008
CWA 7906 (1)	May 1, 2008
IBEW 768	May 1, 2008
IBEW 257	January 1, 2007
IBEW 1106	April 1, 2007
CWA 6301, 6310, 6311, 6312, 6373	March 13, 2008
CWA 4370	April 1, 2007
CWA 4671	February 3, 2007
IBEW 89	September 1, 2008
CWA 7818	September 1, 2008

- 
- (1) Transfers from IBEW 89, CWA 7818 or IBEW 768 will retain prior pension program if transferred after May 1, 2008.

**VII.**

**The second to last sentence of Paragraph 22, Minimum Benefit, of Schedule 6.1(f)-3, Hourly Plan Portion of CenturyTel Retirement Plan, is amended and restated to read as follows:**

If a Nonrepresented Participant is not eligible to commence benefits as of such date, his Years of Credited Service will be divided by his projected years of Credited Service as if he retired at Normal Retirement Age and then be multiplied by the Minimum Pension Amount from the table above that correlates with his projected Years of Vesting Service as of his Normal Retirement Date to obtain his Minimum Benefit.

**VIII.**

**Paragraph 5 of Schedule 6.1(f)-4, the Ohio Plan Portion of the CenturyTel Retirement Plan, is amended effective April 1, 2007 to add the following at the end of Section 2.22, Employee :**

Consistent with the April 2007 Memorandum of Agreement between CenturyTel and the Communications Workers of America, any individual becoming a member of a bargaining unit of an Employer listed on Schedule 3.1 to the Ohio Plan on or after April 1, 2007 shall not be eligible to participate in the Ohio Plan.

**IX.**

**Schedule 6.1(f)-4, the Ohio Plan Portion of the CenturyTel Retirement Plan, is amended effective April 1, 2007 to add the following at the end of the table of Normal/Late Retirement Benefits at Schedule 6.1, as follows:**

<u>Age At Retirement</u>	<u>Band 1</u>	<u>Band 2</u>
Effective 4/1/07                      65 or older	\$35.84	\$42.02

**IN WITNESS WHEREOF** , CenturyTel has executed this amendment on this 24th day of October, 2008.

CENTURYTEL, INC.

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

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

AMENDMENT NO. 1  
TO THE  
AMENDED AND RESTATED CENTURYTEL, INC.  
2002 DIRECTORS STOCK OPTION PLAN

WHEREAS, CenturyTel, Inc. (the "Company") maintains the CenturyTel, Inc. 2002 Directors Stock Option Plan, as amended and restated (the "Plan");

WHEREAS, pursuant to Section 10 of the Plan, the Plan may be amended by the Board of Directors of the Company (the "Board") at any time; and

WHEREAS, the Board has determined that it is in the best interests of the Company to amend the Plan as set forth below.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 8.2 of the Plan is hereby amended and restated, in its entirety, as follows:  
  
8.2 Upon a Change of Control, all outstanding Options granted pursuant to this Plan shall automatically become fully vested and exercisable.
2. Except as herein expressly amended, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has executed this amendment on this 24th day of October, 2008.

CENTURYTEL, INC.

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

**AMENDMENT NO. 1  
TO THE  
AMENDED AND RESTATED CENTURYTEL, INC.  
2002 MANAGEMENT INCENTIVE COMPENSATION PLAN**

WHEREAS, CenturyTel, Inc. (the "Company") maintains the CenturyTel, Inc. 2002 Management Incentive Compensation Plan, as amended and restated (the "Plan");

WHEREAS, pursuant to Section 9.10 of the Plan, the Plan may be amended by the Board of Directors of the Company (the "Board") at any time; and

WHEREAS, the Board has determined that it is in the best interests of the Company to amend the Plan as set forth below.

NOW, THEREFORE, the Plan is hereby amended as follows:

- 1.** Section 9.13(b) of the Plan is hereby amended and restated, in its entirety, as follows:

**(b)** Upon a Change of Control, all outstanding Incentives granted pursuant to this Plan shall automatically become fully vested and exercisable, all restrictions or limitations on any Incentives shall automatically lapse and, unless otherwise provided in the Incentive Agreement, all performance criteria and other conditions relating to the payment of Incentives shall be deemed to be achieved at the target level without the necessity of action by any person.

- 2.** Except as herein expressly amended, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has executed this amendment on this 24th day of October, 2008.

CENTURYTEL, INC.

By: /s/ R. Stewart Ewing, Jr. \_\_\_\_\_  
R. Stewart Ewing, Jr.  
Executive Vice President and  
Chief Financial Officer

**AMENDMENT NO. 1  
TO THE  
CENTURYTEL, INC.  
2005 DIRECTORS STOCK PLAN**

WHEREAS, CenturyTel, Inc. (the "Company") maintains the CenturyTel, Inc. 2005 Directors Stock Plan (the "Plan");

WHEREAS, pursuant to Section 11.10 of the Plan, the Plan may be amended by the Board of Directors of the Company (the "Board") at any time; and

WHEREAS, the Board has determined that it is in the best interests of the Company to amend the Plan as set forth below.

NOW, THEREFORE, the Plan is hereby amended as follows:

1. Section 11.12(b) of the Plan is hereby amended and restated, in its entirety, as follows:

(b) Upon a Change of Control, all outstanding Incentives granted pursuant to this Plan shall automatically become fully vested and exercisable, all restrictions or limitations on any Incentives shall automatically lapse and, unless otherwise provided in the Incentive Agreement, all performance criteria and other conditions relating to the payment of Incentives shall be deemed to be achieved at the target level without the necessity of action by any person.

2. Except as herein expressly amended, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has executed this amendment on this 24th day of October, 2008.

CENTURYTEL, INC.

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

**RESTRICTED STOCK AGREEMENT  
UNDER THE  
2005 DIRECTORS STOCK PLAN  
(May 11, 2007 Grants)**

This RESTRICTED STOCK AGREEMENT (this "Agreement") is made as of May 11, 2007, by and between CenturyTel, Inc. ("CenturyTel") and «Director\_Name» ("Award Recipient").

WHEREAS, CenturyTel maintains the 2005 Directors Stock Plan (the "Plan"), under which the Compensation Committee (the "Committee") of the Board of Directors of CenturyTel (the "Board"), may, among other things, grant restricted shares of CenturyTel's common stock, \$1.00 par value per share (the "Common Stock"), to outside directors of CenturyTel, subject to such terms, conditions, or restrictions as it may deem appropriate; and

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

NOW, THEREFORE, the parties agree as follows:

**1. AWARD OF SHARES**

Upon the terms and conditions of the Plan and this Agreement, the Committee as of the date of this Agreement hereby awards to the Award Recipient 2,126 restricted shares of Common Stock (the "Restricted Stock") that vest, subject to Sections 2, 3 and 4 hereof, in installments as follows:

<u>Scheduled Vesting Date</u>	<u>Number of Shares of Restricted Stock</u>
May 15, 2008	708
May 15, 2009	709
May 15, 2010	709

**2. AWARD RESTRICTIONS**

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

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

- (a) the date on which the Award Recipient's service on the Board terminates as a result of (i) death, (ii) disability within the meaning of Section 22 (e)(3) of the Internal Revenue Code or (iii) the ineligibility to stand for re-election due to CenturyTel's mandatory retirement policy;
- (b) the date, if any, that the Committee elects, in its sole discretion, to accelerate the vesting of such unvested Restricted Stock in the case of retirement from the Board of an Award Recipient on or after attaining the age of 55 with at least six full years of prior service on the Board; or
- (c) the occurrence of a Change of Control of CenturyTel, as described in Section 11.12 of the Plan.

**3. TERMINATION OF BOARD SERVICE**

Except as otherwise provided in Section 2.2 above, termination of the Award Recipient's service on the Board for any reason shall automatically result in the termination and forfeiture of all unvested Restricted Stock.

**4. FORFEITURE OF AWARD**

4.1 If, at any time during the Award Recipient's tenure as a director of the Company or within 18 months after termination of such tenure, the Award Recipient engages in any activity in competition with any activity of CenturyTel or its subsidiaries (collectively, the "Company"), or inimical, contrary or harmful to the interests of the Company, including but not limited to: (a) conduct relating to the Award Recipient's service on the Board for which either criminal or civil penalties against the Award Recipient may be sought, (b) conduct or activity that results in removal of the Award Recipient from the Board for cause, (c) violation of the Company's policies, including, without limitation, the Company's insider trading policy or corporate compliance program, (d) accepting employment after the date hereof with, acquiring a 5% or more equity or participation interest in, serving as a consultant, advisor, director or agent of, directly or indirectly soliciting or recruiting any officer of the Company who was employed at any time during the Award Recipient's service on the Board, or otherwise assisting in any other capacity or manner any company or enterprise that is directly or indirectly in competition with or acting against the interests of the Company or any of its lines of business (a "competitor"), except for (A) any employment, investment, service, assistance or other activity that is undertaken at the request or with the written permission of the CenturyTel Board of Directors or (B) any assistance of a competitor that is provided in the ordinary course of the Award Recipient engaging in his or her principal occupation in the good faith and reasonable belief that such assistance will neither harm the Company's interests in any substantial manner or violate any of the Award Recipient's duties or responsibilities under the Company's policies or applicable law, (e) disclosing or misusing any confidential information or material concerning the Company, (f) engaging in, promoting, assisting or otherwise participating in a hostile takeover attempt of the Company or any other transaction or proxy contest that could reasonably be expected

to result in a Change of Control (as defined in the Plan) not approved by the CenturyTel Board of Directors or (g) making any statement or disclosing any information to any customers, suppliers, lessors, lessees, licensors, licensees, regulators, employees or others with whom the Company engages in business that is defamatory or derogatory with respect to the business, operations, technology, management, or other employees of the Company, or taking any other action that could reasonably be expected to injure the Company in its business relationships with any of the foregoing parties or result in any other detrimental effect on the Company, then the award of Restricted Stock granted hereunder shall automatically terminate and be forfeited effective on the date on which the Award Recipient engages in such activity and (i) all shares of Common Stock acquired by the Award Recipient pursuant to this Agreement (or other securities into which such shares have been converted or exchanged) shall be returned to the Company or, if no longer held by the Award Recipient, the Award Recipient shall pay to the Company, without interest, all cash, securities or other assets received by the Award Recipient upon the sale or transfer of such stock or securities, and (ii) all unvested shares of Restricted Stock shall be forfeited.

4.2 If the Award Recipient owes any amount to the Company under Section 4.1 above, the Award Recipient acknowledges that the Company may, to the fullest extent permitted by applicable law, deduct such amount from any amounts the Company owes the Award Recipient from time to time for any reason (including without limitation amounts owed to the Award Recipient as directors fees, reimbursements, retirement payments, or other compensation or benefits). Whether or not the Company elects to make any such set-off in whole or in part, if the Company does not recover by means of set-off the full amount the Award Recipient owes it, the Award Recipient hereby agrees to pay immediately the unpaid balance to the Company.

4.3 The Award Recipient may be released from the Award Recipient's obligations under Sections 4.1 and 4.2 above only if the CenturyTel Board of Directors determines in its sole discretion that such action is in the best interests of the Company.

## 5. STOCK CERTIFICATES

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

5.2 Upon the lapse of restrictions on shares of Restricted Stock, CenturyTel shall cause a stock certificate without a restrictive legend to be issued with respect to the vested Restricted Stock in the name of the Award Recipient or his or her nominee within 30 days. Upon receipt of such stock certificate, the Award Recipient is free to hold or dispose of the shares represented by such certificate, subject to (i) applicable securities laws, (ii) CenturyTel's insider trading policy and (iii) any applicable stock retention policies that CenturyTel may adopt in the future.

## 6. MISCELLANEOUS

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

6.2 Nothing in this Agreement shall confer upon the Award Recipient any right to continue to serve on the Board, or to interfere in any way with the right of the Company to remove the Award Recipient as a director at any time.

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

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

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

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

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

permitted by law.

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

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

CENTURYTEL, INC.

By: \_\_\_\_\_

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

\_\_\_\_\_  
«Director\_Name»  
Award Recipient



**RESTRICTED STOCK AGREEMENT  
UNDER THE  
2005 DIRECTORS STOCK PLAN  
(May 9, 2008 Grants)**

This RESTRICTED STOCK AGREEMENT (this "Agreement") is made as of May 9, 2008, by and between CenturyTel, Inc. ("CenturyTel") and «Director\_Name» ("Award Recipient").

WHEREAS, CenturyTel maintains the 2005 Directors Stock Plan (the "Plan"), under which the Compensation Committee (the "Committee") of the Board of Directors of CenturyTel (the "Board"), may, among other things, grant restricted shares of CenturyTel's common stock, \$1.00 par value per share (the "Common Stock"), to outside directors of CenturyTel, subject to such terms, conditions, or restrictions as it may deem appropriate; and

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

NOW, THEREFORE, the parties agree as follows:

**1. AWARD OF SHARES**

Upon the terms and conditions of the Plan and this Agreement, the Committee as of the date of this Agreement hereby awards to the Award Recipient 3,012 restricted shares of Common Stock (the "Restricted Stock") that vest, subject to Sections 2, 3 and 4 hereof, in installments as follows:

<u>Scheduled Vesting Date</u>	<u>Number of Shares of Restricted Stock</u>
May 15, 2009	1,004
May 15, 2010	1,004
May 15, 2011	1,004

**2. AWARD RESTRICTIONS**

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

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

- (a) the date on which the Award Recipient's service on the Board terminates as a result of (i) death, (ii) disability within the meaning of Section 22 (e)(3) of the Internal Revenue Code or (iii) the ineligibility to stand for re-election due to CenturyTel's mandatory retirement policy;
- (b) the date, if any, that the Committee elects, in its sole discretion, to accelerate the vesting of such unvested Restricted Stock in the case of retirement from the Board of an Award Recipient on or after attaining the age of 55 with at least six full years of prior service on the Board; or
- (c) the occurrence of a Change of Control of CenturyTel, as described in Section 11.12 of the Plan.

**3. TERMINATION OF BOARD SERVICE**

Except as otherwise provided in Section 2.2 above, termination of the Award Recipient's service on the Board for any reason shall automatically result in the termination and forfeiture of all unvested Restricted Stock.

**4. FORFEITURE OF AWARD**

4.1 If, at any time during the Award Recipient's tenure as a director of the Company or within 18 months after termination of such tenure, the Award Recipient engages in any activity in competition with any activity of CenturyTel or its subsidiaries (collectively, the "Company"), or inimical, contrary or harmful to the interests of the Company, including but not limited to: (a) conduct relating to the Award Recipient's service on the Board for which either criminal or civil penalties against the Award Recipient may be sought, (b) conduct or activity that results in removal of the Award Recipient from the Board for cause, (c) violation of the Company's policies, including, without limitation, the Company's insider trading policy or corporate compliance program, (d) accepting employment after the date hereof with, acquiring a 5% or more equity or participation interest in, serving as a consultant, advisor, director or agent of, directly or indirectly soliciting or recruiting any officer of the Company who was employed at any time during the Award Recipient's service on the Board, or otherwise assisting in any other capacity or manner any company or enterprise that is directly or indirectly in competition with or acting against the interests of the Company or any of its lines of business (a "competitor"), except for (A) any employment, investment, service, assistance or other activity that is undertaken at the request or with the written permission of the CenturyTel Board of Directors or (B) any assistance of a competitor that is provided in the ordinary course of the Award Recipient engaging in his or her principal occupation in the good faith and reasonable belief that such assistance will neither harm the Company's interests in any substantial manner or violate any of the Award Recipient's duties or responsibilities under the Company's policies or applicable law, (e) disclosing or misusing any confidential information or material concerning the Company, (f) engaging in, promoting, assisting or otherwise participating in a hostile takeover attempt of the Company or any other transaction or proxy contest that could reasonably be expected

to result in a Change of Control (as defined in the Plan) not approved by the CenturyTel Board of Directors or (g) making any statement or disclosing any information to any customers, suppliers, lessors, lessees, licensors, licensees, regulators, employees or others with whom the Company engages in business that is defamatory or derogatory with respect to the business, operations, technology, management, or other employees of the Company, or taking any other action that could reasonably be expected to injure the Company in its business relationships with any of the foregoing parties or result in any other detrimental effect on the Company, then (i) all unvested shares of Restricted Stock granted hereunder shall automatically terminate and be forfeited effective on the date on which the Award Recipient first engages in such activity and (ii) all shares of Common Stock acquired by the Award Recipient upon vesting of the Restricted Stock hereunder after the date that precedes by one year the date on which the Award Recipient's tenure as a director of the Company terminated or the date the Award Recipient first engaged in such activity if no such termination occurs (or other securities into which such shares have been converted or exchanged) shall be returned to the Company or, if no longer held by the Award Recipient, the Award Recipient shall return to the Company, without interest, all cash, securities or other assets received by the Award Recipient upon the sale or transfer of such stock or securities.

4.2 If the Award Recipient owes any amount to the Company under Section 4.1 above, the Award Recipient acknowledges that the Company may, to the fullest extent permitted by applicable law, deduct such amount from any amounts the Company owes the Award Recipient from time to time for any reason (including without limitation amounts owed to the Award Recipient as directors fees, reimbursements, retirement payments, or other compensation or benefits). Whether or not the Company elects to make any such set-off in whole or in part, if the Company does not recover by means of set-off the full amount the Award Recipient owes it, the Award Recipient hereby agrees to pay immediately the unpaid balance to the Company.

4.3 The Award Recipient may be released from the Award Recipient's obligations under Sections 4.1 and 4.2 above only if the CenturyTel Board of Directors determines in its sole discretion that such action is in the best interests of the Company.

## 5. STOCK CERTIFICATES

5.1 No stock certificate evidencing the Restricted Stock shall be issued by CenturyTel until the lapse of restrictions under the terms hereof. Upon the lapse of restrictions on shares of Restricted Stock, CenturyTel may, in its discretion, cause a stock certificate to be issued with respect to the vested Restricted Stock in the name of the Award Recipient or his or her nominee within 30 days. Upon receipt of any such stock certificate, the Award Recipient is free to hold or dispose of the shares represented by such certificate, subject to (i) applicable securities laws, (ii) CenturyTel's insider trading policy and (iii) any applicable stock retention policies that CenturyTel may adopt in the future.

## 6. MISCELLANEOUS

6.1 Anything in this Agreement to the contrary notwithstanding, if, at any time prior to the vesting of the Restricted Stock in accordance with Section 1 or 2 hereof, CenturyTel further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of the shares of Common Stock issuable pursuant hereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such shares of Common Stock shall not be issued, in whole or in part, or the restrictions thereon removed, unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions unacceptable to CenturyTel. CenturyTel agrees to use commercially reasonable efforts to issue all shares of Common Stock issuable hereunder on the terms provided herein.

6.2 Nothing in this Agreement shall confer upon the Award Recipient any right to continue to serve on the Board, or to interfere in any way with the right of the Company to remove the Award Recipient as a director at any time.

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

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

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

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

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

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

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

CENTURYTEL, INC.

By: \_\_\_\_\_

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

\_\_\_\_\_  
«Director\_Name»  
Award Recipient

**AMENDMENT NO. 1  
TO THE  
CENTURYTEL, INC.  
2005 MANAGEMENT INCENTIVE COMPENSATION PLAN**

WHEREAS, CenturyTel, Inc. (the "Company") maintains the CenturyTel, Inc. 2005 Management Incentive Compensation Plan (the "Plan");

WHEREAS, pursuant to Section 11.10 of the Plan, the Plan may be amended by the Board of Directors of the Company (the "Board") at any time; and

WHEREAS, the Board has determined that it is in the best interests of the Company to amend the Plan as set forth below.

NOW, THEREFORE, the Plan is hereby amended as follows:

- 1.** Section 11.12(b) of the Plan is hereby amended and restated, in its entirety, as follows:

**(b)** Upon a Change of Control, all outstanding Incentives granted pursuant to this Plan shall automatically become fully vested and exercisable, all restrictions or limitations on any Incentives shall automatically lapse and, unless otherwise provided in the Incentive Agreement, all performance criteria and other conditions relating to the payment of Incentives shall be deemed to be achieved at the target level without the necessity of action by any person.

- 2.** Except as herein expressly amended, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, the Company has executed this amendment on this 24th day of October, 2008.

CENTURYTEL, INC.

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

**FIRST AMENDMENT  
TO  
THE CENTURYTEL, INC.  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
2008 RESTATEMENT**

This First Amendment to the CenturyTel, Inc. Supplemental Executive Retirement Plan 2008 Restatement is effective February 29, 2008.

**WHEREAS**, Section 20.02 permits CenturyTel, Inc. (the "Company") to amend the Plan; and

**WHEREAS**, at its meeting on December 19, 2007, the Compensation Committee recommended to the Board of Directors that it freeze the Plan as of February 29, 2008 and provide for a lump sum payment option in early 2009; and,

**WHEREAS**, on February 26, 2008, the Board of Directors adopted a resolution approving the Compensation Committee's recommendation.

**NOW, THEREFORE**, the Plan is amended effective February 29, 2008 as follows:

**Add the following paragraphs at the end of the Introduction:**

These amendments make material modifications to the Grandfathered Plan, resulting in it ceasing to be grandfathered and becoming subject to Code §409A. Accordingly, in accordance with Treasury Regulations §1.409A-6(a)(i), effective February 29, 2008, all amounts deferred whether before 2005 or after 2004 are governed by Code §409A and the Plan as amended effective January 1, 2008, as further amended hereby.

The First Amendment freezes the Plan effective February 29, 2008 and gives each participant who is actively employed by an Employer, each retired participant or survivor currently receiving benefits and each vested terminated participant not currently receiving benefits (collectively, the "Participant") a one-time option to elect to receive a lump sum amount payable in early 2009 that reflects the present value of the Participant's anticipated annuity benefit and an additional cash payment to assist with the income taxes payable by the Participant on receipt of the lump sum. If the Participant does not elect to receive the lump sum, the frozen benefit will continue to be in the form of an annuity. Additional years of Benefit Service and additional years of age are granted under some circumstances. The election to take a lump sum must be made by the participant after April 30, 2008 and no later than June 13, 2008. Once the election is made, it is final.

**I.**

**Add the following sentence at the end of Section 2.01:**

"Notwithstanding the above, the Accrued Benefit of each Participant shall not increase after February 29, 2008. For Active Participants as of February 29, 2008, "Accrued Benefit" shall mean the greater of the following:

- 1) the basic monthly benefit as of February 29, 2008 determined in accordance with Section 5.01 based on a Participant's Average Monthly Compensation and Benefit Service as of February 29, 2008 and his Estimated Social Security Benefit based on 2008 Social Security Law, or
- 2) the basic monthly benefit as of December 31, 2007 determined in accordance with Section 5.01 based on a Participant's Average Monthly Compensation as of December 31, 2007, Benefit Service as of December 31, 2007 plus 3 years (limited to 25 years), and Estimated Social Security Benefit based on 2007 Social Security Law."

**II.**

**Add the following sentence at the end of Section 2.03:**

"Notwithstanding the above, Average Monthly Compensation shall not include Compensation paid to a Participant after February 29, 2008."

**III.**

**Add the following sentence at the end of Section 2.04:**

"Notwithstanding the above, employment after February 29, 2008 shall not be included in determining a Participant's Benefit Service under Article IV."

**IV.**

**Add the following at the end of Section 2.15:**

"Incentive Compensation for the period January 1, 2008 to February 29, 2008 shall be based on a Participant's target bonus amount for 2008 under the Company's Key Employee Incentive Compensation Plan."

**V.**

**Add Section 3.05 as follows:**

" **3.05** . Notwithstanding anything to the contrary contained in this Plan, there shall be no new eligible employees or Participants after February 29, 2008."

**VI.**

**Add Section 4.05 as follows:**

" **4.05** . Notwithstanding anything to the contrary contained in this Plan, each Participant shall be fully vested in his Accrued Benefit as of February 29, 2008 and employment with the Employer after February 29, 2008 shall not be included in determining a Participant's Benefit Service."

**VII.**

**Add the following at the end of Section 8.02:**

"The Disability benefit of Participants who become disabled on or after February 29, 2008 will be equal to the Participant's Accrued Benefit as of February 29, 2008."

**VIII.**

**Amend Section 9.02 to read as follows:**

"The monthly death benefit payable under Section 9.01 to the beneficiary of a Participant shall be equal to (a) less (b) less (c), where:

- (a) is 36% of Average Monthly Compensation.
- (b) the amount of Estimated Social Security Benefit based on the 2008 Social Security law.
- (c) the death benefit attributable to Section 6.1(a)(4) of the Retirement Plan."

**IX.**

**Amend Section 9.04 to read as follows:**

" Subject to the provisions of Articles XIV and XV, the benefit shall commence as of the date on which the Participant would have reached the Normal Retirement Date applicable to the Participant, or date of death if later, for Participants with less than 10 years of Benefit Service at death, or the benefit shall commence as of the date on which the Participant would have attained age 55, or date of death if later, for Participants with more than 10 years of Benefit Service at death."

**X.**

**Amend Section 11.02(d) to read as follows:**

"In calculating the Lump Sum Payment due to any Active Participant under this Section, the Active Participant's age shall be deemed to equal his actual age plus 3 years; provided, however, that fewer than 3 years shall be added if the addition of fewer than 3 years would maximize an Active Participant's Lump Sum Payment.

**XI.**

**Add Section 12.03 to read as follows:**

"Each Participant as of May 1, 2008 shall have a one-time option during the period beginning on May 1, 2008 and ending June 13, 2008 ("Election Window") to elect to receive a lump sum payment to be made in early January, 2009. If a Participant dies during the Election Window and has not appropriately filed an election not to take a lump sum payment prior to the deceased Participant's death, the persons who become Participants on account of the Participant's death shall also have the one-time option during the remainder of the Election Window to elect to receive a lump sum payment, with respect to the benefit payable to such persons only.

The lump sum payment is the actuarial equivalent (as actuarial equivalence is defined below in this Section) of the Participant's anticipated annuity payments and an additional cash payment to assist with the tax immediately payable by the Participant. The Participant can make the lump sum payment election during the Election Window by initialing the lump sum option on an election form, dating and signing the form and delivering it to the Company during the Election Window. If the Participant is receiving benefits on May 1, 2008 and has a survivor annuity form of payment, the survivor annuitant must also consent to the lump sum payment election on the form. If the election form is not returned by the Participant during the Election Window or if the Participant does return the form but does not properly elect on the form to receive a lump sum payment, the Participant will only be eligible to receive in the future or to continue receiving, as the case may be, annuity based payments under the frozen Plan. The election made (or the failure to make an election) by the Participant on the first election form dated and signed by the Participant and returned to the Company is final and binding on and irrevocable and unamendable by the Participant, his estate, successors, beneficiaries and survivor annuitants.

If a Participant who is receiving annuity payments as of May 1, 2008 timely elects to receive a lump sum payment during the Election Window, the annuity payments will continue to the Participant, the Participant's survivor annuitant, if any, beneficiary, if any, estate or successors through the December 19, 2008 payment

whether or not the Participant survives through that date. The annuity payments will thereafter cease. The annuity payments that might otherwise become payable to anyone not receiving annuity payments as of May 1, 2008 shall be delayed until the earlier of the date the Participant (or those who become Participants on account of the Participant's death during the Election Window), appropriately files an election form on which no election to take a lump sum payment is made or until the expiration of the Election Window. If a Participant who was not receiving benefits on May 1, 2008 (or the persons who become Participants during the Election Window because of a Participant's death) timely files an election during the Election Window to take a lump sum payment, no annuity payments will be made and the Participant or such persons will receive only the lump sum payment in early January, 2009.

If an election to take a lump sum payment is timely filed during the Election Window, the lump sum payment will be made in early January, 2009 to Active Participants, Inactive Participants who are not receiving benefits as of May 1 2008 and Participants receiving retirement benefits whether or not the Participant survives through that date. If a Participant dies before the lump sum payment is made in early January, 2009, the lump sum payment will be made to the Participant's survivor annuitant, if any, the Participant's beneficiaries, if any, or to the Participant's estate or successors.

If the Participant appropriately elects a lump sum payment during the Election Window, (except as provided above in this Section regarding continuation of payments to Participants receiving annuity payments on May 1, 2008 and possibly in connection with a Change of Control as described below) no other payments will be made under any circumstances and neither the Participant nor the Participant's survivor annuitant, beneficiaries, estate or successors will receive any other annuity or other benefits otherwise provided for in the Plan in the event the Participant terminates employment, retires, dies or becomes disabled, whether before or after the lump sum payment is made.

Notwithstanding the other provisions of this First Amendment or any other provisions of the Plan, if the Participant appropriately elects a lump sum payment during the Election Window, there will not be a lump sum payment under Article XI of the Plan if a Change of Control occurs under Article XI unless (i) on or before December 31, 2008, an Effective Date, as defined in Section 11.01 of the Plan, occurs and (ii) the Participant becomes entitled to be paid a lump sum payment because of a Change of Control under the provisions of Article XI of the Plan and (iii) such lump sum is actually due, payable and not contingent on the occurrence of a later Change of Control under the terms of Article XI of the Plan on or before December 31, 2008. If the Participant is entitled to be paid a lump sum because of a Change of Control under the provisions of this paragraph, the Participant will not be entitled to any other lump sum payment in early January, 2009 so that under no circumstances shall there be a duplication of lump sum payments.

For Participants currently receiving payments, the lump sum payment was determined based on the current payment form. For Participants not receiving payments, the lump sum payment was determined based on a single life annuity. Active Participants are assumed to commence benefits at age 62 and Inactive Participants not receiving benefits are assumed to commence benefits at age 55 if the Participant had 10 years of Benefit Service at termination, otherwise at age 65. For purposes of determining the amount of the lump sum payment only, in the case of Active and Inactive Participants not receiving benefits, the Participant's age shall be deemed to equal his actual age plus 3 years; provided, however, that fewer than 3 years shall be added if the addition of fewer than 3 years would maximize a Participant's lump sum payment. For purposes of computing the lump sum amount, the Participant is deemed to be alive on the early January, 2009 lump sum payment date, except that if a person other than the Participant can make the lump sum election under the first paragraph of this Section, that person is deemed to be alive on the early January, 2009 lump sum payment date.

For this purpose only, actuarial equivalence is based upon an interest assumption of 6.0% and the RP-2000 Mortality Table (50% male, 50% female).

In determining the additional cash payment, the timing of taxation (current v. future), tax rate differentials (ordinary income v. tax-preferred capital gains and dividends), and expectations of future investment return rates were considered.

For Participants as of February 29, 2008, the following table contains the lump sum payment option amounts:

<b><u>"Personnel Number</u></b>	<b><u>Name</u></b>	<b><u>Lump Sum</u></b>
59164	Bowman, Nick	1,064,364
2679	Cole, Kenneth R.	988,420
25821	Conrad, C. Kenneth	428,828
59165	Cunningham, Marvin	1,526,479
25872	Dalrymple, Gyl	129,067
59200	Davis, Richard W	2,075,073
25148	Esler, Robert	327,608
59166	Finney, Ray	941,221
59167	Greer, Murray	701,420
25336	Hames, Harlin	605,606
25843	Hargrove R L	1,058,960
25881	LaGrone Harold	156,675
4500	Perleberg, Gary	121,858
59168	Perry, Harvey P	3,430,117
25100	Provance, W. F.	234,552
25806	Reppond, Jim D	1,607,771
25939	Robinson, Jack	550,557
25899	Smith, W P	775,426
56167	Williams, Mary Katherine	3,747,730
54827	Davis, Tony	127,952
2584	Hanks, W. Bruce	2,567,686
2715	Thiels, David G.	637,397
3095	Bailey, Garland	389,226
2870	Cole, David	2,372,743
4494	Davis, Craig	411,654
3277	Ewing, R.S.	2,381,202
5284	Goff, Stacey	997,204

10370	Hughes, Ivan	560,471
10111	Maslowski, Michael	1,014,126
2859	Post, Glen	11,926,166
52726	Puckett, Karen	2,485,672
2067	Ring, Duane	503,004
3189	Sweasy, Neil A	349,536
62016	Navarre, Debra	2,242,032"

**IN WITNESS WHEREOF** , CenturyTel has executed this Amendment on this 5<sup>th</sup> day of May, 2008.

CENTURYTEL, INC.

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



**SECOND AMENDMENT  
TO  
THE CENTURYTEL, INC.  
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN  
2008 RESTATEMENT**

**WHEREAS** , Section 20.02 permits CenturyTel, Inc. (the "Company") to amend the Plan; and

**WHEREAS** , at its meeting on December 19, 2007, the Compensation Committee recommended to the Board of Directors that it freeze the Plan as of February 29, 2008 and provide for a lump sum payment option in early 2009; and

**WHEREAS** , on February 26, 2008, the Board of Directors adopted a resolution approving the Compensation Committee's recommendation; and

**WHEREAS** , effective February 28, 2008, the Company adopted the First Amendment to the Plan ("First Amendment") to freeze the Plan and provide for the election of lump sum payments in early 2009; and

**WHEREAS** , some Participants and beneficiaries who are in pay status did not elect lump sums and will continue to receive annuities; and

**WHEREAS** , the Board of Directors also approved the transfer of any annuities to the CenturyTel, Inc. Supplemental Defined Benefit Plan ("SDBP"); and

**WHEREAS** , certain technical amendments need to be made to the Plan.

**NOW, THEREFORE** , the Plan is amended effective as of the dates specified below, as follows:

**I.**

**The following paragraph is added at the end of the Introduction effective December 31, 2008:**

Contemporaneously herewith, the Company has amended the CenturyTel, Inc. Supplemental Defined Benefit Plan ("SDBP"), a plan aggregated with this Plan pursuant to Treasury Regulation Section 1.409A-1(c)(2), to increase its liabilities and its Accrued Benefits so as to provide the annuity benefits to Participants who did not elect a lump sum that this Plan was otherwise scheduled to pay after December 31, 2008. Accordingly, this Plan is amended to reduce the Accrued Benefit and liability to each such annuitant by the amount of the annuity benefit to be paid from the SDBP.

**II.**

**The following sentence is added at the end of Section 2.01 as amended by the First Amendment, effective December 31, 2008:**

Notwithstanding the above, the Accrued Benefit of each Participant currently receiving annuities and who will not receive a lump sum shall be decreased by the amount of the Accrued Benefit liabilities assumed and payable by the SDBP after December 31, 2008.

**III.**

**Section 2.05A is added effective January 1, 2008, to read as follows:**

**2.05A "409A CHANGE IN CONTROL EVENT"** shall mean a Change in Control Event as defined in Treasury Regulations §1.409A-3(i)(5).

**IV.**

**Section 10.02 is amended and completely restated effective January 1, 2008, to read in its entirety as follows:**

**10.02** Participant's vested Accrued Benefit is computed as if it were payable at his Normal Retirement Date. If a Participant has not completed 10 or more years of Benefit Service on the date of his termination of employment, his Vested Accrued Benefit is payable at his Normal Retirement Date. If a Participant has attained age 55 and has completed 10 or more years of Benefit Service pursuant to Section 7.01, his benefit shall commence on the first day of the month coincident with or next following the date of termination of employment, reduced as provided in Section 7.04, 7.05 or 7.06, as applicable. If a Participant has completed 10 or more years of Benefit Service but has not attained age 55 as of the date of his termination of employment pursuant to Section 7.01, his benefit shall commence on the first day of the month coincident with or next following the date on which he attains age 55, reduced as provided in Section 7.04, 7.05 or 7.06. The provisions of this Section 10.02 are subject to the provisions of Articles XIV and XV.

**V.**

**Sections 11.01, 11.03 and 11.04 are amended and completely restated effective January 1, 2008, to read in their entirety as follows:**

**11.01** Notwithstanding anything to the contrary in this Plan or in any applicable law or regulation, upon the occurrence of a Change in Control (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 409A Change in Control Event any Participant who is then employed by CenturyTel, Inc. 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, during a period commencing upon the Effective Date and ending on the second anniversary of the occurrence of the 409A Change in Control Event, the Active Participant voluntarily or involuntarily separates from service ("Termination"). The lump sum cash payment payable to Active Participants under this Section (the "Lump Sum Payment") shall be paid on the date of Termination, subject to the provisions of Articles XIV and XV.

**11.03** Notwithstanding anything to the contrary in this Plan, upon the occurrence of a 409A Change in Control Event, each Participant who has already begun to receive periodic payments under this Plan ("Retired 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 equal to the present value of the Participant's future stream of payments which would otherwise be payable under this Plan. Such lump sum payment shall be paid on the first day of the month following the date of the 409A Change in Control Event. The Company shall offer to assist such Participant in purchasing at such Participant's cost an annuity for the benefit of such Participant.

**11.04** Notwithstanding anything to the contrary in this Plan, upon the occurrence of a 409A Change in Control Event, any Participant (other than a Retired Participant) who is then a former employee of the Company 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 Section 11.02(b) or (c), as applicable; provided, however, that no Inactive Participant will be entitled to the benefits of Section 11.02(d). Such lump sum payment shall be paid on the first day of the month following the date of a 409A Change in Control Event.

## **VI.**

**The Third paragraph of Section 12.03 as added by the First Amendment is amended effective December 31, 2008, to read as follows:**

If a Participant who is receiving annuity payments as of May 1, 2008 timely elects to receive a lump sum payment during the Election Window, the annuity payments will continue to the Participant; the Participant's survivor annuitant, if any; beneficiary, if any; estate or successors through the December 19, 2008 payment only, whether or not the Participant survives through that date, unless the continuation of such payments in 2008 does not satisfy the requirements of §3.02 of Notice 2006-79, as amended by §3 of Notice 2007-86 ("Notices"), in which case the payments will cease at the Participant's death. The annuity payments that might otherwise become payable to any Participant not receiving annuity payments as of May 1, 2008 shall be delayed until the earlier of the date the Participant (or those who become Participants on account of the Participant's death during the Election Window), appropriately files an election form on which no election to take a lump sum payment is made or until the expiration of the Election Window. If a Participant who was not receiving benefits on May 1, 2008 (or the persons who become Participants during the Election Window because of a Participant's death) timely files an election during the Election Window to take a lump sum payment, no annuity payments will be made and the Participant (or such persons) will receive only the lump sum payment in early January, 2009, unless annuity payments in 2008 are required by the Notices, in which case the 2008 amounts only shall be paid.

## **VII.**

**The Fifth paragraph of Section 12.03 as added by the First Amendment is amended effective December 31, 2008, to read as follows:**

If the Participant appropriately elects a lump sum payment during the Election Window (except as provided above in this Section regarding the possible continuation of payments to Participants receiving annuity payments on May 1, 2008 and possibly in connection with a Change of Control as described below), no other payments will be made under any circumstances and neither the Participant nor the Participant's survivor annuitant, beneficiaries, estate or successors will receive any other annuity or other benefits otherwise provided for in the Plan in the event the Participant terminates employment, retires, dies or becomes disabled, whether before or after the lump sum payment is made, unless payments that otherwise would have been made in 2008 are required by the Notices, in which case such payments shall be paid in 2008.

## **VIII.**

**Section 12.03 as added by the First Amendment is amended to delete all references to the term "Change of Control" in such Section 12.03 and replace such references with the term "409A Change in Control Event," effective December 31, 2008.**

## **IX.**

**Section 12.04 is added effective December 31, 2008, to read as follows:**

**12.04** Any annuities that have been paid by this Plan and that may become payable by the SDBP after December 31, 2008 can be paid bi-weekly rather than monthly provided that the bi-weekly annuities are the Actuarial Equivalent of the monthly annuities.

## **X.**

**Section 20.01(b) is amended effective January 1, 2008, to read as follows:**

(b) Within the 30 days preceding or the 12 months following a 409A Change in Control Event, provided that Treasury Regulations §1.409A-3(j)(4)(ix)(B) is complied with.

**IN WITNESS WHEREOF**, CenturyTel has executed this Amendment on this 24<sup>th</sup> day of October, 2008.

CENTURYTEL, INC.

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

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

**FIRST AMENDMENT TO  
THE CENTURYTEL, INC.  
SUPPLEMENTAL DOLLAR & SENSE PLAN,  
2008 RESTATEMENT  
EFFECTIVE JANUARY 1, 2008**

**WHEREAS**, Section 5.03 of this Plan provides that if a Participant has made a deferral election under Section 5.01 but does not make a new election for the succeeding Plan Year, his elections in effect for the current Plan Year continue in force and effect as if made for the succeeding Plan Year; and

**WHEREAS**, the Plan should provide that unless a deferral election is made prior to the first day of each Plan Year with respect to Excess Salary or on or before June 30 of a calendar year performance period, with respect to Incentive Compensation, no deferral will be permitted for such Plan Year.

**NOW, THEREFORE** , the Plan is amended effective January 1, 2008 as follows:

Delete Section 5.03 and insert the following in lieu thereof:

**5.03** . If a Participant does not make new elections for a succeeding Plan Year under Section 5.01, he will not be able to defer any Excess Salary or Incentive Compensation for such succeeding Plan Year.

**IN WITNESS WHEREOF** , CenturyTel, Inc. has executed this Amendment on the 20<sup>th</sup> day of November, 2008.

CENTURYTEL, INC.

By: /s/ R. Stewart Ewing, Jr. \_\_\_\_\_  
R. Stewart Ewing, Jr.  
Executive Vice President and  
Chief Financial Officer

**FIRST AMENDMENT  
TO  
THE CENTURYTEL, INC.  
SUPPLEMENTAL DEFINED BENEFIT PLAN  
2008 RESTATEMENT**

**WHEREAS** , Section 18.02 permits CenturyTel, Inc. (the “Company”) to amend the Plan; and

**WHEREAS** , at its meeting on December 19, 2007, the Compensation Committee recommended to the Board of Directors that it freeze the CenturyTel, Inc. Supplemental Executive Retirement Plan (“SERP”) as of February 29, 2008 and provide for a lump sum payment option in early 2009; and

**WHEREAS** , on February 26, 2008, the Board of Directors adopted a resolution approving the Compensation Committee's recommendation; and

**WHEREAS** , effective February 28, 2008, the Company adopted the First Amendment to the SERP (“First Amendment”) to freeze the SERP and provide for the election of lump sum payments from the SERP in early 2009; and

**WHEREAS** , some Participants and beneficiaries who are in pay status did not elect lump sums from the SERP and will continue to receive annuities; and

**WHEREAS** , the Board of Directors also approved the transfer of any annuities payable under the SERP to the Plan; and

**WHEREAS** , the Board of Directors has approved changes regarding the impact of a change of control of the Company on the Plan.

**NOW, THEREFORE** , the Plan is amended effective as of the dates specified below, as follows:

**I.**

**The following paragraph is added at the end of the Introduction effective as of December 31, 2008:**

Contemporaneously herewith, the Company has amended the CenturyTel, Inc. Supplemental Executive Retirement Plan (“SERP”), a plan aggregated with this Plan pursuant to Treasury Regulation Section 1.409A-1(c)(2), to eliminate any annuity benefits that the SERP was otherwise scheduled to pay after December 31, 2008 to Participants in the SERP who did not elect a lump sum, and to transfer the obligation to pay such annuities to this Plan. Accordingly, this Plan is amended to increase the amount of annuity benefits to be paid from this Plan by the amount of annuity benefits being assumed by it from the SERP after December 31, 2008.

**II.**

**New Section 2.03A is added effective January 1, 2008, to read as follows:**

**2.03A “409A CHANGE IN CONTROL EVENT”** shall mean a Change in Control Event as defined in Treasury Regulations §1.409A-3(i)(5).

**III.**

**New Section 2.01A is added effective October 24, 2008, to read as follows:**

**2.01A “AFFILIATE”** (and variants thereof) shall mean a person or entity that controls, or is controlled by, or is under common control with, another specified person or entity, either directly or indirectly.

**IV.**

**New Section 2.02A is added effective October 24, 2008, to read as follows:**

**2.02A “CAUSE” (a)** “Cause” shall mean:

- (i) conviction of a felony;
- (ii) habitual intoxication during working hours;
- (iii) habitual abuse of or addiction to a controlled dangerous substance; or

(iv) the willful and continued failure of the Participant to substantially perform the Participant’s duties with the Company or its Affiliates (other than any such failure resulting from incapacity due to physical or mental illness or the Participant’s termination of employment for Good Reason) for a period of 15 days after a written demand for substantial performance is delivered to the Participant by the Board of Directors of the Company (“Board”) which specifically identifies the manner in which the Board believes that the Participant has not substantially performed the Participant’s duties.

(b) For purposes of this Section 2.02A, no act or failure to act on the part of the Participant shall be considered “willful” unless it is done, or omitted to be done, by the Participant in bad faith and without reasonable belief that the Participant’s action or omission was in the best interests of the Company or its Affiliates. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board or upon the instructions of a senior officer of the Company or based upon the advice of counsel for the Company or its Affiliates shall be conclusively presumed to be done, or omitted to be done, by the Participant in good faith and in the

best interests of the Company or its Affiliates. Any termination by the Company or any of its Affiliates of the Participant's employment shall not be deemed to be for Cause unless the Participant's action or inaction meets the foregoing standard and until there shall have been delivered to the Participant a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Participant and the Participant is given an opportunity, together with counsel, to be heard before the Board), finding that, in the good faith opinion of the Board, the Participant is guilty of the conduct described in subparagraph (a) above, and specifying the particulars thereof in detail.

(c) No action or inaction shall be deemed the basis for Cause unless the Participant is terminated therefor within 120 days after such action or omission is known to the Chief Executive Officer of the Company.

(d) In the event that the existence of Cause shall become an issue in any action or proceeding between the Company and the Participant, the Company shall, notwithstanding the finding of the Board referenced above, have the burden of establishing that the actions or inactions deemed the basis for Cause did in fact occur and do constitute Cause and that the Company has satisfied the procedural requirements of this provision. The satisfaction of the Company's burden shall require clear and convincing evidence. Any purported termination of employment of the Participant by the Company which does not meet each and every substantive and procedural requirement of this provision shall be treated for all purposes under this Plan as a termination of employment without Cause.

## V.

**New Section 2.09A is added effective October 24, 2008, to read as follows:**

**2.09A "ELIGIBLE TERMINATION"** shall mean a termination of an Active Participant's (as defined in Section 10.03(a)) employment by the Company or its Affiliates other than for Cause, death or Disability, or a voluntary termination of employment by an Active Participant for Good Reason, provided that either of such terminations occur within three years after a Change in Control.

## VI.

**New Section 2.12A is added effective October 24, 2008, to read as follows:**

**2.12A "GOOD REASON"** shall mean Good Reason as defined in the Participant's Change of Control Agreement.

## VII.

**Section 10.03(a) is amended and restated effective October 24, 2008 to read as follows:**

**10.03 (a)** Notwithstanding anything to the contrary in this Plan or in any applicable law or regulation, upon the occurrence of a Change in Control (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 the Company or its subsidiaries ("Active Participants") shall, if the Change in Control is a 409A Change in Control Event, 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 during a period commencing upon the Effective Date and ending on the second anniversary of the occurrence of the 409A Change in Control Event, the Active Participant voluntarily or involuntarily separates from service ("Termination"). The lump sum cash payment payable to Active Participants under this Section (the "Lump Sum Payment") shall be paid on the first day of the month following the date of Termination, subject to the provisions of Articles XII and XIII.

## VIII.

**Section 10.03(b)(iv) is amended and restated effective October 24, 2008 to read as follows:**

(iv) In calculating the payment due to any Active Participant under this Section who has incurred an Eligible Termination, 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 an 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.

## IX.

**Sections 10.03(c) and (d) are amended and restated effective October 24, 2008 to read as follows:**

(c) Notwithstanding anything to the contrary in this Plan, upon the occurrence of a 409A Change in Control Event, each Participant who has already begun to receive periodic payments under this Plan ("Retired 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 equal to the present value of the Participant's future stream of payments which would otherwise be payable under this Plan. Such lump sum payment shall be paid on the first day of the month following the date of the 409A Change in Control Event. 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 409A Change in Control Event, any Participant (other than a Retired Participant) who is then a former employee of the Company 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). Such lump sum payment shall be paid on the first day of the month following the date of the 409A Change in Control Event.

**X.**

**New Section 10.03(e) is added effective October 24, 2008, to read as follows:**

(e) Notwithstanding anything to the contrary in this Plan, if an Active Participant incurs an Eligible Termination: (i) on or before the second anniversary of a Change in Control that does not constitute a 409A Change in Control Event, or (ii) after the second anniversary of a Change in Control but on or before the third anniversary of a Change in Control, such Participant shall not be entitled to a Lump Sum Payment pursuant to Section 10.03(a); however, in calculating such Participant's normal, early or late retirement benefit, disability benefit, or death benefit pursuant to Articles IV through VIII, such Participant shall receive an enhanced benefit as a result of age and years of Benefit Service credits, determined in a manner equivalent to that set forth in Section 10.03(iv), but assuming annuity rather than lump sum payments where applicable.

**XI.**

**Article 11A.01 is added to read as follows effective as of October 31, 2008:**

**11A.01** Each of the following Participants who were receiving annuity payments under the SERP prior to January 1, 2009 shall receive the following bi-weekly benefits from the Plan in the following forms of payment, beginning with the first payroll period ending after December 31, 2008, and the Plan hereby assumes the obligation for such annuity payments:

<u>Personnel Number</u>	<u>Name</u>	<u>Bi-weekly Benefit</u>	<u>Form of Payment</u>
59164	Bowman, Nick	2,365.75	15-year Certain & Life Annuity
2679	Cole, Kenneth R.	2,245.33	100% Joint & Survivor
25821	Conrad, C. Kenneth	1,555.91	100% Joint & Survivor
59165	Cunningham, Marvin	2,544.86	100% Joint & Survivor
25872	Dalrymple, Gyl	426.72	Single Life Annuity
59200	Davis, Richard W	3,899.00	50% Joint & Survivor
25148	Esker, Robert	1,404.26	67% Joint & Survivor
59166	Finney, Ray	1,823.64	67% Joint & Survivor
59167	Greer, Murray	1,392.36	50% Joint & Survivor
25843	Hargrove, R L	4,457.97	Single Life Annuity
4500	Perleberg, Gary	221.80	100% Joint & Survivor
25100	Provance, W. F.	893.11	Single Life Annuity
25806	Reppond, Jim D	4,299.64	Single Life Annuity
25939	Robinson, Jack	1,955.99	50% Joint & Survivor
25899	Smith, W P	3,905.72	50% Joint & Survivor

The bi-weekly benefit payable under this Section shall be increased annually to reflect increases in cost of living at a rate of 3% per annum. This increase shall take effect January 1 of each year on the benefit in pay status beginning January 1, 2010. The 3% annual increase is not applicable to personnel number 2679, Kenneth R. Cole.

Payments pursuant to this Section 11A.01: (i) shall be in addition to any other payments pursuant to the Plan; (ii) shall be subject to acceleration as outlined in the Plan (in circumstances including but not limited to those set forth in Section 10.03(c)); and (iii) shall not be increased as a result of a Change in Control.

**XII.**

**Section 18.01(b) is amended and restated effective January 1, 2008 to read as follows:**

**18.01 (b)** Within the 30 days preceding or the 12 months following a 409A Change in Control Event provided that Treasury Regulations §1.409A-3(j)(4)(ix)(B) is complied with.

**IN WITNESS WHEREOF** , CenturyTel has executed this Amendment on this 24<sup>th</sup> day of October, 2008.

CENTURYTEL, INC.

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

**CenturyTel, Inc.**  
**RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**  
**(UNAUDITED)**

	Year ended December 31,		
	2008	2007	2006
	(Dollars in thousands)		
Net income	\$ 365,732	418,370	370,027
Income taxes	194,357	200,572	221,122
Pre-tax income	560,089	618,942	591,149
Adjustments to earnings:			
Fixed charges	204,872	214,775	198,479
Capitalized interest	(2,409)	(1,278)	(1,905)
Preferred stock dividends	(246)	(591)	(617)
Gross earnings from unconsolidated cellular partnership	(12,044)	(14,578)	(5,861)
Distributed earnings from unconsolidated cellular partnership	15,960	10,229	-
Earnings, as adjusted	<u>\$ 766,222</u>	<u>827,499</u>	<u>781,245</u>
Fixed charges:			
Interest expense	\$ 202,217	212,906	195,957
Interest capitalized	2,409	1,278	1,905
Preferred stock dividends (pre-tax)	246	591	617
Total fixed charges	<u>\$ 204,872</u>	<u>214,775</u>	<u>198,479</u>
Ratio of earnings to fixed charges and preferred stock dividends	<u>3.74</u>	<u>3.85</u>	<u>3.94</u>



CENTURYTEL, INC.  
SUBSIDIARIES OF THE REGISTRANT  
AS OF DECEMBER 31, 2008

<u>Subsidiary</u>	<u>State of incorporation or formation</u>
Actel, LLC	Delaware
Cajun Acquisition Company	Louisiana
Century Marketing Solutions, LLC	Louisiana
CenturyTel Acquisitions, LLC	Louisiana
CenturyTel Arkansas Holdings, Inc.	Arkansas
CenturyTel Fiber Company II, LLC	Louisiana
CenturyTel Holdings, Inc.	Louisiana
CenturyTel Holdings Alabama, Inc.	Alabama
CenturyTel Holdings Missouri, Inc.	Missouri
CenturyTel Broadband Services, LLC	Louisiana
CenturyTel Broadband Wireless, LLC	Louisiana
CenturyTel Investments, LLC	Louisiana
CenturyTel Investments of Texas, Inc.	Delaware
CenturyTel Long Distance, LLC	Louisiana
CenturyTel Midwest - Michigan, Inc.	Michigan
CenturyTel of Adamsville, Inc.	Tennessee
CenturyTel of Alabama, LLC	Louisiana
CenturyTel of Arkansas, Inc.	Arkansas
CenturyTel of Central Arkansas, LLC	Arkansas
CenturyTel of Central Indiana, Inc.	Indiana
CenturyTel of Central Louisiana, LLC	Louisiana
CenturyTel of Central Wisconsin, LLC	Delaware
CenturyTel of Chatham, LLC	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, LLC	Louisiana
CenturyTel of Eastern Oregon, Inc.	Oregon
CenturyTel of Evangeline, LLC	Louisiana
CenturyTel of Fairwater-Brandon-Alto, LLC	Delaware
CenturyTel of Forestville, LLC	Delaware
CenturyTel of Idaho, Inc.	Delaware
CenturyTel of Inter Island, Inc.	Washington
CenturyTel of Lake Dallas, Inc.	Texas
CenturyTel of Larsen-Readfield, LLC	Delaware
CenturyTel of Michigan, Inc.	Michigan
CenturyTel of Minnesota, Inc.	Minnesota
CenturyTel of Missouri, LLC	Louisiana
CenturyTel of Monroe County, LLC	Wisconsin
CenturyTel of Montana, Inc.	Oregon
CenturyTel of Mountain Home, Inc.	Arkansas
CenturyTel of North Louisiana, LLC	Louisiana
CenturyTel of North Mississippi, Inc.	Mississippi
CenturyTel of Northern Michigan, Inc.	Michigan
CenturyTel of Northern Wisconsin, LLC	Delaware
CenturyTel of Northwest Arkansas, LLC	Delaware
CenturyTel of Northwest Louisiana, Inc.	Louisiana
CenturyTel of Northwest Wisconsin, LLC	Delaware
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, LLC	Louisiana
CenturyTel of San Marcos, Inc.	Texas
CenturyTel of South Arkansas, Inc.	Arkansas
CenturyTel of Southeast Louisiana, LLC	Louisiana
CenturyTel of Southern Wisconsin, LLC	Louisiana
CenturyTel of Southwest Louisiana, LLC	Louisiana
CenturyTel of the Gem State, Inc.	Idaho
CenturyTel of the Midwest-Kendall, LLC	Delaware
CenturyTel of the Midwest-Wisconsin, LLC	Delaware
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, LLC	Louisiana
CenturyTel of Wyoming, Inc.	Wyoming
CenturyTel Security Systems Holding Company, LLC	Louisiana
CenturyTel Service Group, LLC	Louisiana
CenturyTel Solutions, LLC	Louisiana
CenturyTel Supply Group, Inc.	Louisiana
CenturyTel TeleVideo, Inc.	Louisiana
CenturyTel/Televue of Wisconsin, Inc.	Wisconsin
Coastal Long Distance Services, LLC	Georgia
Coastal Utilities, Inc.	Georgia
Gallatin River Communications, LLC	Delaware
Gulf Communications, LLC	Delaware
Gulf Long Distance, LLC	Alabama
Gulf Telephone Company	Alabama
Madison River Communications Corp.	Delaware
Madison River Communications, LLC	Delaware
Madison River Long Distance Solutions, LLC	Delaware
Mebtel, Inc.	North Carolina
Mebtel Long Distance Solutions, LLC	North Carolina
Spectra Communications Group, LLC	Delaware
Telephone USA of Wisconsin, LLC	Delaware

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.

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors

CenturyTel, Inc.:

We consent to incorporation by reference in the Registration Statements (No. 333-91361 and No. 333-157188) on Form S-3, the Registration Statements (No. 33-60061, No. 333-37148, No. 333-60806, No. 333-150157, No. 333-124854 and No. 333-150188) on Form S-8, and the Registration Statements (No. 33-48956, No. 333-17015 and No. 333-155521) on Form S-4 of CenturyTel, Inc. of our reports dated February 27, 2009, with respect to the consolidated balance sheets of CenturyTel, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2008, and related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2008, which reports appear in the December 31, 2008 annual report on Form 10-K of CenturyTel, Inc.

Our report on the consolidated financial statements includes an explanatory paragraph regarding CenturyTel, Inc.'s change in the method of accounting for uncertain tax positions in 2007 and share-based payments and pension and postretirement benefits in 2006.

/s/ KPMG LLP

February 27, 2009

## CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of CenturyTel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter of 2008) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2009

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

## CERTIFICATIONS

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

1. I have reviewed this annual report on Form 10-K of CenturyTel, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15 (e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter of 2008) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 27, 2009

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

**CenturyTel, Inc.**

February 27, 2009

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Re: CenturyTel, Inc.  
Certification of Contents of Form 10-K for the year ending December 31, 2008  
pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Ladies and Gentlemen:

The undersigned, acting in their capacities as the Chief Executive Officer and the Chief Financial Officer of CenturyTel, Inc. (the "Company"), certify that the Form 10-K for the year ended December 31, 2008 of the Company fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and that the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods covered by such report.

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

Very truly yours,

/s/ Glen F. Post, III

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

/s/ R. Stewart Ewing, Jr.

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