## BASS, BERRY & SIMS PLC

ATTORNEYS AT LAW

DOWNTOWN OFFICE AMSOUTH CENTER

KNOXVILLE OFFICE 900 SOUTH GAY STREET, SUITE 1700 KNOXVILLE, TN 37902 (865) 521-6200

MEMPHIS OFFICE THE TOWER AT PEABODY PLACE 100 PEABODY PLACE, SUITE 950 MEMPHIS, TN 38103-2625 (901) 543-5900

AMSOUTH CENTER 2005 MAR 30 PM 3: 2 MASHVILLE, TN 37238-3001 NASHVILLE, TN 37238-3001

(615) 742-6200

TRA DOCKET ROOM MUSIC ROW OFFICE MUSIC SQUARE EAST NASHVILLE, TN 37203-4322 (615) 255-6161

www.bassberry.com

March 30, 2005

HAND DELIVER

Mr. Pat Miller Chairman Tennessee Regulatory Authority 460 James Robertson Parkway Nashville, Tennessee 37243

Joint Request of KMC Telecom III LLC and CenturyTel Acquisition, Re:

LLC

Dear Mr. Miller:

Enclosed for filing with the Tennessee Regulatory Authority are one original and five copies of the Joint Request for Approval to Transfer Authority to Provide Telecommunications Services and To Sell Assets of KMC Telecom III LLC and CenturyTel Acquisition, LLC, as well as a disc containing an electronic version of this filing in .pdf format. Also enclosed is our firm check in the amount of \$50.00 in payment of the filing fee.

Please date-stamp the enclosed extra copy and return it to our courier.

Please do not hesitate to contact me if you have any questions concerning this filing.

Very truly yours,

George H. Masterson

GHM/

**Enclosures** 

cc:

Hon. Sara Kyle (w/o enclosures)

Hon. Ron Jones (w/o enclosures)

Hon. Debi Tate (w/o enclosures)

Timothy C. Phillips, Esq. (w/ enclosures)

Richard Collier, Esq. (w/o enclosures)

Darlene Stanley (w/o enclosures)

Richard R. Cameron, Esq. (w/ enclosures)

Melissa S. Conway, Esq. (w/ enclosures)

R. Dale Grimes (w/o enclosures)

## BEFORE THE TENNESSEE REGULATORY AUTHORITY

KMC Telecom III LLC	)
AND	)
CenturyTel Acquisition LLC	) DOCKET NO
IN RE: Joint Request for Approval to	)
Transfer Authority to Provide	)
Telecommunication Services and to	)
Sell Assets	)
	,

# JOINT REQUEST FOR APPROVAL TO TRANSFER AUTHORITY TO PROVIDE TELECOMMUNICATION SERVICES AND TO SELL ASSETS

KMC Telecom III LLC (the "KMC Petitioner") and CenturyTel Acquisition LLC ("CenturyTel Acquisition") ("KMC Petitioner" and "CenturyTel Acquisition" hereinafter collectively called the "Petitioners"), by their undersigned counsel and pursuant to Section 65-4-113 of Tennessee Code Annotated hereby request approval from the Tennessee Regulatory Authority ("Authority") to transfer authority to provide telecommunication services and to sell assets related to the KMC Petitioner's competitive local exchange telecommunications service to CenturyTel Acquisition.

On February 2, 2005, KMC Telecom Holdings, Inc. ("KMC" Holdings"), the KMC Petitioner, certain other affiliates of KMC Holdings (the "Other KMC Entities") ("KMC Holdings," the "KMC Petitioner" and the "Other KMC Entities" collectively called, "KMC") and CenturyTel Acquisition entered into an Asset Purchase Agreement (the "Purchase Agreement") under which CenturyTel Acquisition agreed to acquire metropolitan area network transmission and switching facilities of the KMC Petitioner used to provide telecommunications services, as well as the KMC Petitioner's customer accounts in Chattanooga, Tennessee, together with similar assets of KMC in (i) Alabama; (ii) Indiana; (iii) Kansas; (iv) Louisiana; (v)

Michigan; (vi) Minnesota; (vii) Mississippi; (viii) Ohio; (ix) Texas; and (x) Wisconsin.

Attachment A is a map which shows the existing networks of CenturyTel, Inc.'s local exchange and competitive subsidiaries and KMC. The proposed transactions would cause no interruption in service to customers. No existing service would be discontinued, reduced or impaired as a result of the sale of these assets. Furthermore, this transaction will not affect rates for any services being provided to customers in Tennessee.

To accomplish this sale, the Petitioners further request pursuant to Section 1220-4-2-56 of the Rules of the Tennessee Regulatory Authority that the Authority grant such authority as may be necessary or required, including a waiver of the Authority's rules governing the changes to a customer's telecommunications provider. The Petitioners will comply with contractual notice requirements contained in the KMC Petitioner's customer contracts and, in addition, the notice and certification requirements applicable to transfers of carrier customer bases found in Section 64.1120(e) of the Federal Communications Commission's ("FCC's") rules, 47 C.F.R.§ 64.1120(e). Thus, compliance with state rules would cause customers to receive additional, redundant notices that could cause customer confusion. Further, if the Petitioners were unable as a result to comply with the state rules, individual customers could risk interruptions to their telecommunications services. This rule ensures that all customers receive advance notice of the planned transfer and any potential impact (none in this case) on their telecommunications services. Pursuant to TRA Rule 1220-4-2-56(2)(d), the Petitioners also request that the Authority approve the form of letter notifying customers of the KMC Petitioner of the transfer of services in the form attached hereto as Attachment B.

The Petitioners urgently need to complete the proposed transaction described below on or before June 30, 2005. Accordingly, the Petitioners respectfully request that the

Authority approve this application as expeditiously as possible in order to allow the Petitioners to consummate the proposed transaction by that date.

In support of this petition, the Petitioners submit the following information:

### A. General Information regarding Petitioners

### 1. Name, Address and Telephone Number of Each Petitioner:

KMC Telecom III LLC 1545 Route 206, Suite 300 Bedminster, New Jersey 07921 (908) 470-2100

CenturyTel Acquisition LLC 100 Century Park Drive Monroe, LA 71203 (318) 388-9000

### 2. Description of Petitioners:

The KMC Petitioner is a limited liability company organized under the laws of the State of Delaware. CenturyTel Acquisition is a limited liability company organized under the laws of the State of Louisiana. Attached hereto as Attachments C and D are copies of CenturyTel's Articles of Organization and Authority to Transact Business in Tennessee, respectively. CenturyTel Acquisition will do business in Tennessee under the names "CenturyTel Solutions" and "LightCore, a CenturyTel Company" both of which are derived from the names of affiliates of CenturyTel Acquisition.

The KMC Petitioner is a competitive local exchange carrier ("CLEC") providing a full range of telecommunications information services to carriers and enterprise customers within Tennessee. These services include local exchange, interexchange, switched and special access services, data transmission, and Internet access. The Authority has previously entered orders granting the KMC Petitioner certification to operate as a CLEC, copies of which are

attached hereto as <u>Attachment E</u>. The Tennessee assets being sold to CenturyTel Acquisition by the KMC Petitioner serve approximately 100 Tennessee customers.

CenturyTel Acquisition is a wholly-owned, subsidiary of CenturyTel, Inc., a Louisiana corporation, the stock of which is listed in the New York Stock Exchange.

# 3. Legal Counsel to Whom Correspondence Concerning the Application Is To Be Addressed:

### For Transferor:

Brad E. Mutschelknaus Melissa S. Conway Kelley Drye & Warren LLP 1200 19<sup>th</sup> Street, NW, Suite 500 Washington, DC 20036 (202) 955-9600

### Copy To:

Marva Brown Johnson KMC Telecom Holdings, Inc. 1755 North Brown Road Lawrenceville, Georgia 30043 (678) 985-6220

### For Transferee:

R. Dale Grimes
George H. Masterson
J. Davidson French
Bass, Berry & Sims PLC
Suite 2700
315 Deaderick Street
Nashville, Tennessee 37238
(615) 742-6200

### **Copies To:**

Stacey W. Goff
Senior Vice President, General Counsel & Secretary
CenturyTel, Inc.
100 Century Park Drive
Monroe, Louisiana 72103
(318) 388-9000

Richard R. Cameron Manu Gayatrinath Latham & Watkins LLP 555 Eleventh Street N.W., Suite 1000 Washington, D.C. 20004 (202) 637-2200

Daniel A. Davis Senior Vice President & General Counsel LightCore, a CenturyTel Company 14567 N. Outer Forty Road, Ste. 500 Chesterfield, MO 63017 (314) 253-6608

### **B.** Description of Transaction

On February 2<sup>nd</sup>, 2005, KMC Holdings, the KMC Petitioner, the Other KMC Entities and CenturyTel Acquisition entered into the Purchase Agreement, under which KMC agreed to transfer to CenturyTel Acquisition the assets identified in the Purchase Agreement, including almost 1,000 route miles of lit fiber optic metropolitan area network facilities, associated telecommunications switching equipment, customer accounts, certain employees, accounts receivable, inventory, intellectual property, and real property interests, in sixteen second- and third-tier markets, specifically: (i) Ann Arbor, Michigan; (ii) Baton Rouge, Louisiana; (iii) Chattanooga, Tennessee; (iv) Corpus Christi, Texas; (v) Eden Prairie, Minnesota; (vi) Fort Wayne, Indiana; (vii) Huntsville, Alabama; (viii) Lansing, Michigan; (ix) Long View, Texas; (x) Madison, Wisconsin; (xi) Biloxi/Gulfport, Mississippi; (xii) Montgomery, Alabama; (xiii) Topeka, Kansas; (xiv) Akron, Ohio; (xv) Dayton, Ohio; and (xvi) Toledo, Ohio. In addition, CenturyTel Acquisition will also acquire a network operations center ("NOC") in

In a separate but related transaction, Telcove, Inc., and certain of its affiliates are acquiring similar assets from the KMC Petitioners and the Other KMC Entities in the 21 remaining markets, namely: Augusta and Savannah, Georgia; Columbia, Charleston and Spartanburg, South Carolina; Daytona Beach, Ft. Myers, Greater Pinellas, Melbourne, Pensacola, Sarasota and Tallahassee, Florida; Fayetteville, Greensboro, Hickory, Wilmington and Winston-Salem, North Carolina; Hampton Roads and Roanoke, Virginia; Bethesda/Frederick/Rockville, Maryland; and, Bristol/Johnson City/Kingsport (Tri-Cities), Tennessee.

Huntsville, Alabama that supports multiple markets. CenturyTel Acquisition will also acquire the right, at its option, to change its name to "KMC Telecom III LLC" and to use the KMC Access Carrier Name Abbreviation ("ACNA") code. In consideration for these KMC assets, CenturyTel Acquisition will pay to KMC \$65,000,000, subject to purchase price adjustments at the time of closing.

As shown on the map in <u>Attachment A</u>, although affiliates of CenturyTel, Inc. and the KMC Petitioner both serve areas within markets in the same regions, there is no geographical overlap between the incumbent LEC assets of CenturyTel, Inc. and its affiliates and the assets of the KMC Petitioner that CenturyTel Acquisition will acquire in this transaction.

In Tennessee, the KMC Petitioner owns assets and operates as a CLEC in Chattanooga and in the Tri-Cities area (Kingsport, Bristol and Johnson City). Pursuant to the Purchase Agreement, the KMC Petitioner will transfer to CenturyTel Acquisition, and CenturyTel Acquisition will acquire, all of the KMC Petitioner assets, including customer accounts, in Chattanooga.<sup>2</sup>

The Petitioners anticipate that this transaction will be transparent to the KMC Petitioner's customers. The proposed transfer of the KMC Petitioner's assets to CenturyTel Acquisition would cause no interruption in service to customers. No existing service would be

Although the only Tennessee assets being acquired by CenturyTel Acquisition from the KMC Petitioner are in the Chattanooga, Tennessee market, pursuant to a separate but related transaction, the KMC Petitioner's assets and customers located in the Tri-Cities area will be transferred to TelCove of Nashville, L.P. The transfer of assets from the KMC Petitioner to Telcove of Nashville, L.P. is the subject of a separate petition filed with the Authority on March 15, 2005 (Docket No. 05-00076) (the "Telcove Petition"). Upon the approval of the transfer of the KMC Petitioner's certification and its assets pursuant to this petition and the approval of the transfers described in the Telcove Petition, the KMC Petitioner will no longer have any certification to operate in Tennessee. However, the operations of KMC Telecom V, Inc. and KMC Data, LLC, affiliates of the KMC Petitioner, will not be affected by the transactions that are the subject of this Petition and KMC Telecom V, Inc. and KMC Data, LLC will continue to provide service to their respective customers in Tennessee pursuant to their existing authorizations.

discontinued, reduced or impaired as a result of the transfer of these assets. Furthermore, this transaction will not affect rates for any services being provided to customers in Tennessee.

### C. Public Interest Concerns

1. The Transaction Will Serve the Public Interest, Convenience, and Necessity, Including Any Additional Information that May Be Necessary to Show the Effect of the Proposed Transaction on Competition in Domestic Markets:

The proposed transaction would serve the public interest, convenience, and necessity in Tennessee. *First*, the transaction will give customers served by KMC's metropolitan area network facilities access to the complementary, extensive regional long-haul fiber optic network operated by CenturyTel, Inc.'s affiliate, Lightcore. Lightcore's network covers more than 10,000 route miles spanning 15 states in the central United States, connecting points in or near many of the markets in which KMC's facilities are located.

Second, the transaction will strengthen and enhance competition in Tennessee. This acquisition would put CenturyTel, Inc.'s managerial, technical, and financial resources to work to ensure continued delivery and improvement of the services provided to KMC's customers. Attached hereto as <a href="Attachment F">Attached hereto as Attachment F</a> are brief biographies of the CenturyTel, Inc. and CenturyTel Acquisition employees who will be primarily involved in the management of the assets being acquired from the KMC Petitioner.

Third, there will be no countervailing public interest harms. The planned sale will have no known immediate or substantial adverse effect on the service provided to customers in Tennessee. The transaction will cause no interruption in service to customers and no existing service will be discontinued, reduced or impaired as a result of this sale. There is no overlap between the KMC facilities being acquired and CenturyTel. Inc.'s incumbent LEC service territory and, as a result, there will be no reduction in the number of competitors or the level of competition as a result of this acquisition.

#### 2. Service

CenturyTel, Inc. has a history of providing high quality telecommunications service in Tennessee. The company is ready, willing and able to continue providing this safe, reliable and quality service to the affected KMC customers and will maintain or improve service customer currently receive from KMC.

### 3. Financial condition

By increasing the scope of its market and customer base, the transfer will maintain and improve the financial condition of CenturyTel, Inc. Further, CenturyTel, Inc. and Century Tel Acquisition has the financial ability to operate and maintain the current telecommunications system and make upgrades, as needed. Attached hereto as <a href="Attachment G">Attachment G</a> is CenturyTel, Inc.'s Report on Form 10-K for the fiscal year ended December 31, 2004, which includes its audited financial statements.

### 4. Ratepayers

The proposed transfer to CenturyTel Acquisition will maintain the competitive offerings for Tennessee consumers providing net benefits in both the short and long term.

Further, the transfer will have no effect on the Authority's ability to ensure just and reasonable rates for consumers.

### 5. Employees

The transfer is fair and reasonable to CenturyTel, Inc.'s and KMC employees.

CenturyTel, Inc. expects continued growth and overall increased employment levels to ultimately result from the proposed transaction. Additionally, it is anticipated that many of KMC's existing employees will be retained by CenturyTel Acquisition to assure a smooth transition and continuity of service.

### 6. Shareholders

The transfer will be fair and reasonable to the majority of all affected investors of CenturyTel, Inc. and KMC. KMC investors should benefit from the sale of assets and CenturyTel, Inc. investors should benefit from the increased market scope and customer base.

### 7. Jurisdiction of Authority

The transfer will preserve the jurisdiction of the Authority and the ability of the Authority to effectively regulate and audit public utilities and common carriers operations in Tennessee.

### 8. History of Compliance

CenturyTel, Inc. as the parent company of the proposed acquiring entity has a history of compliance with Tennessee, federal, and other regulations. The transfer will not diminish CenturyTel, Inc.'s commitment to comply with the regulations of the Authority and other applicable regulations.

### 9. Repairs/Improvements

No repairs or improvements appear to be required but, should the need arise, CenturyTel Acquisition has the technical and financial ability to make any required repairs and/or improvements.

### 10. Health, Safety and Other Permits

The transfer should not necessitate any additional health, safety or other permits.

Nevertheless, should permits be required, CenturyTel Acquisition has the ability to acquire such permits.

### 11. Financing of Transaction

CenturyTel Acquisition will purchase the assets with internal funds or through existing lines of credit. CenturyTel Acquisition is committed to maintaining high quality

telecommunications serves at competitive rates, which the competitive marketplace clearly demands.

## D. Request for Waiver of Rules Governing Changes to Customer Telecommunications Providers

In addition to approval of the sale of assets, Petitioners request pursuant to TRA Rule 1220-4-2-56 that the Authority grant such authority as may be necessary or required, including a waiver of the Authority's rules governing changes to a customer's telecommunications carriers. All of the KMC Petitioner's customers will receive notice of the transaction required under their service contracts with the KMC Petitioner. In addition, the Petitioners will comply with Federal Communications Commission regulations requiring CenturyTel Acquisition to certify to the FCC that it has provided at least 30 days' written notice to each customer affected by this transaction, 47 C.F.R. § 64.1120(e)(1-3), specifically including notice of:

- (i) the date on which the acquiring carrier will become the subscriber's new provider of telecommunications service;
- (ii) the rates, terms, and conditions of the service(s) to be provided by the acquiring carrier upon the subscriber's transfer to the acquiring carrier, and the means by which the acquiring carrier will notify the subscriber of any change(s) to these rates, terms, and conditions;
- (iii) the fact that the acquiring carrier will be responsible for any carrier change charges associated with the transfer;
- (iv) the subscriber's right to select a different preferred carrier for the telecommunications service(s) at issue, if an alternative carrier is available:
- (v) the fact that all subscribers receiving the notice, even those who have arranged preferred carrier freezes through their local service providers on the service(s) involved in the transfer, will be transferred to the acquiring carrier, unless they have selected a different carrier before the transfer date; existing preferred carrier freezes on the service(s) involved in the transfer will be lifted; and the subscribers must contact their local service providers to arrange a new freeze;

- (vi) the identity of the carrier that carrier will be responsible for handling any complaints filed, or otherwise raised, prior to or during the transfer against the selling or transferring carrier; and
- (vii) The toll-free customer service telephone number of the acquiring carrier.

Such a waiver is in the public interest as the KMC Petitioner's customers would continue to receive quality telecommunications services from CenturyTel Acquisition without interruption or change to the rates, terms, and conditions applicable to the services they receive. Without such a waiver, customers will receive multiple redundant notices that may sow customer confusion. Further, compliance with Tennessee's rules governing changes to a customer's telecommunications carrier in the context of this transaction is not necessary to achieve the purpose of those rules and to ensure that all customers receive ample actual notice of the transaction. Finally, if the Petitioners are unable to achieve compliance with the state requirements prior to closing, individual customers could risk interruptions to their telecommunications services.

Pursuant to TCA Rule 1220-4-2-.56(2)(2), the Petitioners also request that the Authority approve the form of letter notifying customers of KMC of the transfer of services in the form attached hereto as Attachment B.

\* \* \* \* \*

For the foregoing reasons, the Petitioners respectfully request that the Authority approve the proposed transfer of control through the sale of assets that will serve the public interest, convenience and necessity.

KMC TELECOM III LLC,

Brad E. Mutschelknaus

Melissa S. Conway

Kelley Drye & Warren LLP

1200 19th Street, NW, Suite 500

Washington, DC 20036

(202) 955-9600

Marva Brown Johnson KMC Telecom Holdings, Inc. 1755 North Brown Road Lawrenceville, Georgia 30043 (678) 985-6220

Its Attorneys

Respectfully Submitted,

CENTURYTEL ACQUISITION LLC,

By:

R. Dale Grimes
George H. Masterson
J. Davidson French
Bass, Berry & Sims PLC
Suite 2700
315 Deaderick Street
Nashville, Tennessee 37238
(615) 742-6200

Stacey W. Goff
Senior Vice President, General Counsel
& Secretary
CenturyTel, Inc.
100 Century Park Drive
Monroe, Louisiana 72103

Its Attorneys

### **VERIFICATION**

STATE OF GEORGIA )
COUNTY OF FULTON )
I, Mach Brown Thing hereby declare under penalty or perjury, that I am Marva Brown
Johnson of KMC Telecom LLC, KMC Telecom II, LLC, and KMC Telecom III, LLC; that I am
authorized to make this verification on behalf of the KMC Telecom LLC, KMC Telecom II,
LLC, and KMC Telecom III, LLC; that I have read the foregoing petition; and that the facts
Name: Marva Brown Johnson  Title: Vice President, Senior Counsel, and Assistant Secretary
Sworn to and subscribed before me this 23 day of March, 2005.  Notation of Not
My Commission Expires:

### **VERIFICATION**

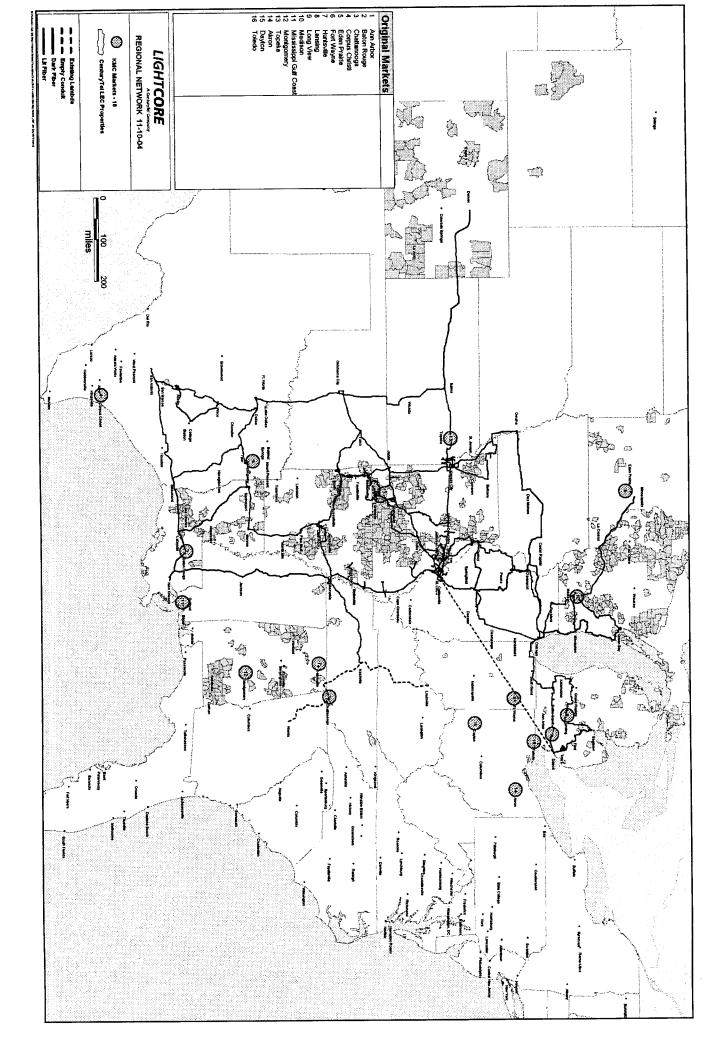
STATE OF LOUISIANA )  PANISH )  COUNTY OF OUACHITA )	
I, Stacey W. Goff, hereby declare under penalty or perjury, that I am Senior Vice	
President, General Counsel and Secretary of CenturyTel Acquisition LLC ("CenturyTel"); that I	
am authorized to make this verification on behalf of the CenturyTel; that I have read the	
foregoing Application; and that the facts stated therein that are applicable to CenturyTel are true	
and correct to the best of my knowledge, information, and belief.	
	me: Stacey W. Goff le: Senior Vice President, General Counsel and Secretary
Sworn to and subscribed before me this 18 day of MARCH, 2005.	
	Notary Public
My Commission Expires:	L. Scott Patton Bar #17087 - Notary #16930

GOOD FOR LIFE

### Attachments

- Attachment A Map of CenturyTel and KMC Service Areas
- Attachment B Form of Customer Notification Letter
- Attachment C Articles of Organization of CenturyTel Acquisition
- Attachment D Authority to Transact Business in Tennessee of CenturyTel Acquisition
- Attachment E Authority Orders Granting the KMC Petitioner Authorization to Operate as CLECs
- Attachment F Biographies of Management
- Attachment G –Report on Form 10-K of CenturyTel, Inc. for the fiscal year ended December 31, 2004

## ATTACHMENT A



## ATTACHMENT B

# AN IMPORTANT NOTICE REGARDING YOUR LOCAL AND LONG DISTANCE TELEPHONE SERVICE FROM KMC TELECOM AND CENTURYTEL

### Dear Valued Customer:

KMC Telecom Holdings, Inc. is pleased to inform you that the telephone systems owned by its affiliate, KMC Telecom III LLC which currently provide local, long distance, and data services to customers in the areas of (i) Ann Arbor, Michigan; (ii) Baton Rouge, Louisiana; (iii) Chattanooga, Tennessee; (iv) Corpus Christi, Texas; (v) Eden Prairie, Minnesota; (vi) Fort Wayne, Indiana; (vii) Huntsville, Alabama; (viii) Lansing, Michigan; (ix) Long View, Texas; (x) Madison, Wisconsin; (xi) Biloxi/Gulfport, Mississippi; (xii) Montgomery, Alabama; (xiii) Topeka, Kansas; (xiv) Akron, Ohio; (xv) Dayton, Ohio; and (xvi) Toledo, Ohio are being acquired by CenturyTel Acquisition LLC, an affiliate of CenturyTel, Inc. ("CenturyTel"). The anticipated date for the transfer of these services to CenturyTel is July 1, 2005 or as soon thereafter as the necessary approvals are obtained. Upon completion of the transfer, CenturyTel will provide service to you and KMC Telecom will no longer be your service provider. CenturyTel is working closely with KMC Telecom to ensure that the transfer of control goes smoothly and without service interruption to any customers. Your local telephone number(s) will NOT change as a result of the transfer.

As a customer of CenturyTel, one of the largest and fastest growing independent phone companies, you will continue to receive all of the same features, services, rates, terms and conditions of service that you enjoy today. Notice of any future changes in rates, terms and conditions of service will be provided to you by mail or in your bill, or otherwise as provided in your service contract, if any. CenturyTel, Inc. (NYSE: CTL) provides a full range of local, long distance, Internet and broadband services to consumers in 22 states. Included in the S&P 500 Index, CenturyTel is a leading provider of integrated communications services to rural areas and smaller cities in the United States. CenturyTel has provided telecommunications services to customers for more than 70 years and currently provides services to more than 2.3 million telephone access lines. Using state of the art-equipment and knowledgeable employees, CenturyTel provides businesses with customized communications solutions, substantial savings and personalized customer service. In addition, many CenturyTel business customers will have a local, dedicated, single point of contact ready to answer their questions or provide additional services.

As always, you may choose another carrier for your telephone service at any time provided another service provider is available, and subject to the terms of your service contract, if any. Unless you choose another carrier before the transfer date, you will automatically become a CenturyTel customer for any services you currently receive from KMC Telecom upon completion of the transfer. You do not need to take any action to be transferred to CenturyTel. CenturyTel will pay any carrier change charges associated with the transfer of your account to it. If you have placed a "freeze" on KMC Telecom's local or long distance services to prevent their unauthorized transfer to another carrier, it will be lifted when your KMC Telecom services are transferred to CenturyTel. At your request, CenturyTel can re-establish freeze protection for you

after the transfer. There will be no change to the provider of any service you receive from a carrier other than KMC Telecom as a result of the transfer.

It has been the pleasure of KMC Telecom to provide you with quality local, long distance, and data communications services and we emphasize that you will be treated as a valued customer of CenturyTel. Until the actual transfer date, KMC Telecom will continue to be responsible for all customer service and billing issues. You should contact KMC Telecom with any complaints or other customer services inquiries you may have prior to the transfer. After the transfer date, you should refer your questions and complaints to CenturyTel.

The changes described above are subject to federal and state approval of the transfer control of the KMC Telecom telephone properties.

We appreciate your understanding and support during this transition period. If you have any questions regarding this notice or any of KMC Telecom's services, please contact Suzanne Curry, KMC Vice President of Public Relations and Communications, at 1 (877) 470-2100, ext. 2190, or by mail at 1545 Route 206, Suite 300, Bedminster, NJ 07921. Questions regarding CenturyTel may be directed to CenturyTel's representatives at 1 (800) 485-1402.

## ATTACHMENT C



SECRETARY OF STATE

As Secretary of State, of the State of Louisiana, I do hereby Certify that the annexed transcript was prepared by and in this office from the record on file, of which purports to be a copy, and that it is full, true and correct.

In testimony whereof, I have hereunto set my hand and caused the Seal of my Office to be affixed at the City of Baton Rouge on,

FEB 0,2 2005

ox Mi Kellan

Secretary of State

# ARTICLES OF ORGANIZATION of CENTURYTEL ACQUISITION LLC

The undersigned, acting pursuant to the Limited Liability Company Law of Louisiana (as amended from time to time or any successor statute, the "Act"), adopts the following Articles of Organization.

## ARTICLE I

The name of this Limited Liability Company (the "Company") is "CenturyTel Acquisition LLC".

## ARTICLE II Purpose

The purpose of the Company is to engage in any lawful activity for which limited liability companies may be formed under the Act.

### ARTICLE III Management

The Company shall be managed by a manager or managers as provided in the Operating Agreement.

### ARTICLE IV Term

The term of the Company shall be perpetual or until dissolved in accordance with the Act.

IN WITNESS WHEREOF, the undersigned Organizer has duly executed these Articles of Organization as of February 2, 2005.

WITNESSES:

Chard B. Montgomery IV, Organize

(N1246210.1)

### ACKNOWLEDGMENT

STATE OF LOUISIANA

PARISH OF ORLEANS

BEFORE ME, the undersigned authority, personally came and appeared Richard B. Montgomery IV, to me known to be the person who signed the foregoing instrument as Organizer, and who, having been duly sworn, acknowledged and declared, in the presence of the two witnesses whose names are subscribed above, that he signed such instrument as his free act and deed for the purposes mentioned therein.

IN WITNESS WHEREOF, the appearer, witnesses and I have hereunto affixed our hands on this 2nd day of February, 2005, in the aforesaid parish and state.

WITNESSES:

Joe Parken

Richard B. Montgomery ly Organizer

Shella Shirley-Recot

NOTARY PUBLIC

CELESTE ELIZABETH RASMUSSEN NOTARY PUBLIC State of Louisiana My Commission Is Issued For Life La. Bar Roll No. 27620

504 582 8012

### DOMESTIC LIMITED LIABILITY COMPANY INITIAL REPORT

(To be filed when the Articles of Organization are filed)
(R.S. 12:1305)

State of Louisiana Parish of Orleans

To: The Secretary of State
Baton Rouge, Louisiana

Complying with R.S. 12:1305, CenturyTel Acquisition LLC hereby makes its initial report as follows:

- 1. The name of the limited liability company is CenturyTel Acquisition LLC.
- 2. The location and municipal address (not a P.O. Box only) of this limited liability company's registered office:
  - 201 St. Charles Ave, Suite 5100, New Orleans, Louisiana 70170
- 3. The full name and municipal address (not a P.O. Box only) of this limited liability company's registered agent:
  - Richard B. Montgomery IV, 201 St. Charles Ave, Suite 5100, New Orleans, Louisiana 70170
- 4. The name and municipal address (not a P.O. Box only) of the first managers:

Glen F. Post, III, 100 CenturyTel Drive, Monroe, Louisiana 71203
Karen A. Puckett, 100 CenturyTel Drive, Monroe, Louisiana 71203
R. Stewart Ewing, Jr., 100 CenturyTel Drive, Monroe, Louisiana 71203
David D. Cole, 100 CenturyTel Drive, Monroe, Louisiana 71203
Michael A. Maslowski, 100 CenturyTel Drive, Monroe, Louisiana 71203
Stacey W. Goff, 100 CenturyTel Drive, Monroe, Louisiana 71203
Neil A. Sweasy, 100 CenturyTel Drive, Monroe, Louisiana 71203
G. Clay Bailey, 100 CenturyTel Drive, Monroe, Louisiana 71203
Craig Davis, 100 CenturyTel Drive, Monroe, Louisiana 71203
Eric Osburne, 100 CenturyTel Drive, Monroe, Louisiana 71203
Kay C. Buchart, 100 CenturyTel Drive, Monroe, Louisiana 71203

IN WITNESS WHEREOF, the undersigned has duly executed this Initial Report on this 2nd day of February 2005.

ichard B. Montgometry IV. Organizer

97%

### AGENT'S AFFIDAVIT AND ACKNOWLEDGEMENT OF ACCEPTANCE

I hereby acknowledge and accept the appointment of registered agent for and on behalf of the above named limited liability company.

Registered Agant;

Richard B. Montgomer

Sworn to and subscribed before me this 2nd day of February, 2005.

Notary Public

CELESTE ELIZABETH RASMUSSEN
NOTARY PUBLIC
State of Louisiana
My Commission is issued For Life
La. Bar Roll No. 27620

lutispan

504 582 8012

## ATTACHMENT D

**Secretary of State Division of Business Services** 312 Eighth Avenue North 6th Floor, William R. Snodgrass Tower Nashville, Tennessee 37243

DATE: 03/21/05 REQUEST NUMBER: 5398-0013 TELEPHONE CONTACT: (615) 741-2286 FILE DATE/TIME: 03/18/05 1156 EFFECTIVE DATE/TIME: 03/18/05 1156 CONTROL NUMBER: 0489909

TO: CFS 8161 HWY 100-172 NASHVILLE, NT 37221

CENTURYTEL ACQUISITION LLC APPLICATION FOR CERTIFICATE OF AUTHORITY -LIMITED LIABILITY COMPANY

WELCOME TO THE STATE OF TENNESSEE. THE ATTACHED LIMITED LIABILITY COMPANY CERTIFICATE OF AUTHORITY HAS BEEN FILED WITH AN EFFECTIVE DATE AS INDICATED ABOVE.

A LIMITED LIABILITY COMPANY ANNUAL REPORT MUST BE FILED WITH THE SECRETARY OF STATE ON OR BEFORE THE FIRST DAY OF THE FOURTH MONTH FOLLOWING THE CLOSE OF THE LIMITED LIABILITY COMPANY'S FISCAL YEAR. ONCE THE FISCAL YEAR HAS BEEN ESTABLISHED, PLEASE PROVIDE THIS OFFICE WITH WRITTEN NOTIFICATION. THIS OFFICE WILL MAIL THE REPORT DURING THE LAST MONTH OF SAID FISCAL YEAR TO THE LIMITED LIABILITY COMPANY AT THE ADDRESS OF ITS PRINCIPAL OFFICE OR TO A MAILING ADDRESS PROVIDED TO THIS OFFICE IN WRITING. FAILURE TO FILE THIS REPORT OR TO MAINTAIN A REGISTERED AGENT AND OFFICE WILL SUBJECT THE LIMITED LIABILITY COMPANY TO ADMINISTRATIVE REVOCATION OF ITS CERTIFICATE OF AUTHORITY.

WHEN CORRESPONDING WITH THIS OFFICE OR SUBMITTING DOCUMENTS FOR FILING, PLEASE REFER TO THE LIMITED LIABILITY COMPANY CONTROL NUMBER GIVEN ABOVE.

FOR: APPLICATION FOR CERTIFICATE OF AUTHORITY - ON DATE: 03/21/05 LIMITED LIABILITY COMPANY

FROM:

FEES RECEIVED: \$300.00

\$0.00

TOTAL PAYMENT RECEIVED:

\$300.00

RECEIPT NUMBER: 00003684055 ACCOUNT NUMBER: 00101230



8161 HIGHWAY 100

NASHVILLE, TN 37221-0000

**CFS** 

RILEY C. DARNELL SECRETARY OF STATE

Kely C Darnell

## ATTACHMENT E

# BEFORE THE TENNESSEE REGULATORY AUTHORITY NASHVILLE TENNESSEE

September 16, 1999

# ORDER GRANTING CERTIFICATE OF CONVENIENCE AND NECESSITY

On July 28, 1999, this maner came before the Tennessee Regulatory Authority ("Authority"), upon the Application of KMC Telecom III, Inc. ("KMC III") for a Certificate of Public Convenience and Necessity as a Competing Telecommunications Service Provider to offer a full array of telecommunications services within the State of Tennessee (the "Application"). The Application was made pursuant to Tenn. Code Ann. § 65-4-201 et seq.

### LEGAL STANDARD FOR GRANTING CCN

KMC III's Application was considered in light of the criteria for granting a certificate of public convenience and necessity ("CCN") as set forth in applicable statutes. Tenn. Code Ann. § 65-4-201 provides, in part:

(a) No public utility shall establish or begin the construction of, or operate any line, plant, or system, or route in or into a municipality or other territory already receiving a like service from another public utility, or establish service therein, without first having obtained from the authority, after written application and hearing, a certificate that the present or future public convenience and necessity require or will require such construction, establishment, and operation, and no person or corporation not at the time a public utility shall commence the

construction of any plant, line, system or route to be operated as a public utility, or the operation of which would constitute the same, or the owner or operator thereof, a public utility as defined by law, without having first obtained, in like manner, a similar certificate...

...

- (c) After notice to the incumbent local exchange telephone company and other interested parties and following a hearing, the authority shall grant a certificate of convenience and necessity to a competing telecommunications service provider if after examining the evidence presented, the authority finds:
- (1) The applicant has demonstrated that it will adhere to all applicable commission policies, rules and orders; and
- (2) The applicant possesses sufficient managerial, financial and technical abilities to provide the applied for services.

An authority order, including appropriate findings of fact and conclusions of law, denying or approving, with or without modification, an application for certification of a competing telecommunications service provider shall be entered no more than sixty (60) days from the filing of the application.

(d) Subsection (c) is not applicable to areas served by an incumbent local exchange telephone company with fewer than 100,000 total access lines in this state unless such company voluntarily enters into an interconnection agreement with a competing telecommunications service provider or unless such incumbent local exchange telephone company applies for a certificate to provide telecommunications services in an area outside its service area existing on June 6, 1995.

In addition, pursuant to Tenn. Code Ann. § 65-5-212, competing telecommunications providers are required to file with the Authority (1) a plan containing the provider's plan for purchasing goods and services from small and minority-owned telecommunications businesses; and (2) information on programs that might provide technical assistance to such businesses.

### **INTERVENORS**

Public notice of the hearing in this matter was made by the Authority's Executive Secretary, pursuant to Tenn. Code Ann. § 65-4-204. No parties intervened prior to the hearing, opposed KMC III's Application, submitted testimony, or participated in the hearing.

### KMC III'S HEARING

KMC III's Application was uncontested. At the hearing held on July 28, 1999, KMC III was represented by Mr. Kevin D. Minsky of Swidler Berlin Shereff Friedman, LLP, 3000 K Street, NW, Suite 300, Washington, DC 20007. In addition, Mr. John D. McLaughlin Ir., KMC III's Manager of State Regulatory Affairs presented testimony and was subject to examination by the Authority's Directors. Upon KMC III's conclusion of the proof in its case, the Authority granted KMC III's Application based upon the following findings of fact and conclusions of law:

#### APPLICANT'S QUALIFICATIONS I.

- KMC III is a Delaware corporation that was incorporated on December 14, 1998. KMC III has obtained the required authority to transact business in the State of Tennessee.
- The complete street address of KMC III 's principal place of business is 1545 2. Route 206, Suite 300, Bedminster, New Jersey 07921-2567. The phone number is (908) 470-1545 and the fax number is (908) 719-8775. KMC III's counsel are Eric J. Branfman and Kevin D. Minsky of Swidler Berlin Shereff Friedman, LLP, 3000 K Street, NW, Suite 300, Washington, DC 20007.
- The Application and supporting documentary information existing in the record 3. indicate that KMC III has the requisite technical and managerial qualifications necessary to provide a full array of local exchange and interexchange telecommunications services within the State of Tennessee on a facilities-based and resale basis. KMC III's management and technical teams have particular expertise in the development and deployment of facilities-based and resold telecommunications services.
- KMC III has the necessary capital and financial qualifications to provide the services it proposes to offer.
- KMC III has represented that it will adhere to all applicable policies, rules and 5. orders of the Authority.

#### PROPOSED SERVICES II.

- KMC III intends to provide all forms of resold and facilities-based local exchange 1. relecommunications services to residential and business customers, including: (1) basic residential exchange services (local exchange flat rate, measured rate service, operator access, etc.); (2) residential custom and class features (call waiting, caller ID, call forwarding, etc.); (3) basic business exchange services; (4) business custom calling and class features; (5) adjunct provided features (voice messaging, etc.); and (6) business and residential ancillary services (directory assistance, directory listing, 911, etc.). KMC III also intends to provide operator assisted services, directory assistance, toll-free calling, dual party relay services, and access to 911 emergency services. KMC III will also offer resold interexchange services throughout the State of Tennessee, including both inbound and outbound intraLATA and interLATA services.
  - Except as may be authorized by law, KMC III does not intend to serve any 2. areas currently being served by an incumbent local telephone company with fewer than 100,000 total access lines where local exchange competition is prohibited pursuant to Tenn. Code Ann. § 65-4-201(d).

### PERMITTING COMPETITION TO SERVE THE PUBLIC CONVENIENCE AND III. **NECESSITY**

Upon a review of the Application and the record in this matter, the Authority finds that approval of KMC III's Application would inure to the benefit of the present and funtre public convenience by permitting compatition in the telecommunications services markets in the State and by fostering the development of an efficient technologically advanced statewide system of telecommunications services.

# IV. SMALL AND MINORITY-OWNED TELECOMMUNICATIONS BUSINESS PARTICIPATION PLAN & BUSINESS ASSISTANCE PROGRAM

- 1. KMC III has filed a satisfactory small and minority-owned telecommunications business participation plan, pursuant to Tenn. Code Ann. § 65-5-212 and the Authority's Rules.
- 2. KMC III has acknowledged its obligation to contribute to the funding of the small and minority-owned telecommunications business assistance program, as set forth in Tenn. Code Ann. § 65-5-213.

### IT IS THEREFORE ORDERED THAT:

- 1. KMC III's Application is approved.
- 2. Any party aggrieved by the Authority's decision in this matter may file a Petition for Reconsideration with the Authority within ten (10) days from and after the date of this Order.
- 3. Any party aggrieved with the Authority's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals. Middle Section, within sixty (60) days from and after the date of this Order.

Melvin I Malone, Chaman

H. Lyan Green Ir., Director

Sara Kyle. Director

ATTEST:

K. David Waddell, Executive Secretary

CSID: 615-253-6056 14:06,

Company ID:

128292

KMC Telecom III LLC 1755 North Brown Road

3rd Floor

Lawrenceville, GA 30043

BEFORE THE TENNESSEE REGULATORY AUTHORITY March 12, 2002

Nashville, TN

IN RE: CASE NUMBER:

02-00174

KMC Telecom III, Inc. name change to KMC Telecom III LLC. --ORDER-

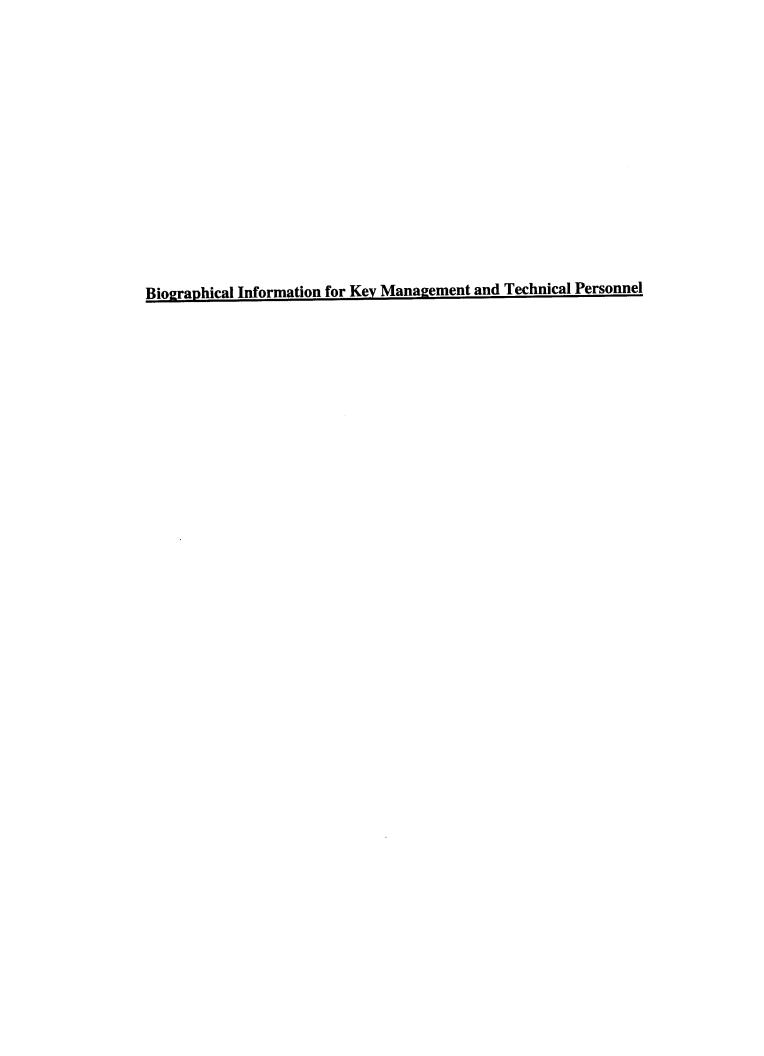
This matter is before the Tennessee Regulatory Authority upon the petition of KMC Telecom III, Inc. to change its company name. The TRA considered this request at their regularly scheduled Conference held on March 12, 2002 and concluded that the applicant has met all the TRA requirements for changing its name. Pursuant to § T.C.A. 65-4-113,

#### IT IS THEREFORE ORDERED:

- ı. That the petition of KMC Telecom III, Inc. is approved.
- That KMC Telecom III LLC holds a Certificate of Public Convenience and Necessity to provide 2. telecommunications services in Tennessee as specified in its application on file with the Authority.
- 3. That said company shall comply with all applicable TRA rules and regulations.
- That this order shall be retained as proof of certification with this Authority, and may be used to 4. obtain appropriately tariffed service and billing arrangements from Authority authorized telecommunications service providers.

**Executive Secretary** 

## ATTACHMENT F



# Glen F. Post, III Chief Executive Officer, CenturyTel Acquisition LLC

## Joined Century Tel, Inc. - 1976

## Positions held at CenturyTel

- Vice President 1982
- Senior Vice President and Treasurer 1984
- Board of Directors 1985
- Senior Vice President and Chief Financial Officer 1986
- Executive Vice President and Chief Operating Officer 1988
- President and Chief Operating Officer 1990
- Vice Chairman of the Board, President and Chief Executive Officer 1992
- Chairman of the Board and Chief Executive Officer 2002

## **Education**

- Bachelor's Degree/Accounting Louisiana Tech University/Ruston, Louisiana
- Master's Degree/Business Administration Louisiana Tech University/Ruston, Louisiana

## **Current memberships**

- Board of Directors North Louisiana/Regions Bank/Monroe, Louisiana
- Board of Directors/Yelcot Telephone Company
- Executive Cabinet/Louisiana Tech University College of Administration and Business
- Board of Directors/Louisiana Tech University Foundation
- Board of Directors/Louisiana Tech University Research Foundation

## Past memberships

- Board of Directors/Cellular Telephone Industry Association (CTIA)
- Board of Directors/Monroe Chamber of Commerce
- Vice Chairman of the Board/Brooks Fiber Properties, Inc.
- Board of Directors/Network Telephone
- Board of Trustees/La. Independent College Fund
- Board of Directors/Dishnet, Inc.

## **Awards and honors**

- Louisiana Tech University Distinguished Alumni, College of Administration and Business 1991
- Louisiana Tech University Tower Medallion Award 1997
- DeGree Enterprises Lifetime Achievement Award in Business 2003

The company, a premier communications provider delivering local, long distance, Internet and high-speed data services over high-quality networks and delivery platforms, has more than tripled in size over the last seven years. This growth, largely due to the successful integration of numerous acquisitions, makes CenturyTel the 8th largest local exchange telephone company, based on access lines, in the United States.

# Karen A. Puckett <u>President and Chief Operating Officer, CenturyTel Acquisition LLC</u>

Joined CenturyTel, Inc. - 2000

## Positions held at CenturyTel

- Executive Vice President and Chief Operating Officer 2000
- President and Chief Operating Officer 2002

## Education

- Bachelor's Degree Indiana State University/Terre Haute, Indiana
- Master's Degree/Business Administration Bellarmine College/Louisville, Kentucky

## **Current memberships**

- Board Member/United States Telecom Association (USTA)
- Chairperson of the Governance Committee/USTA
- Chairperson of the Nominating Committee/USTA
- Executive Board Member/Louisiana Purchase Council, Boy Scouts of America (BSA)
- Chairperson of the Strategic Planning Committee/ Louisiana Purchase Council, BSA

With 22 years of telecommunications experience, Karen Puckett is an industry veteran.

As Chief Operating Officer of CenturyTel since 2000, Puckett directs all of the company's operations, including sales, marketing, field operations, engineering, call centers and other support functions.

## R. Stewart Ewing, Jr.

## Executive Vice President and Chief Financial Officer, CenturyTel Acquisition LLC

## Joined CenturyTel - 1983

## Positions held at CenturyTel

- Vice President of Finance 1983
- Vice President and Controller 1984
- Senior Vice President and Chief Financial Officer 1989
- Executive Vice President and Chief Financial Officer 1999

#### **Education**

• Bachelor's Degree/Business - Northwestern State University/Natchitoches, Louisiana

## **Current memberships**

- Louisiana Society of Certified Public Accountants (CPAs)
- American Institute of Certified Public Accountants
- Board of Directors/Northeast Louisiana Children's Museum
- Board of Directors/Progressive Bank
- Board of Directors/Ouachita Economic Development Corporation

## Past memberships

- Board of Directors/National Rural Telephone Association
- Board of Directors and Treasurer/Grace Episcopal School/Monroe, Louisiana
- Treasurer/St. Frederick's High School Athletic Association/Monroe, Louisiana

Stewart Ewing has played a key role in CenturyTel's acquisition strategy by negotiating all stages of purchase agreements from legal and regulatory to folding new companies into CenturyTel's corporate structure and philosophy. His responsibilities include managing CenturyTel's accounting, treasury, corporate development and investor relations functions.

Ewing's extensive experience includes management of CenturyTel's regulatory, information systems and corporate planning areas.

# David D. Cole Senior Vice President, CenturyTel Acquisition LLC

## Joined CenturyTel - 1982

## Positions held at CenturyTel

- Director of Regulatory Affairs 1982
- Director of Corporate Planning 1987
- Vice President and Controller 1989
- Vice President Finance and Administration, Wireless Group 1990
- President, Wireless Group 1996
- Senior Vice President, Operations Support 1999

#### **Education**

- Bachelor's Degree/Accounting University of Louisiana at Monroe/Monroe, Louisiana
- Master's Degree/Business Administration University of Louisiana at Monroe/Monroe, Louisiana

## Current memberships

• Louisiana Society of Certified Public Accountants

#### Past memberships

• Board of Directors/Cellular Telecommunications Industry Association (CTIA)

David Cole is responsible for CenturyTel's accounting, billing, revenue assurance and regulated revenues.

During his tenure at CenturyTel, his responsibilities have included overseeing the entire wireless operations including finance, sales, marketing, regional operations, engineering and partnership relations; customer billing; negotiating intercarrier roamer agreements; directing all human resources activities; directing and coordinating acquisitions; directing all financial and accounting activities for CenturyTel's wireless operations; and directing CenturyTel's regulatory affairs.

## Mike Maslowski <u>Senior Vice President and Chief Information Officer, CenturyTel Acquisition LLC</u>

## Joined CenturyTel - 1999

## Positions held at CenturyTel

• Senior Vice President and Chief Information Officer 1999

## **Education**

- Graduate Certificate/Marketing Trenton State University/Trenton, New Jersey
- Also attended University of Illinois and Illinois Institute of Technology

## **Current memberships**

- Vice Chairman of the Board/Northeast Louisiana American Red Cross
- Board of Directors/SkyPort International, Inc.

Mike Maslowski is CenturyTel's first Senior Vice President and Chief Information Officer. He is responsible for all of the company's information systems activities. He has 35 years of experience working in the telecommunications business with Illinois Bell, AT&T, Lucent Technologies and CenturyTel.

## G. Clay Bailey

## Vice President and Treasurer, CenturyTel Acquisition LLC

## Joined CenturyTel – 1992

## Positions held at CenturyTel

- Director Regulatory Afairs, 1996 1997
- Vice President Regulatory Affairs, 1998 1999
- Vice President Government Relations, 1999 2000
- Vice President and Treasurer, 2000

#### **Education**

Bachelor's degree/accounting
 University of Louisiana Monroe, Monroe, Louisiana

## **Current memberships**

- Board of Directors Louisiana Telecommunications Association, Vice Chairman
- Louisiana State Society of CPA's
- American Institute of Certified Public Accountants
- Board of Directors Faith Chapel

Bailey is responsible for managing CenturyTel's financing operations, corporate taxes, cash management and risk insurance. During his tenure with the Company, Bailey led CenturyTel's regulatory team at both the state and federal levels during the restructuring era of the Federal Telecommunications Act of 1996. Since joining the finance team, Bailey has been responsible for securing the financing of several major acquisitions for the company as well as establishing several credit facilities.

## Neil A. Sweasy Vice President and Controller, CenturyTel Acquisition LLC

## Joined CenturyTel - 1998

## Positions held at CenturyTel

- Staff Accountant Financial Reporting, 1988
- Director Financial Reporting, 1990
- Assistant Controller, 1997
- Vice President and Controller, 1999

#### Education

• Bachelor of Business Administration Northeast Louisiana University

## **Current memberships**

• American Institute of Certified Public Accountants

Neil Sweasy is responsible for the Company's financial reporting, accounts payable, corporate accounting and financial systems support functions, which includes the external reporting of financial information to the Securities and Exchange Commission, the internal consolidation process and variance analysis reporting to executive management, disbursements processes and provision of support for the Company's financial systems.

# Craig Davis <u>Vice President, CenturyTel Acquisition LLC</u>

## Joined CenturyTel - 1987

## **Positions held at CenturyTel**

- Vice President, CLEC
- Region Vice President, Wireless
- Division Vice President
- Southern Region Vice President

#### **Education**

• Bachelor of Science, Accounting, West Virginia University.

As Vice President, CLEC, Craig Davis has been involved in the development and launch of CenturyTel's competitive telecommunications business, CenturyTel Solutions. Mr. Davis has worked in the telecommunications industry for 20 years.

# Stacey W. Goff Senior Vice President, General Counsel & Secretary, CenturyTel Acquisition LLC

## Joined CenturyTel - 1998

## Positions held at CenturyTel

- Director of Corporate Legal Services 1998
- Vice President and Assistant General Counsel 2001
- Senior Vice President, General Counsel and Corporate Secretary 2003

## **Education**

- Bachelor's Degree/Business Mississippi State University/Starkville, Mississippi
- Juris Doctorate/Magna Cum Laude University of Mississippi/Oxford, Mississippi

## **Current memberships**

- Louisiana State Bar Association
- American Bar Association
- Senior Warden/St. Alban's Episcopal Church

Goff's responsibilities also include management of the Company's corporate administrative support and corporate aviation functions.

## ATTACHMENT G

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

#### FORM 10-K

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

For the fiscal year ended December 31, 2004

or

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

Commission file number 1-7784

CENTURYTEL, INC.

(Exact name of Registrant as specified in its charter)

Louisiana
(State or other jurisdiction of incorporation or organization)

72-0651161 (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

Name of each exchange on which registered

Common Stock, par value \$1.00

New York Stock Exchange Berlin Stock Exchange New York Stock Exchange Berlin Stock Exchange

Preference Share Purchase Rights
Corporate Units issued May 2002

New York Stock Exchange

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

Stock Options (Title of class)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No []

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

Indicate by check mark if the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] 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 the Company's outstanding voting securities) was \$4.0 billion as of June 30, 2004. As of February 28, 2005, there were 132,644,803 shares of common stock outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2005 annual meeting of shareholders are incorporated by reference in Part III of this Report.

#### Item 1. Business

General. CenturyTel, Inc. ("CenturyTel") and its subsidiaries (the "Company") is an integrated communications company engaged primarily in providing local exchange, long distance, Internet access and broadband services. The Company strives to maintain its customer relationships by, among other things, bundling its service offerings to provide its customers with a complete offering of integrated communications services. All of the Company's operations are conducted within the continental United States.

At December 31, 2004, the Company's local exchange telephone subsidiaries operated approximately 2.3 million telephone access lines, primarily in rural areas and small to mid-size cities in 22 states, with over 70% of these lines located in Wisconsin, Missouri, Alabama, Arkansas and Washington. According to published sources, the Company is the eighth largest local exchange telephone company in the United States based on the number of access lines served.

The Company also provides competitive local exchange carrier, security monitoring, and other communications and business information services in certain local and regional markets.

The Company has recently entered into agreements to provide co-branded satellite television service and to resell wireless service as part of its bundled product and service offerings, but these arrangements are not expected to contribute material revenues in the near term. The Company anticipates such offerings will dilute its earnings for 2005 by approximately \$.04 to \$.07 per share.

For information on the amount of revenue derived by the Company's various lines of services, see "Operations-Services" below and Item 7 of this report.

Recent acquisitions. In June 2003, the Company 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, for \$39.4 million cash. In addition, in December 2003, the Company 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."

On August 31, 2002, the Company purchased assets utilized in serving approximately 350,000 telephone access lines in the state of Missouri from Verizon Communications, Inc. ("Verizon") for approximately \$1.179 billion cash. On July 1, 2002, the Company purchased assets utilized in serving approximately 300,000 telephone access lines in the state of Alabama from Verizon for approximately \$1.022 billion cash. The assets purchased in these transactions included (i) the franchises authorizing the provision of local telephone service, (ii) related property and equipment comprising Verizon's local exchange operations in predominantly rural markets throughout Alabama and Missouri and (iii) Verizon's assets used to provide digital subscriber line ("DSL") and other high speed data services within the purchased exchanges. The acquired assets did not include Verizon's cellular, personal communications services ("PCS"), long distance, dial-up Internet, or directory publishing operations in these areas.

On February 28, 2002, the Company purchased from KMC Telecom Holdings, Inc. ("KMC") its fiber network and customer base operations in Monroe and Shreveport, Louisiana, which allows the Company to offer broadband and competitive local exchange services to customers in these markets.

On July 31, 2000 and September 29, 2000, affiliates of the Company acquired assets utilized to provide local exchange telephone service to over 490,000 telephone access lines from Verizon in four separate transactions for approximately \$1.5 billion in cash. Under these transactions:

- o On July 31, 2000, the Company purchased approximately 231,000 telephone access lines and related assets in Arkansas for approximately \$842 million in cash.
- o On July 31, 2000, Spectra Communications Group, LLC ("Spectra") purchased approximately 127,000 telephone access lines and related assets in Missouri for approximately \$297 million cash. At closing, the Company made a preferred equity investment in Spectra of approximately \$55 million (which represented a 57.1% interest) and financed substantially all of the remainder of the purchase price. In the first quarter of 2001, the Company purchased an additional 18.6% interest in Spectra for \$47.1 million. In the fourth quarter of 2003 and the first quarter of 2004, the Company purchased the remaining 24.3% interest in Spectra for an aggregate of \$34.0 million in cash.

- o On September 29, 2000, the Company purchased approximately 70,500 telephone access lines and related assets in Wisconsin for approximately \$197 million in cash.
- o On September 29, 2000, Telephone USA of Wisconsin, LLC ("TelUSA") purchased approximately 62,900 telephone access lines and related assets in Wisconsin for approximately \$172 million in cash. The Company owns 89% of TelUSA, which was organized to acquire and operate these Wisconsin properties. At closing, the Company made an equity investment in TelUSA of approximately \$37.8 million and financed substantially all of the remainder of the purchase price.

In August 2000, the Company acquired the assets of CSW Net, Inc., a regional Internet service provider that offers dial-up and dedicated Internet access, and web site and domain hosting to more than 18,000 customers in 28 communities in Arkansas.

In February 2005, the Company signed a definitive asset purchase agreement to acquire metro fiber networks in 16 markets from KMC for \$65 million cash, subject to purchase price adjustments. The networks to be acquired include almost 1,000 lit route miles of fiber optic cable located in small to medium cities in 11 states. The Company expects to complete this purchase in mid-2005, subject to the receipt of various consents, regulatory approvals and various other closing conditions.

The Company continually evaluates the possibility of acquiring additional communications assets in exchange for cash, securities or both, and at any given time may be engaged in discussions or negotiations regarding additional acquisitions. The Company generally does not announce its acquisitions or dispositions until it has entered into a preliminary or definitive agreement. Although the Company's primary focus will continue to be on acquiring interests that are proximate to its properties or that serve a customer base large enough for the Company to operate efficiently, other communications interests may also be acquired and these acquisitions could have a material impact upon the Company.

Recent Dispositions. On August 1, 2002, the Company sold substantially all of its wireless operations principally to an affiliate of ALLTEL Corporation ("Alltel") for an aggregate of approximately \$1.59 billion in cash. In connection with this transaction, the Company divested its (i) interests in its majority-owned and operated cellular systems, which at June 30, 2002 served approximately 783,000 customers and had access to approximately 7.8 million pops (the estimated population of licensed cellular telephone markets multiplied by the Company's proportionate equity interest in the licensed operators thereof), (ii) minority cellular equity interests representing approximately 1.8 million pops at June 30, 2002, and (iii) licenses to provide PCS covering 1.3 million pops in Wisconsin and Iowa. As a result, the Company's wireless operations are reflected as discontinued operations in the Company's accompanying consolidated financial statements.

In the second quarter of 2001, the Company sold to Leap Wireless International, Inc. 30 PCS operating licenses for an aggregate of \$205 million. The Company received approximately \$118 million of the purchase price in cash at closing and collected the remainder in installments through the fourth quarter of 2001.

Where to find additional information. The Company makes available free of charge on its website (www.centurytel.com) filings made with the Securities and Exchange Commission ("SEC") on Forms 10-K, 10-Q and 8-K as soon as reasonably practicable after such filings are made with the SEC.

The Company also makes available free of charge on its website its Corporate Governance Guidelines, its Corporate Compliance Program and the charters of its audit, compensation, risk evaluation, and nominating and corporate governance committees. The Company will furnish printed copies of these materials upon the request of any shareholder.

Other. As of December 31, 2004, the Company had approximately 6,800 employees, of which approximately 1,800 were members of 13 different bargaining units represented by the International Brotherhood of Electrical Workers and the Communications Workers of America. In 2005, the contracts governing approximately 71% of the union workforce lapse and are scheduled to be renegotiated. The Company believes that relations with its employees continue to be generally good.

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

#### **OPERATIONS**

According to published sources, the Company is the eighth largest local exchange telephone company in the United States, based on the approximately 2.3 million access lines it served at December 31, 2004. All of the Company's access lines are digitally switched. Through its operating telephone subsidiaries, the Company provides services to predominantly rural areas and small to mid-sized cities in 22 states. The following table sets forth certain information with respect to the Company's access lines as of December 31, 2004 and 2003.

	December	31, 2004	December 31, 2003		
State			Number of access lines		
Wisconsin (1)	466,021	20%	478,134	20%	
Missouri	458,724	20	472,884	20	
Alabama	275,093	12	283,501	12	
Arkansas	256,130	11	264,787	11	
Washington	182,990	8	186,329	8	
Michigan	108,030	5	111,104	5	
Louisiana	101,353	4	103,726	4	
Colorado	94,139	4	95,726	4	
Ohio	80,287	3	82,995	3	
Oregon	74,020	3	75,530	3	
Montana	64,145	3	64,863	3	
Texas	43,697	2	46,397	2	
Minnesota	30,046	1	30,469	1	
Tennessee	26,728	1	27,084	1	
Mississippi	24,137	1	24,420	1	
New Mexico	6,428	*	6,512	*	
Wyoming	5,905	*	5,669	*	
Idaho	5,807	*	5,974	*	
Indiana	5,346	*	5,401	*	
Iowa	2,053	*	2,082	*	
Arizona	1,995	*	2,000	*	
Nevada	552	*	531	*	
	-,,	100%	2,376,118	100%	

- \* Represents less than 1%.
- (1) As of December 31, 2004 and 2003, approximately 57,700 and 59,130, respectively, of these lines were owned and operated by CenturyTel's 89%-owned affiliate.

As indicated in the following table, the Company has experienced growth in its operations over the past five years, a substantial portion of which was attributable to the third quarter 2002 and third quarter 2000 acquisitions of telephone properties from Verizon and the internal growth of its long distance and Internet access businesses.

	Year ended or as of December 31,							
	 2004	2003	2002	2001	2000			
	 (Dollars in thousands)							
Access lines	2,313,626	2,376,118	2,414,564	1,797,643	1,800,565			
% Residential	75%	76	76	76	76			
% Business	25%	24	24	24	24			
Long distance lines	1,067,817	931,761	798,697	564,851	433,846			
% Residential	81%	80	80	79	79			
% Business	19%	20	20	21	21			
Internet customers	262,085	215,548	179,440	144,817	108,700			
<pre>% Dial-up service</pre>	49%	65	73	84	95			
<pre>% Retail DSL service</pre>	51%	35	27	16	5			
Operating revenues	\$ 2,407,372	2,367,610	1,971,996	1,679,504	1,402,357			

As discussed further below, the Company's access lines (exclusive of acquisitions) have declined in recent years, and are expected to continue to decline. To offset these declines, the Company hopes to expand its telephone operations by (i) acquiring additional telephone properties, (ii) providing service to new customers, (iii) increasing network usage, (iv) further penetrating its existing customer base with existing services and (v) providing additional services which may be made possible by advances in technology, improvements in the Company's infrastructure and the bundling of integrated services. See "Services" and "Regulation and Competition."

#### Services

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

	2004	2003	2002
Local service	29.7%	30.1	29.0
Network access	40.1	42.3	44.9
Long distance	7.8	7.3	7.4
Data	11.5	10.4	9.1
Fiber transport and CLEC	3.1	1.8	1.1
Other	7.8	8.1	8.5
	100.0%	100.0	100.0

Local service. Local service revenues are derived from providing local exchange telephone services in the Company's service areas, including basic dial-tone service through the Company's regular switched network. Access lines declined 2.6% in 2004, 1.6% in 2003 and 1.1% in 2002 (exclusive of the 2002 Verizon acquisitions). The Company believes these declines in the number of access lines were primarily due to the displacement of traditional wireline telephone services by other competitive services, including the Company's DSL product offering. Based on current conditions, the Company expects access lines to decline between 2.5 and 3.5% for 2005.

The use of digital switches, high-speed data circuits and related software has been an important component of the Company's growth strategy because it allows the Company to offer enhanced voice services (such as call forwarding, conference calling, caller identification, selective call ringing and call waiting) and data services (such as data private line, digital subscriber line, frame relay and local area/wide area networks) and to thereby increase utilization of existing access lines. In 2004 the Company continued to expand the availability of enhanced services offered in certain service areas.

Network access. Network access revenues primarily relate to (i) services provided by the Company to long distance carriers, wireless carriers and other carriers and customers in connection with the use of the Company's facilities to originate and terminate their interstate and intrastate voice and data transmissions and (ii) the receipt of universal support funds which allows the Company to recover a portion of its costs under federal and state cost recovery mechanisms (see - "Regulation and Competition - High-cost support funds, revenue sharing arrangements and related matters" below). Certain of the Company's 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 the Company's intrastate network access revenues are derived through access charges billed by the Company to intrastate long distance carriers and other LEC customers. Such intrastate network access charges are based on tariffed access charges, which are subject to state regulatory commission approval. Additionally, certain of the Company's 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.

The Telecommunications Act of 1996 allows local exchange carriers to file access tariffs on a streamlined basis and, if certain criteria are met, deems those tariffs lawful. Tariffs that have been "deemed lawful" in effect nullify an interexchange carrier's ability to seek refunds should the earnings from the tariffs ultimately result in earnings above the authorized rate of return prescribed by the FCC. Certain of the Company's telephone subsidiaries file interstate tariffs directly with the FCC using this streamlined filing approach. As of December 31, 2004, the amount of the Company's earnings in excess of the authorized rate of return reflected as a liability on the balance sheet for the combined 2001/2002 and 2003/2004 monitoring periods aggregated approximately \$63 million. The settlement period related to (i) the 2001/2002 monitoring period lapses on September 30, 2005 and (ii) the 2003/2004 monitoring period lapses on September 30, 2007. The Company will continue to monitor the legal status of any pending or future proceedings that could impact its entitlement to these funds, and may recognize as revenue some or all of the over-earnings at the end of the settlement period or as the legal status becomes more certain.

Long distance. Long distance revenues relate to the provision of retail long distance services which the Company began marketing to its local exchange customers in 1996. At December 31, 2004, the Company provided long distance services to nearly 1.1 million lines. The Company anticipates that most of its long distance service revenues will be provided as part of an integrated bundle with the Company's other service offerings, including its local exchange telephone service offering.

Data. Data revenues include revenues primarily related to the provision of Internet access services (both dial-up and DSL services) and the provision of data transmission services over special circuits and private lines. The Company began offering traditional dial-up Internet access services to its telephone customers in 1995. In late 1999, the Company began offering DSL Internet access services, a high-speed premium-priced data service. As of December 31, 2004, approximately 71% of the Company's access lines were DSL-enabled. At December 31, 2004, the Company provided Internet access services to over 262,000 customers, approximately 128,500 of which received traditional dial-up services and approximately 133,500 of which received retail DSL services. During 2004, the Company added over 57,000 retail DSL connections.

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

In late 2000, the Company 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. On February 28, 2002, the Company purchased the fiber network and customer base of KMC's operations in Monroe and Shreveport, Louisiana, which allowed the Company to offer broadband and competitive local exchange services to customers in these markets.

During the second quarter of 2001, the Company began selling capacity to other carriers and businesses over a 700-mile fiber optic ring that the Company constructed in southern and central Michigan. In June 2003, the Company 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, for \$39.4 million cash. The Company has used the network to sell services to new and existing customers and to reduce the Company's reliance on third party transport providers. In addition, in December 2003, the Company acquired additional fiber transport assets in Arkansas, Missouri and Illinois from Level 3 Communications, Inc. for approximately \$15.8 million cash to provide services similar to those described above. The Company operates its fiber transport assets under the name LightCore. As of December 31, 2004, LightCore's network encompassed more than 8,700 route miles of lit fiber in the central United States. For a description of a pending acquisition of additional network assets, see "-Recent Acquisitions" above.

The Company offers 24-hour burglary and fire monitoring services to approximately 8,700 customers in select markets in Louisiana, Arkansas, Mississippi, Texas and Ohio.

Other. Other revenues include revenues related to (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for third parties and (iii) participating in the publication of local directories. The Company also provides printing, database management and direct mail services and cable television services.

Certain large communications companies for which the Company currently provides billing and collection services continue to indicate their desire to reduce their billing and collection expenses, which has resulted and may continue to result in reductions of the Company's billing

and collection revenues.

From time to time, the Company also makes investments in other domestic or foreign communications companies, the most significant of which is an interest in a start-up satellite service company.

For further information on regulatory, technological and competitive changes that could impact the Company's revenues, see "-Regulation and Competition" and "Special Considerations."

#### Federal Financing Programs

Certain of the Company's telephone subsidiaries receive long-term financing from the Rural Utilities Service ("RUS") or the Rural Telephone Bank ("RTB"), both of which are federal agencies that have historically provided long-term financing to telephone companies at relatively attractive interest rates. Approximately 23% of the Company's telephone plant is pledged to secure obligations of the Company's telephone subsidiaries to the RUS and RTB. For additional information regarding the Company's financing, see the Company's consolidated financial statements included in Item 8 herein.

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. (These LECs are sometimes referred to below as "incumbent LECs" or "ILECs"). Consequently, most of the Company's intrastate telephone operations have traditionally been regulated extensively by various state regulatory agencies (generally called public service commissions or public utility commissions) and its interstate operations have been regulated by the FCC. As discussed in greater detail below, passage of the Telecommunications Act of 1996 (the "1996 Act"), coupled with state legislative and regulatory initiatives and technological changes, fundamentally altered the telephone industry by reducing the regulation of LECs and attracting a substantial increase in the number of competitors and capital invested in existing and new services. CenturyTel anticipates that these trends towards reduced regulation and increased competition will continue.

State regulation. The local service rates and intrastate access charges of substantially all of the Company's telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke franchises 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. Most of these commissions also (i) regulate the purchase and sale of LECs, (ii) prescribe depreciation rates and certain accounting procedures, (iii) oversee implementation of several federal telecommunications laws and (iv) regulate various other matters, including certain service standards and operating procedures.

In recent years, state legislatures and regulatory commissions in most of the 22 states in which the Company operates have either reduced the regulation of LECs or have announced their intention to do so, and it is expected that this trend will continue. Wisconsin, Missouri, Alabama, Arkansas and several other states have implemented laws or rulings which require or permit LECs to opt out of "rate of return" regulation in exchange for agreeing to alternative forms of regulation which typically permit the LEC greater freedom to establish local service rates in exchange for agreeing not to charge rates in excess of specified caps. As discussed further below, subsidiaries operating over 60% of the Company's access lines in various states have agreed to be governed by alternative regulation plans, and the Company continues to explore its options for similar treatment in other states. The Company believes that reduced regulatory oversight of certain of the Company's telephone operations may allow the Company to offer new and competitive services faster than under the traditional regulatory process. For a discussion of legislative, regulatory and technological changes that have introduced competition into the local exchange industry, see "-Developments Affecting Competition."

Alternative regulation plans govern some or all of the access lines operated by the Company in Wisconsin, Missouri, Alabama and Arkansas, which are the Company's four largest state markets. The following summary describes the alternative regulation plans applicable to the Company in these states.

- o Approximately 70% of the Company's Wisconsin access lines are regulated under various alternative regulation plans. Each of these alternative regulation plans has a five-year term and permits the Company to adjust local rates within specified parameters if it meets certain quality-of-service and infrastructure-development commitments. These plans also include initiatives designed to promote competition. The Company's Wisconsin access lines acquired in mid-2000 continue to be regulated under "rate of return" regulation.
- o All of the Company's Missouri LECs are regulated under a price-cap regulation plan (effective in 2002) whereby basic service rates are adjusted annually based on an inflation-based factor; non-basic services may be increased up to 8% annually. The plan also allows LECs

to rebalance local basic service rates up to four times in the first four years of such regulation as a result of access rate or toll reductions. Based on its annual filing effective September 2004, the Company estimates a \$2.2 million annual reduction in revenues as a result of recent declines in the inflation-based factor. If the inflation-based factor continues to decline, the Company's revenues will continue to be negatively impacted.

- o Since 1995, the Company's Alabama telephone properties acquired from Verizon in 2002 have been subject to an alternative regulation plan. Under this plan, local rates were frozen initially for five years, after which time such rates could be raised by an amount equal to consumer price index increases less 1%; non-basic service rates could be increased up to 10% per year. The Alabama alternative regulation plan will be replaced in 2005 by the Alabama Telecommunications Regulation Plan. Under this plan, residential and business basic local service rates will remain at existing levels for two years, after which time rates can be increased up to five percent per year up to a maximum capped level. Rates for all other retail services may be adjusted depending on the tier designation established under the plan.
- o The Company's Arkansas LECs, excluding the properties acquired from Verizon in 2000, are regulated under an alternative regulation plan adopted in 1997, which initially froze basic local and access rates for three years, after which time such 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 if certain petition criteria are met.

Notwithstanding the movement toward alternative regulation, LECs operating approximately 38% of the Company's 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.

FCC regulation. The FCC regulates interstate services provided by the Company's telephone subsidiaries primarily by regulating the interstate access charges that are billed to long distance companies and other communications companies by the Company for use of its 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. LECs must obtain FCC approval to use certain radio frequencies, or to transfer control of any such licenses.

Effective January 1, 1991, the FCC adopted price-cap regulation relating to interstate access rates for the Regional Bell Operating Companies. All other LECs may elect to be subject to price-cap regulation. Under price-cap regulation, limits imposed on a company's interstate rates are adjusted periodically to reflect inflation, productivity improvement and changes in certain non-controllable costs. The Company has not elected price-cap regulation for its incumbent operations. However, the properties acquired from Verizon in 2002 have continued to operate under price-cap regulation based upon a waiver from rules that historically required a purchaser of price-cap properties to convert all of its properties to price-cap regulation. In February 2004, the FCC amended its rules to permit purchasers of price-cap regulated properties to either retain price-cap regulation for the acquired properties or migrate such properties to rate-of-return regulation.

In 2001, the FCC modified its interstate access charge rules and universal service support system for rate of return LECs. This order, among other things, (i) increased the caps on the subscriber line charges ("SLC") to the levels paid by most subscribers nationwide; (ii) allowed limited SLC deaveraging, which enhanced the competitiveness of rate of return carriers by giving them pricing flexibility; (iii) lowered per minute rates collected for federal access charges; (iv) created a new explicit universal service support mechanism that replaced other implicit support mechanisms in a manner designed to ensure that rate structure changes do not affect the overall recovery of interstate access costs by rate of return carriers serving high cost areas and (v) preserved the historic 11.25% authorized interstate return rate for rate of return LECs. The effect of this order on the Company was revenue neutral for interstate purposes, but did result in a reduction in intrastate revenues in Arkansas and Ohio (where intrastate access rates must mirror the interstate access rates).

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 on February 10, 2005 solicited comments on all proposals previously submitted to it. The Company is involved in this proceeding and will continue to monitor the implications of these plans to its operations.

As discussed further below, certain providers of competitive communications services are currently not required to compensate ILECs for the use of their networks.

All forms of federal support available to ILECs are currently available to any local competitor that qualifies as an "eligible telecommunications carrier." This support could encourage additional competitors to enter the Company's high-cost service areas, and, as discussed further below, place financial pressure on the FCC's support programs.

Universal service support funds, revenue sharing arrangements and related matters. A significant number of the Company's telephone subsidiaries recover a portion of their costs from programs administered by the federal Universal Service Fund (the "USF") and from similar state "universal support" mechanisms. Disbursements from these programs traditionally have allowed LECs serving small communities and rural areas to provide communications services on terms and at prices reasonably comparable to those available in urban areas. The aggregate amount of revenues received from such support programs was \$365.2 million in 2004 (or 15.2% of 2004 consolidated revenues) and \$370.5 million in 2003 (or 15.6% of 2003 consolidated revenues). Included in such amounts are receipts from (i) the High Cost Loop support program of \$187.9 million for 2004 and \$199.2 million for 2003 and (ii) various state support programs of \$35.8 million for 2004 and \$33.3 million for 2003.

As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies. The FCC adopted an interim mechanism for a five-year period, effective July 1, 2001, based on embedded, or historical, costs that provides relatively predictable levels of support to rural local exchange carriers, including substantially all of the Company's local exchange carriers. Based on recent FCC filings, the Company anticipates its 2005 revenues from the USF High Cost Loop support program will be approximately \$10-15 million lower than 2004 levels due to increases in the nationwide average cost per loop factor used to allocate funds among all recipients.

Wireless and other competitive service providers continue to seek eligible telecommunications carrier ("ETC") status in order to be eligible to receive USF support, which, coupled with changes in usage of telecommunications services, have placed stresses on the USF's funding mechanism. 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 the Company receives from the High Cost Loop support program. As a result of the continued increases in the nationwide average cost per loop factor (caused by limited growth in the size of the High Cost Loop support program and increases in requests for support from the USF), the Company believes the aggregate level of payments it receives from the USF will continue to decline in the near term under the FCC's current rules.

Recent FCC-mandated changes in the administration of the universal service support programs temporarily suspended the disbursement of funds under the E-rate (Schools and Libraries Universal Service Support Mechanism) program, and, more significantly, created questions that these administrative changes could similarly delay the disbursement of funds to rural LECs from the Universal Service High Cost Loop support program. In December 2004, Congress passed a bill that granted the USF a one-year exemption from the federal law that impacted the E-rate program. Congress has since introduced a bill to grant a permanent exemption to the USF from such federal law.

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. On February 7, 2003, the FSJB issued a notice for public comment on whether present rules fulfill their purpose and whether or not modifications are needed. On February 27, 2004, the FSJB sent the FCC a series of recommendations concerning the process of designating ETCs and suggestions for gaining better control over the disbursement of high-cost universal service support in markets where one or more ETCs are present. The FSJB declined to recommend that the FCC modify the methodology used to calculate support in study areas with multiple ETCs, instead recommending an overall review of the high-cost support mechanism for rural and non-rural carriers.

On August 16, 2004, the FSJB released a notice requesting 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 the Company. The FCC has taken various other steps in anticipation of restructuring universal service support mechanisms, including opening a docket that will change the method of funding contributions. The FCC is expected to act before its current rules are scheduled to expire on June 30, 2006. Congress is also exploring various universal service issues ranging from targeted universal service legislation to re-writing the 1996 Act. The Company has been and will continue to be active in monitoring these developments.

In January 2003, the Louisiana Public Service Commission staff began reviewing the feasibility of converting the \$42 million Louisiana Local Optional Service Fund ("LOS Fund")

into a state universal service fund. Currently, the LOS Fund is funded primarily by BellSouth, which proposes to expand the base of contributors into the LOS Fund. The Company currently receives approximately \$21 million from the LOS Fund each year. Although the Commission staff has recommended to transfer the fund's \$42 million to a state universal service fund, there can be no assurance that the Commission will adopt this recommendation or that funding will remain at current levels.

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

Substantially all of the Company's LECs (except for the properties acquired from Verizon in 2002) concur with the common line tariff and certain of the Company's LECs concur with the traffic sensitive tariffs filed by the NECA; such LECs participate in the access revenue sharing arrangements administered by the NECA for interstate services. All of the intrastate network access revenues of the Company's LECs are based on access charges, cost separation studies or special settlement arrangements. See "- Services."

Certain long distance carriers continue to request that certain of the Company's LECs reduce intrastate access tariffed rates. Long distance carriers have also aggressively pursued regulatory or legislative changes that would reduce access rates. See "-Services - Network Access" above for additional information.

Developments affecting competition. The communications industry continues to undergo fundamental changes which are likely to significantly impact the future operations and financial performance of all communications companies. Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the telephone industry in recent years. As a result, the Company increasingly faces competition from providers seeking to use the Company's network and from providers offering competitive 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 "unbundled" access to all aspects of the LEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors to collocate 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. On March 2, 2004, a federal appellate court vacated significant portions of these rules, including the standards used to determine which unbundled network elements must be made available to competitors. In response to this court decision, on February 4, 2005, the FCC released rules (effective March 11, 2005) that require 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 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 50% of the Company's 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. Management believes that competition in its telephone service areas has increased and will continue to increase as a result of the 1996 Act and the FCC's interconnection rulings. While competition through use of the Company's network is still limited in most of its markets, the Company expects to receive additional interconnection requests in the future from a variety of resellers and facilities-based service providers.

In addition to these changes in federal regulation, all of the 22 states in which the Company provides telephone services have taken legislative or regulatory steps to further introduce competition into the LEC business.

As a result of these regulatory developments, ILECs increasingly face competition from competitive local exchange carriers ("CLECs"), particularly in high population 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 the Company's service areas has increased in recent years, especially in the Company's Verizon markets acquired in 2002 and

2000. The Company anticipates 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.

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. Recent improvements in the quality of "Voice-over-Internet Protocol" ("VoIP") service have led several large cable television and telephone companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers route calls 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 use existing broadband networks to deliver flat-rate, all distance calling plans that may be priced below those currently charged for traditional local and long distance telephone services for several reasons, including lower network cost structures and the current ability of VoIP providers to use ILECs' networks without paying access charges. However, the service must be purchased in addition to the cost of the broadband connection. In December 2003, the FCC initiated rulemaking that is expected to address the effect of VoIP on intercarrier compensation, universal service and emergency services. On March 10, 2004, the FCC released a notice of proposed rulemaking seeking comment on the appropriate regulatory treatment of VoIP service and related issues. 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 an April 2004 order in which the FCC ruled that the IP-telephony service of AT&T, which converts voice calls to IP format for routing over the public switched telephone network, is a regulated telecommunications service subject to interstate access charges. In addition, in November 2004, the FCC ruled that Internet-based services provided by Vonage Holdings Corporation should be subject to federal rather than state jurisdiction. Several state commissions have filed appeals of this decision to various federal appellate courts. Also pending at the FCC is a petition filed by Level 3 Communications, Inc. asking the FCC to forbear from imposing interstate or intrastate access charges on Internet-based calls that originate or terminate on the public switched telephone network. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for the Company's customers.

Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially as wireless carriers expand and improve their network coverage and continue to lower their prices. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service. The Company anticipates this trend will continue, particularly if wireless service rates continue to decline and the quality of wireless service improves. Technological and regulatory developments in cellular telephone, 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. In September 2004, the Company announced it had entered into a reseller arrangement with Cingular Wireless that will allow the Company to provide wireless voice and text messaging services as part of its integrated service offering. The Company currently offers such bundled service to select markets and plans to expand its offering to the majority of its markets in 2005.

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 noncarrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through substitution of special access for switched access or through concentration of telecommunications traffic on a few of the ILECs' access lines. The Company anticipates that all these trends will continue and lead to increased competition with the Company's LECs.

In November 2003, the FCC adopted rules requiring companies to allow their customers to keep their wireline or wireless phone number when switching to another service provider (generally referred to as "local number portability"). For several years, customers have been able to retain their numbers when switching their local service between wireline carriers. The new rules now require local number portability between wireline and wireless carriers. This requirement went into effect November 24, 2003 for wireline carriers in the top 100 Metropolitan Statistical Areas ("MSAs"). The requirement went into effect May 24, 2004 for wireline carriers operating in markets smaller than the top 100 MSAs. Local number portability may increase the number of customers who choose to completely forego the use of traditional wireline phone service. To date, the costs to comply with the requirements of local number portability, net of the amount that is recoverable through the ratemaking process, have not had a material impact on the Company's results of operations.

Significant competitive factors in the local telephone industry include pricing, packaging of services and features, quality 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 the Company, and several are not subject to the same regulatory constraints as the Company.

The Company anticipates that the traditional operations of LECs will continue to be impacted by continued regulatory and technological developments affecting the ability of LECs to provide new services and the capability of long distance companies, CLECs, wireless companies, cable television companies, VoIP providers 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 rural, suburban and small urban areas such as those in which the Company operates. The Company intends to actively monitor these developments, to observe the effect of emerging competitive trends in larger markets and to continue to evaluate new business opportunities that may arise out of future technological, legislative and regulatory developments.

As previously mentioned, the Company has recently entered into agreements to provide cobranded satellite television service and to resell wireless service as part of its bundled product and service offerings. The Company anticipates that its diluted earnings will be negatively impacted in 2005 by approximately \$.04 to \$.07 per share primarily due to expenses associated with rolling out these new services.

While the Company expects its operating revenues in 2005 to continue to experience downward pressure due to continued access line losses and reduced network access revenues, the Company expects its consolidated revenues to increase in 2005 primarily due to increased demand for its long distance, fiber transport, DSL and other nonregulated product offerings (including its new video and wireless initiatives mentioned above).

Regulation and Competition Relating to Other Operations

Long Distance Operations. The Company offers intraLATA, intrastate and interstate long distance services. State public service commissions generally regulate intraLATA toll calls within the same LATA and intraLATA 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 the Company's 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, the Company's principal competitors for providing long distance services were AT&T, MCI, Sprint, regional phone companies and dial-around resellers. Increasingly, however, the Company has experienced competition from newer sources, including wireless and high-speed broadband providers, and as a result of technological substitutions, including VoIP and electronic mail.

Data Operations. In connection with its data business, the Company faces competition from Internet service providers, satellite companies and cable companies which offer both dialup Internet access services and high-speed broadband services. Many of these providers are subject to less rigorous regulatory scrutiny than the Company's subsidiaries. The FCC is currently conducting several rulemakings considering the regulatory treatment of broadband services, the outcomes of which could significantly impact the competitive position of the Company and its competitors.

Fiber Transport Operations. When the Company's fiber transport networks are used to provide intrastate telecommunications services, the Company must comply with state requirements for telecommunications utilities, including state tariffing requirements. To the extent the Company's facilities are used to provide interstate communications, the Company is subject to federal regulation as a non-dominant common carrier. Due largely to excess capacity, the fiber transport industry is highly competitive. The Company's primary competitors are from other communications companies, many of whom operate networks and have resources much larger than those of the Company.

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 its CLEC markets, the Company faces competition from the ILEC, which traditionally has long-standing relationships with its customers. Over time, the Company may also face competition from one or more other CLECs, or from other communications providers who can provide comparable services.

#### OTHER DEVELOPMENTS

The Company recently implemented a new integrated billing and customer care system. The capitalized costs of the system aggregated \$207 million (before accumulated amortization) at December 31, 2004 and are being amortized over a 20-year period. Virtually all of the Company's customers were converted to the new system in late 2004. In early 2005, the Company implemented software upgrades and other changes to enhance the productivity and efficiency of the system, the cost of which was not material.

In November 2004, the Company completed its previously announced \$400 million share repurchase program. In February 2005, the Company's board of directors approved an additional stock repurchase program, authorizing the Company to repurchase up to an aggregate of \$200 million of either its common stock or convertible equity units through December 2005. In addition, the Company currently expects, subject to market conditions and the availability of other investment opportunities, to pursue transactions that could mitigate the dilutive effect of the Company's \$500 million in Equity Units that are currently scheduled to settle in May 2005.

#### SPECIAL CONSIDERATIONS

Risk Factors

We face competition, which could adversely affect us.

As a result of various technological, regulatory and other changes, the telecommunications industry has become increasingly competitive, and we expect these trends to continue. The number of companies that have requested authorization to provide traditional local exchange service in our markets has increased in recent years, and we anticipate that others will take similar action in the future. Recent technological developments have led several competitors to substantially increase their service offerings, often at prices substantially below those charged for traditional phone services. Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially as wireless owners expand and improve their network coverage and continue to lower their prices.

We expect competition to intensify as a result of new competitors and the development of new technologies, products and services. We cannot predict which future technologies, products or services will be important to maintain our competitive position or what funding will be required to develop and provide these technologies, products or services. 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 have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources substantially greater than ours. In addition, some of our competitors can conduct operations or raise capital at a lower cost than we can, are subject to less regulation, or have substantially stronger brand names. Consequently, some competitors may be able to charge lower prices for their products and services, 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 than we can.

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers shifting to less profitable services, (iii) our need to lower prices or increase marketing expenses to remain competitive and (iv) our inability to diversify by 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. 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 products or services that compete with or displace those offered by traditional LECs. 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.

Our industry is highly regulated, and continues to undergo various fundamental regulatory changes.

As a diversified full service incumbent local exchange carrier, or ILEC, we have traditionally been subject to significant regulation from federal, state and local authorities. This regulation imposes substantial compliance costs on us and restricts our ability to raise rates, to compete and to respond rapidly to changing industry conditions. In recent years, the communications industry has undergone various fundamental regulatory changes that have generally permitted competition in each segment of the telephone industry and reduced the regulation of telephone companies, in particular by requiring or permitting LECs to opt out of traditional "rate of return" regulation in exchange for agreeing to alternative forms of regulation. These alternative forms of regulation, which currently apply to over half our access lines, typically permit the LEC greater freedom to establish local service rates in exchange for agreeing not to charge rates in excess of specified caps. These and subsequent changes could adversely affect us by reducing the fees that we are permitted to charge, altering our tariff structures, or otherwise changing the nature of our operations and competition in our industry. Recent rule changes that permit customers to retain their wireline or wireless number when switching to another service provider could increase the number of our customers who choose to disconnect their wireline service. Other pending rulemakings could have a substantial impact on our operations, including in particular rulemakings on intercarrier compensation, universal service, and VoIP regulations. Litigation and different objectives among federal and state regulators could create uncertainty and delay 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 cannot assure you that our core businesses will grow or that our diversification efforts will be successful.

Due to the above-cited changes, the telephone industry has recently experienced a decline in access lines, intrastate minutes of use and long distance minutes of use. While we have not suffered as much as a number of other ILECs from recent industry challenges, the recent decline in access lines and usage, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely effect our core business and future prospects. Our access lines declined 2.6% in 2004 and we expect our access lines to decline between 2.5% and 3.5% in 2005. We also earned less intrastate revenues in 2004 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 our intrastate minutes of use will continue to decline, although the magnitude of such decrease is uncertain.

Until recently, 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.

In recent years, we have attempted to broaden our service and product offerings. During 2003, we expanded our fiber transport business through selective asset purchases. During 2004, we entered into agreements to provide co-branded satellite television services and to resell wireless services as part of our bundled product and service offerings, which we anticipate will dilute our earnings for 2005 by approximately \$.04 to \$.07 per share. We cannot assure you that our recent diversification efforts will be successful.

We are reliant on support funds provided under federal and state laws.

We receive a substantial portion of our revenues from the federal Universal Service Fund 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. In August 2004, a federal-state joint board requested comments on the FCC's current rules for high-cost support payments to rural telephone companies, including

comments on whether eligibility requirements should be amended in a manner that would adversely affect larger rural LECs such as the Company. The FCC is expected to act upon this request for comments before its current rules are scheduled to expire on June 30, 2006.

Recent changes in the nationwide average cost per loop factors used by the FCC to allocate support funds have reduced our receipts from the main support program administered by the federal Universal Service Fund. These changes reduced our receipts from such program by \$11.3 million in 2004 compared to 2003, and we expect these changes will further reduce our receipts from such program by approximately \$10 to \$15 million in 2005 compared to 2004. In addition, the number of eligible telecommunications carriers receiving support payments from this program continues to increase, which, coupled with other factors, is placing additional financial pressure on the amount of money that is necessary and available to provide support payments to all eligible recipients, including us. As a result of the continued increases in the nationwide average cost per loop factor (caused by limited growth in the size of the USF High Cost Loop support program and increases in requests for support from the Universal Service Fund), we believe the aggregate level of payments we receive from the Universal Service Fund will continue to decline in the near term under the FCC's current rules.

Our future results will suffer if we do not effectively manage our growth.

In the past few years, we have rapidly expanded our operations primarily through acquisitions and new product and service offerings, and we may pursue similar growth opportunities in the future. Our future success depends, in part, upon our ability to manage our growth, including our ability to:

- o upgrade our billing and other information systems
- o retain and attract technological, managerial and other key personnel
- o effectively manage our day to day operations while attempting to execute our business strategy of expanding our wireline operations and our emerging businesses
- o realize the projected growth and revenue targets developed by management for our newly acquired and emerging businesses, and
- o continue to identify new acquisition or growth opportunities that we can finance, consummate and operate on attractive terms.

Our rapid growth poses 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 these efforts will be successful, or that we will realize our expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits. If we are not able to meet these challenges effectively, our results of operations may be harmed.

We could be affected by certain changes in labor matters.

At December 31, 2004, approximately 26% of our employees were members of 13 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. In 2005, the contracts governing approximately 71% of the union workforce lapse and are scheduled to be renegotiated. 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.

We have a substantial amount of indebtedness.

We have a substantial amount of indebtedness. This could hinder our ability to adjust to changing market and economic conditions, as well as our ability to access the capital markets to refinance maturing debt in the ordinary course of business. In connection with executing our business strategies, we are continuously evaluating the possibility of acquiring additional communications assets, and we may elect to finance acquisitions by incurring additional indebtedness. Moreover, to respond to the competitive challenges discussed above, we may be required to raise substantial additional capital to finance new product or service offerings. 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, 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 current indebtedness could be adversely affected.

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

Under our articles of incorporation, each share of common stock that has been beneficially owned by the same person or entity continually since May 30, 1987 generally entitles the holder to ten votes on all matters duly submitted to a vote of shareholders. As of February 28, 2005, the holders of our ten-vote shares held approximately 39% of our total voting power. In addition, a number of other provisions in our agreements and organizational documents, including our shareholder rights plan, 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.

#### 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, including without limitation statements with respect to our anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, 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 that are highlighted by words such as "expects," "anticipates," "intends," "plans," "believes," "projects," "seeks," "estimates," "hopes," "should," and "may," and variations thereof and similar expressions. Such forward-looking statements are based upon our judgment and assumptions as of the date of this report 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. These uncertainties include but are not limited to those set forth below:

- o the extent, timing, success and overall effects of competition from wireless carriers, VoIP providers, CLECs, cable television companies and others, including without limitation the risks that these competitors may offer less expensive or more innovative products and services.
- o 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 the FCC's regulations relating to local number portability, interconnection and other matters, (ii) the final outcome of various federal, state and local regulatory initiatives and proceedings that could impact our competitive position, compliance costs, capital expenditures or prospects, 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.
- o our ability to effectively manage our growth, including without limitation our ability to (i) integrate newly-acquired operations into our operations, (ii) attract and retain technological, managerial and other key personnel, (iii) achieve projected growth, revenue and cost savings targets, 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 (i) reduced demand for traditional telephone services caused by greater use of wireless or Internet communications or other factors, (ii) reduced demand for second lines and (iii) reduced demand for our access services.
- o 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 co-branded satellite television service and our wireless reseller service, (ii) expand successfully our long distance, Internet access and fiber transport service offerings to new or acquired markets and (iii) offer bundled service packages on terms attractive to our customers.

- o our ability to successfully take steps to mitigate the dilutive impact of the \$500 million aggregate stated amount of equity units which currently commit us to sell shares of our common stock upon settlement in mid-May 2005.
- o our ability to collect receivables from financially troubled communications companies.
- o regulatory limits on our ability to change the prices for telephone services in response to industry changes.
- o 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.
- o 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.
- o the lack of assurance that we can compete effectively against better-capitalized competitors.
- o the impact of terrorist attacks on our business.
- o other risks referenced in this report and from time to time in our other filings with the Securities and Exchange Commission.
- o the effects of more general factors, including without limitation:
  - \* changes in general industry and market conditions and growth rates
  - $\star$  changes in labor conditions, including workforce levels and labor negotiations
  - $\star$  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
  - \* the continued availability of financing in amounts, and on terms and conditions, necessary to support our operations
  - $\star$  changes in our relationships with vendors, or the failure of these vendors to provide competitive products on a timely basis
  - \* changes in our senior debt ratings
  - $\star$  unfavorable outcomes of regulatory or legal proceedings, including rate proceedings
  - $\star$  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.

For additional information, see the description of our business included above, as well as

Item 7 of this 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 these forward-looking statements, which speak only as of the date made. 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, or otherwise.

#### OTHER MATTERS

The Company has certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2004 have not been material and the Company currently has no reason to believe that such costs will become material.

For additional information concerning the business and properties of the Company, see Item 7 elsewhere herein, and the Consolidated Financial Statements and notes 2, 5, 6, and 17 thereto set forth in Item 8 elsewhere herein.

#### Item 2. Properties.

The Company's properties consist principally of telephone lines, central office equipment, and land and buildings related to telephone operations. As of December 31, 2004 and 2003, the Company's gross property, plant and equipment of approximately \$7.4 billion and \$7.2 billion, respectively, consisted of the following:

	December 31	
	2004	2003
Cable and wire Central office General support Fiber transport and CLEC Construction in progress Other	53.1% 32.1 10.6 2.0 0.9 1.3	53.1 31.8 11.3 1.8 0.8
	100.0	100.0

"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 and CLEC" consist of network assets and equipment to provide fiber transport and competitive local exchange 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 the Company's telephone subsidiaries are subject to mortgages securing the debt of such companies. The Company owns substantially all of the central office buildings, local administrative buildings, warehouses, and storage facilities used in its telephone operations.

For further information on the location and type of the Company's properties, see the descriptions of the Company's 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 29, 2002 in the United States District Court for the Eastern District of Michigan (Case No. 02-10277), the plaintiffs allege that the Company unjustly and unreasonably billed customers for inside wire maintenance services, and seek unspecified money damages and injunctive relief under various legal theories on behalf of a purported class of over two million customers in the Company's telephone markets. The Court has not yet ruled on the plaintiffs' certification motion, and has not yet set a date to resolve this issue. Given the current status of this case, the Company cannot estimate the potential impact, if any, that this case will have on its results of operations.

From time to time, the Company is involved in other proceedings incidental to its business, including administrative hearings of state public utility commissions relating primarily to rate making, actions relating to employee claims, occasional grievance hearings before labor regulatory agencies and miscellaneous third party tort actions. The outcome of these other proceedings is not predictable. However, the Company does not believe that the ultimate resolution of these other proceedings, after considering available insurance coverage, will have a material adverse effect on its 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 the Company's Executive Officers, set forth at Item 10 in Part III hereof, is incorporated in Part I of this Report by reference.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters
and Issuer Purchase of Equity Securities

CenturyTel's common stock is listed on the New York Stock Exchange and is traded under the symbol CTL. The following table sets forth the high and low sales prices, along with the quarterly dividends, for each of the quarters indicated.

		piniana no		
		High	Low	Dividend per common share
2004:				
First quarter	\$	33.40	26.20	.0575
Second quarter	\$	30.32	26.22	.0575
Third quarter	\$	34.47	29.79	.0575
Fourth quarter	\$	35.54	31.00	.0575
2003:				
First quarter	\$	31.79	25.25	.0550
Second quarter	\$	35.90	27.33	.0550
Third quarter	\$	35.85	32.45	.0550
Fourth quarter	\$	36.76	30.09	.0550

Common stock dividends during 2004 and 2003 were paid each quarter. As of February 28, 2005, there were approximately 4,700 stockholders of record of CenturyTel's common stock. As of March 15, 2005, the closing stock price of CenturyTel common stock was \$33.77.

In early February 2004, the Company's board of directors approved a repurchase program authorizing the Company to repurchase up to an aggregate of \$400 million of either its common stock or equity units prior to December 31, 2005. The following table reflects the Company's repurchases of its common stock during the fourth quarter of 2004, all of which were effected in open-market transactions in accordance with the above-described program. These fourth quarter 2004 purchases completed the Company's \$400 million stock repurchase program.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
October 1 - October 31, 2004 November 1 - November 30, 2004	265,200 2,237,390	\$ 33.97 \$ 32.88	265,200 2,237,390	\$ 72,882,412 \$ -
December 1 - December 31, 2004	-	\$ -	-	\$ -
Total	2,502,590	\$ 32.99	2,502,590	\$ -

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

For information regarding the Company's new share repurchase program and shares of CenturyTel common stock authorized for issuance under CenturyTel's equity compensation plans, see Items 7 and 12, respectively.

#### Item 6. Selected Financial Data.

The following table presents certain selected consolidated financial data (from continuing operations) as of and for each of the years ended in the five-year period ended December 31, 2004:

Selected Income Statement Data

	Year ended December 31,						
		2004	2003	2002	2001	2000	
						ssed in thousa	
Operating revenues				1,971,996		1,402,357	
Operating income	\$	•	•	575,406		386,137	<b>=</b> =
Nonrecurring gains and losses, net (pre-tax)	\$	-		3,709		-	<b>=</b>
Income from continuing operations				193,533		127,474	==
Basic earnings per share from continuing operations				1.36		. 91	
Basic earnings per share from continuing operations, as adjusted for goodwill amortization	\$ =:			1.36		1.17	==
Diluted earnings per share from continuing operations				1.35		. 90	==
Diluted earnings per share from continuing operations, as adjusted for goodwill amortization				1.35		1.16	-=
Dividends per common share		.23		.21		.19	==
Average basic shares outstanding				141,613			
Average diluted shares outstanding		142,144	148,779	144,408	142,307	141,864	

Diluted earnings per share and average diluted shares outstanding reflect the application of Emerging Issues Task Force No. 04-8 (which was effective in fourth quarter 2004) related to the effect of contingent convertible debt on the diluted earnings per share calculation. Prior periods have been restated to reflect this change. See Note 13 of Item 8 for additional information.

Selected Balance Sheet Data

	December 31,								
	-	2004	2003	2002	2001	2000			
		(Dollars in thousands)							
Net property, plant and equipment	\$	3,341,401	3,455,481	3,531,645	2,736,142	2,698,010			
Goodwill	\$	3,433,864	3,425,001	3,427,281	2,087,158	2,108,344			

Total assets	\$ 7,796,953	7,895,852	7,770,408	6,318,684	6,393,290
Long-term debt	\$ 2,762,019	3,109,302	3,578,132	2,087,500	3,050,292
Stockholders' equity	\$ 3,409,765	3,478,516	3,088,004	2,337,380	2,032,079

See Items 7 and 8 for a discussion of the Company's discontinued wireless operations.

The following table presents certain selected consolidated operating data as of the end of each of the years in the five-year period ended December 31, 2004:

	Year ended December 31,						
	2004	2003	2002	2001	2000		
Telephone access lines	2,313,626	2,376,118	2,414,564	1,797,643	1,800,565		
Long distance lines	1,067,817	931,761	798,697	564,851	433,846		

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. ("CenturyTel") and its subsidiaries (the "Company") is an integrated communications company engaged primarily in providing local exchange, long distance, Internet access and broadband services to customers in 22 states. The Company currently derives its revenues from providing (i) local exchange telephone services, (ii) network access services, (iii) long distance services, (iv) data services, which includes both dial-up and digital subscriber line ("DSL") Internet services, as well as special access and private line services, (v) fiber transport, competitive local exchange and security monitoring services and (vi) other related services.

The Company strives to maintain its customer relationships by, among other things, bundling its service offerings to provide its customers with a complete offering of integrated communications services. Effective in the first quarter of 2004, as a result of the Company's increased focus on integrated bundle offerings and the varied discount structures associated with such offerings, the Company determined that its results of operations would be more appropriately reported as a single reportable segment under the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." Therefore, the results of operations for 2004 reflect the presentation of a single reportable segment. Results of operations for 2003 and 2002 have been conformed to the Company's 2004 presentation of a single reportable segment. In connection with the change in segment reporting, the Company has, among other things, (i) eliminated certain revenues arising out of previously-reported intersegment transactions (which reduced operating expenses by a like amount and therefore had no impact on operating income), (ii) reclassified certain revenues to conform to the new revenue components and (iii) reclassified depreciation expense related to certain service subsidiaries of the Company from operating expenses of its regulated operations to depreciation expense.

On July 1, 2002, the Company acquired the local exchange telephone operations of Verizon Communications, Inc. ("Verizon") in the state of Alabama for approximately \$1.022 billion cash. On August 31, 2002, the Company acquired the local exchange telephone operations of Verizon in the state of Missouri for approximately \$1.179 billion cash. The results of operations for the Verizon assets acquired are reflected in the Company's consolidated results of operations subsequent to each respective acquisition. See "Acquisitions" below and Note 2 of Notes to Consolidated Financial Statements for additional information. During 2003, the Company also acquired fiber transport assets in five central U.S. states (which the Company operates under the name LightCore) for \$55.2 million cash.

principally to an affiliate of ALLTEL Corporation ("Alltel") in exchange for an aggregate of approximately \$1.59 billion in cash. As a result, the Company's wireless operations for the year ended December 31, 2002 has been reflected as discontinued operations on the Company's consolidated statements of income and cash flows. For further information, see "Discontinued Operations" below.

During the three years ended December 31, 2004, the Company has acquired and sold various other operations, the impact of which has not been material to the financial position or results of operations of the Company.

The net income of the Company for 2004 was \$337.2 million, compared to \$344.7 million during 2003 and \$801.6 million during 2002. Diluted earnings per share for 2004 was \$2.41 compared to \$2.35 in 2003 and \$5.56 in 2002. Income from continuing operations (and diluted earnings per share from continuing operations) was \$337.2 million (\$2.41), \$344.7 million (\$2.35) and \$193.5 million (\$1.35) for 2004, 2003 and 2002, respectively. The diluted earnings per share calculation reflects the application of Emerging Issues Task Force No. 04-8 to all periods presented. See Note 13 for additional information.

Year ended December 31,		2004	2003	2002
		(Dollars, and	e amounts, nds)	
Operating income Interest expense Income from unconsolidated cellular entity Nonrecurring gains and losses, net Other income (expense) Income tax expense	\$	(211,051) 7,067 - (2,597)	750,396 (226,751) 6,160 - 2,154 (187,252)	(221,845) 5,582 3,709 (63,814)
Income from continuing operations Discontinued operations, net of tax		-	344,707	608,091
Net income	\$	337,244	344,707	
Basic earnings per share From continuing operations From discontinued operations Basic earnings per share	\$ \$ \$	2.45 - 2.45	2.40	1.36 4.29 5.66
Diluted earnings per share From continuing operations From discontinued operations Duluted earnings per share	\$ \$ \$	2.41	2.35 - 2.35	1.35 4.21 5.56
Average basic shares outstanding		•	143,583	141,613
Average diluted shares outstanding		142,144	148,779	

Operating income increased \$3.6 million in 2004 as a \$39.8 million increase in operating revenues was substantially offset by a \$36.2 million increase in operating expenses. Operating income increased \$175.0 million in 2003 as a \$395.6 million increase in operating revenues was partially offset by a \$220.6 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 the control of the Company. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry; the Company's ability to effectively manage its growth, including integrating newly-acquired businesses into the Company's operations and hiring adequate numbers of qualified staff; possible changes in the demand for, or pricing of, the Company's products and services; the Company's ability to successfully introduce new product or service offerings on a timely and cost-effective basis; the Company's ability to successfully take steps to mitigate the dilutive effect of the \$500 million of equity units currently scheduled to settle in May 2005; other risks referenced from time to time in this report or other of the Company's filings with the Securities and Exchange Commission; and the

effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to the business are described in greater detail in Item 1 included herein. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

#### OPERATING REVENUES

Year ended December 31,	2004	2003	2002
	 (Do	llars in thou	sands)
Local service Network access Long distance Data Fiber transport and CLEC Other	\$ 716,028 966,011 186,997 275,777 74,409 188,150	712,565 1,001,462 173,884 244,998 43,041 191,660	570,871 884,982 146,536 179,695 21,666 168,246
Operating revenues	\$ 2,407,372	2,367,610	1,971,996

Local service revenues. Local service revenues are derived from the provision of local exchange telephone services in the Company's service areas. Of the \$3.5 million (.5%) increase in local service revenues in 2004, \$12.6 million was due to the provision of custom calling features to more customers, which was partially offset by an \$8.4 million decrease due to the decline in access lines. Of the \$141.7 million (24.8%) increase in local service revenues in 2003, \$121.2 million was due to the properties acquired from Verizon in the third quarter of 2002. Of the remaining \$20.5 million increase, \$8.4 million was due to the provision of custom calling features to more customers and \$5.9 million was due to increased rates in certain jurisdictions. Access lines declined 62,500 (2.6%) during 2004 compared to a decline of 38,400 (1.6%) in 2003. The Company believes the decline in the number of access lines during 2004 and 2003 is primarily due to the displacement of traditional wireline telephone services by other competitive services, including the Company's DSL product offering. Based on current conditions, the Company expects access lines to decline between 2.5 and 3.5% for 2005.

Network access revenues. Network access revenues primarily relate to (i) services provided by the Company to long distance carriers, wireless carriers and other carriers and customers in connection with the use of the Company's facilities to originate and terminate their interstate and intrastate voice and data transmissions and (ii) the receipt of universal support funds which allows the Company to recover a portion of its costs under federal and state cost recovery mechanisms. Certain of the Company's 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 \$35.5 million (3.5%) in 2004 and increased \$116.5 million (13.2%) in 2003 due to the following factors:

	2004 increase (decrease)	2003 increase (decrease)
	 (Dollars in	thousands)
Acquisitions of Verizon properties in third quarter 2002	\$ -	107,319
Recovery from the federal Universal Service High Cost Loop support program One-time refund of access charges to	(11,311)	250
interexchange carriers in 2002 Intrastate revenues due to decreased minutes of use and decreased	-	7,645

access rates in certain states Partial recovery of increased operating costs through revenue sharing arrangements with other telephone companies, interstate access revenues, increased recovery from		(25,916)	(6,798)
state support funds and return on rate base		3,980	3,513
Rate changes in certain jurisdictions		5,052	2,472
Revision of prior year revenue			
settlement agreements		(3,690)	7,368
Other, net		(3,566)	(5,289)
	\$	(35,451)	116,480
	=====	:============	========

As indicated in the chart above, in 2004 the Company experienced a reduction in its intrastate revenues of approximately \$25.9 million primarily due to (i) a reduction in intrastate minutes (partially due to the displacement of minutes by wireless, electronic mail and other optional calling services) and (ii) decreased access rates in certain states. The corresponding decrease in 2003 compared to 2002 was \$6.8 million. The Company believes intrastate minutes will continue to decline in 2005, although the magnitude of such decrease cannot be precisely estimated.

The Company anticipates its 2005 revenues from the federal Universal Service High Cost Loop support program will be approximately \$10-15 million lower than 2004 levels due to increases in the nationwide average cost per loop factor used to allocate funds among all recipients.

Long distance revenues. The Company's long distance revenues relate to the provision of retail long distance services to its customers. Long distance revenues increased \$13.1 million (7.5%) and \$27.3 million (18.7%) in 2004 and 2003, respectively. The \$13.1 million increase in 2004 was primarily attributable to a 14.9% increase in the average number of long distance lines served and a 15.3% increase in minutes of use (aggregating \$21.7 million), partially offset by a decrease in the average rate charged by the Company (\$9.2 million). The \$27.3 million increase in 2003 was primarily attributable to the 28.3% increase in the average number of long distance lines served and increased minutes of use (\$32.6 million), primarily due to penetration of the markets acquired from Verizon in 2002. Such increase was partially offset by a decrease in the average rate charged by the Company (\$5.3 million). The Company anticipates that increased competition and its current level of customer penetration will continue to place downward pressure on rates and slow the growth rate of the number of long distance lines served.

Data revenues. Data revenues include revenues primarily related to the provision of Internet access services (both dial-up and DSL services) and the provision of data transmission services over special circuits and private lines. Data revenues increased \$30.8 million (12.6%) in 2004 and \$65.3 million (36.3%) in 2003. The \$30.8 million increase in 2004 was primarily due to a \$20.3 million increase in Internet revenues due primarily to growth in the number of customers, principally due to expansion of the Company's DSL product offering, and an \$11.3 million increase in special access revenues due to an increase in the number of special circuits provided and an increase in the partial recovery of increased operating expenses through revenue sharing arrangements with other telephone companies. The \$65.3 million increase in 2003 was primarily due to (i) a \$38.4 million increase due to the acquisition of the Verizon properties in 2002 and (ii) a \$21.3 million increase in Internet revenues due primarily to growth in the number of customers in the Company's incumbent markets, principally due to expansion of the Company's DSL product offering.

Fiber transport and CLEC. Fiber transport and CLEC revenues include revenues from the Company's fiber transport, competitive local exchange carrier ("CLEC") and security monitoring businesses. Fiber transport and CLEC revenues increased \$31.4 million (72.9%) in 2004 substantially all of which is attributable to the Company's acquisitions of fiber transport assets (which are operated under the name LightCore) in June and December 2003. Fiber transport and CLEC revenues increased \$21.4 million (98.7%) in 2003 primarily due to (i) \$16.7 million of revenues associated with the acquisition of the Company's LightCore operations and (ii) a \$4.3 million increase in revenues in the Company's CLEC business primarily due to an increased number of customers, including those acquired in connection with the purchase of certain CLEC operations on February 28, 2002.

Other revenues. Other revenues include revenues related to (i)leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for long distance carriers and (iii) participating in the publication of local directories. Other revenues decreased \$3.5 million (1.8%) during 2004 primarily due to a \$3.4 million decrease in directory revenues due to the expiration of the Company's rights to share in the revenues of yellow page directories published in certain markets acquired from Verizon in 2002. Other revenues increased \$23.4 million (13.9%) in 2003,

substantially all of which is due to the properties acquired from Verizon in 2002.

#### OPERATING EXPENSES

Year ended December 31,		2004	2003	2002
	<b>-</b>	(Do	llars in thousa	inds)
Cost of services and products (exclusive				
of depreciation and amortization)	\$	755,413	739,210	635,164
Selling, general and administrative		397,102	374,352	301,681
Corporate overhead costs allocated to				
discontinued operations		-	-	9,548
Depreciation and amortization		500,904	503,652	450,197
Operating expenses	\$	1,653,419	1,617,214	1,396,590
**********				

Cost of services and products. Cost of services and products increased \$16.2 million (2.2%) in 2004 primarily due to (i) a \$14.6 million increase in expenses associated with operating the Company's fiber transport assets acquired in June and December 2003; (ii) an \$8.5 million increase in expenses associated with the Company's Internet operations due to an increase in the number of customers; (iii) a \$7.8 million increase in customer service and retention related expenses; and (iv) a \$6.0 million increase in plant operations expenses. Such increases were partially offset by a \$13.8 million decrease in access expenses (which included a one-time credit of \$3.1 million recorded in 2004) and a \$9.2 million decrease in the cost of providing retail long distance service primarily due to a decrease in the average cost per minute of use and a decrease in circuit costs.

Cost of services and products increased \$104.0 million (16.4%) in 2003 primarily due to (i) a \$77.0 million increase due to the properties acquired from Verizon in the third quarter of 2002, (ii) an \$11.1 million increase in expenses associated with the Company's Internet operations due to an increase in the number of customers, (iii) a \$7.4 million increase in expenses associated with the Company's long distance operations (primarily attributable to higher minutes of use partially offset by a decrease in the rate per minute of use), (iv) a \$6.3 million increase in expenses associated with operating the Company's LightCore assets acquired in 2003, and (v) a \$4.8 million increase in access expenses.

Selling, general and administrative. Selling, general and administrative expenses increased \$22.8 million (6.1%) in 2004 due to (i) a \$9.0 million increase in marketing expenses; (ii) a \$6.4 million increase in expenses attributable to the Company's Sarbanes-Oxley internal controls compliance effort; (iii) a nonrecurring \$5.0 million reduction in bad debt expense recorded in the first quarter of 2003 due to the partial recovery of amounts previously written off related to the bankruptcy of MCI (formerly WorldCom); and (iv) a \$4.3 million increase in expenses associated with operating the Company's LightCore assets acquired in 2003. Such increases were partially offset by a \$6.6 million decrease in bad debt expense (exclusive of the MCI recovery mentioned above).

Selling, general and administrative expenses increased \$72.7 million (24.1%) in 2003 due to (i) a \$50.3 million increase related to the Verizon acquisitions in 2002, (ii) a \$14.0 million increase in operating taxes, which included a \$7.5 million charge arising out of various operating tax audits in 2003, (iii) a \$6.7 million increase in information technology expenses largely attributable to the Company's development of the new billing system described below under "Development of Billing System", (iv) a \$4.9 million increase associated with expanding the Company's Internet operations due to an increase in customers and (v) a \$4.4 million increase in expenses associated with the Company's long distance operations (of which \$2.4 million was due to an increase in billing and collection costs). Such increases were partially offset by an \$11.4 million decrease in the provision for uncollectible receivables (as 2002 was adversely impacted by the establishment of a \$15.0 million reserve for uncollectible receivables primarily related to the bankruptcy of MCI (formerly WorldCom, Inc.), whereas 2003 was positively impacted by a \$5.0 million reduction in the provision for uncollectible receivables due to the partial recovery of amounts previously written off related to the bankruptcy of MCI).

Depreciation and amortization. Depreciation and amortization decreased \$2.7 million (.5%) in 2004 and increased \$53.5 million (11.9%) in 2003. The year 2004 included a reduction in depreciation expense of \$13.2 million to adjust the balances of certain over-depreciated property, plant and equipment accounts. In order to reduce the risk of similar event, in early 2005 the Company implemented automated controls to replace previous manual controls to ensure that depreciation ceases once an asset group is fully depreciated (after consideration of

salvage and removal costs). Depreciation expense for 2004 was also reduced by \$8.4 million due to certain assets becoming fully depreciated. Such decreases were partially offset by a \$16.7 million increase due to higher levels of plant in service, a \$3.1 million adjustment in 2004 related to depreciation of fixed assets related to the Company's new billing system, and a \$3.0 million increase in depreciation due to the assets acquired in connection with the Company's LightCore operations. Of the \$53.5 million increase in 2003, \$50.9 million was due to the properties acquired from Verizon in 2002. The remaining increase is primarily due to increased depreciation expense in the Company's CLEC and fiber transport businesses (including LightCore) and higher levels of plant in service.

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

### INTEREST EXPENSE

Interest expense decreased \$15.7 million (6.9%) in 2004 compared to 2003 partially due to \$7.5 million of nonrecurring interest expense in 2003 associated with various operating tax audits. The remainder of the decrease was primarily due to a decrease in average debt outstanding.

Interest expense increased \$4.9 million in 2003 primarily due to \$7.5 million of interest associated with various operating tax audits. Such increase was partially offset by reduced interest expense due to a decrease in average debt outstanding.

### INCOME FROM UNCONSOLIDATED CELLULAR ENTITY

Income from unconsolidated cellular entity was \$7.1 million in 2004, \$6.2 million in 2003 and \$5.6 million in 2002. Such income represents the Company's share of income from its 49% interest in a cellular partnership.

### NONRECURRING GAINS AND LOSSES, NET

In 2002, the Company recorded a pre-tax gain of \$3.7 million from the sale of a Personal Communications Services license.

### OTHER INCOME (EXPENSE)

Other income (expense) was (\$2.6 million) in 2004, \$2.2 million in 2003 and (\$63.8 million) in 2002. Included in 2004 was a \$3.6 million prepayment expense paid in connection with the redemption of \$100 million aggregate principal amount of the Company's Series B senior notes in May 2004 and a \$2.5 million charge related to the impairment of a nonoperating investment, which amounts were partially offset by a \$2.3 million increase in interest income due to higher cash balances. Included in 2002 was a \$59.9 million pre-tax charge related to the Company's payment of premium in connection with redeeming its Series I remarketable notes, net of unamortized premium.

### INCOME TAX EXPENSE

The Company's effective income tax rate (from continuing operations) was 38.4%, 35.2% and 35.3% in 2004, 2003 and 2002, respectively. Income tax expense for 2003 was reduced by \$21.6 million primarily as a result of reducing the valuation allowance related to net state operating loss carryforwards as it was more likely than not that future taxable income will be sufficient to enable the Company to utilize this portion of the operating loss carryforwards. For additional information, see Note 12 to the Company's consolidated financial statements appearing elsewhere in this report.

### DISCONTINUED OPERATIONS

On August 1, 2002, the Company sold substantially all of its wireless operations to Alltel and certain other purchasers for an aggregate of approximately \$1.59 billion in cash. As a result, the Company's wireless operations for 2002 have been reflected as discontinued operations in the Company's consolidated financial statements. The following table summarizes certain information concerning the Company's wireless operations for the year ended December 31, 2002.

Year ended December 31,	2002		
	(Doll	ars in thousands)	
Operating revenues	\$	246,705	
Operating expenses, exclusive of corporate overhead		·	
costs of \$9.5 million		(175,447)	
Income from unconsolidated cellular entities		25,768	
Minority interest expense		(8,569)	
Gain on sale of discontinued operations		803,905	
Other income		188	
Income tax expense		(284,459)	
Income from discontinued operations, net of tax	\$	608,091	
		=======================================	

Included above in operating expenses for 2002 is a \$30.5 million charge associated with a write-off of all amounts expended to develop the wireless portion of the Company's new billing system discussed below under "Development of Billing System". Depreciation and amortization of long-lived assets and amortizable intangibles related to the Company's wireless operations ceased effective March 19, 2002, the date of the Company's definitive sales agreement with Alltel. Such cessation of depreciation and amortization had the effect of reducing depreciation and amortization expense of the Company's wireless operations approximately \$20 million in 2002.

The Company recorded an \$803.9 million pre-tax gain on the sale of substantially all of its wireless business in the third quarter of 2002.

For further information, see Note 3 to the Company's consolidated financial statements appearing elsewhere in this report.

### ACCOUNTING PRONOUNCEMENTS

In the fourth quarter of 2004, the Company adopted Emerging Issues Task Force No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share" ("EITF 04-8"). EITF 04-8 requires securities issuable under contingently convertible instruments be included in the diluted earnings per share calculation. The Company's \$165 million Series K senior notes are convertible into common stock under various contingent circumstances, including the common stock attaining a specified trading price in excess of the notes' fixed conversion price. Beginning in the fourth quarter of 2004, the Company's diluted earnings per share and diluted shares outstanding reflect the application of EITF 04-8. Prior periods have been restated to reflect this change in accounting.

The Company has elected to account for employee stock-based compensation using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123(R)"). SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, focusing primarily on accounting for transactions in which an entity obtains employee services in exchange for the issuance of stock options. SFAS 123(R) requires the Company to measure the cost of the employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. Such cost will be recognized as an expense over the period during which the employee is required to provide service in exchange for the award. SFAS 123(R) is effective for all awards granted after its effective date of July 1, 2005. In accordance with SFAS 123(R), compensation cost is also recognized over the applicable remaining vesting period for any awards that are not fully vested as of the effective date. The Company expects the adoption of SFAS 123(R) to decrease diluted earnings per share by approximately \$.03 in 2005.

On January 1, 2003, the Company 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 the Company generally has had no legal obligation to remove obsolete assets,

depreciation rates of certain assets established by regulatory authorities for the Company's 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 the Company 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, the Company did not adopt the provisions of SFAS 143 for its telephone operations subject to SFAS 71. For the Company's telephone operations acquired from Verizon in 2002 (which are not subject to SFAS 71) and its other non-regulated operations, the Company has not accrued a liability for anticipated removal costs in the past. For these reasons, the adoption of SFAS 143 did not have a material effect on the Company's financial statements.

In May 2003, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 150, "Accounting for Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"), which provides standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003 and for pre-existing instruments as of the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's financial condition or results of operations.

### CRITICAL ACCOUNTING POLICIES

The Company's 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 judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Management continually evaluates its estimates and judgments including those related to (i) revenue recognition, (ii) allowance for doubtful accounts, (iii) pension and postretirement benefits and (iv) long-lived assets. Actual results may differ from these estimates. The Company believes that certain critical accounting policies involve a higher degree of judgment or complexity, including those described below.

Revenue recognition. Certain of the Company's 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. In the second quarter of 2004, the Company revised certain estimates for recognizing interstate revenues. Previously, the Company initially recognized interstate revenues at a rate of return lower than the authorized rate of return prescribed by the FCC to allow for potential decreases in demand or other factor changes which could decrease the achieved rate of return over the respective monitoring periods. As the monitoring periods progressed, the Company recorded additional revenues ratably up to the achieved rate of return. In the second quarter of 2004, the Company began generally recognizing such interstate network access revenues at the authorized rate of return, unless the actual achieved rate of return was 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 the Company's telephone subsidiaries file interstate tariffs directly with the FCC using this streamlined filing approach. As of December 31, 2004, the amount of the Company's earnings in excess of the authorized rate of return reflected as a liability on the balance sheet for the combined 2001/2002 and 2003/2004 monitoring periods aggregated approximately \$63 million. The settlement period related to (i) the 2001/2002 monitoring period lapses on September 30, 2005 and (ii) the 2003/2004 monitoring period lapses on September 30, 2007. The Company will continue to monitor the legal status of any pending or future proceedings that could impact its entitlement to these funds, and may recognize as revenue some or all of the over-earnings at the end of the settlement period or as the legal status becomes more certain.

Allowance for doubtful accounts. In evaluating the collectibility of its accounts receivable, the Company assesses a number of factors, including a specific customer's or carrier's ability to meet its financial obligations to the Company, the length of time the receivable has been past due and historical collection experience. Based on these assessments, the Company records both specific and general reserves for uncollectible accounts receivable to reduce the related accounts receivable to the amount the Company ultimately expects to collect from customers and carriers. If circumstances change or economic conditions worsen such that the Company's past collection experience is no longer relevant, the Company's estimate of the recoverability of its accounts receivable could be further reduced from the levels reflected in the Company's accompanying consolidated balance sheet.

Pension and postretirement benefits. The amounts recognized in the Company's financial statements related to pension and postretirement benefits are determined on an actuarial basis, which utilizes many assumptions in the calculation of such amounts. A significant assumption used in determining the Company's pension and postretirement expense is the expected long-term rate of return on plan assets. For 2003, the Company lowered its expected long-term rate of return on plan assets to 8.25%, reflecting the expected moderation of long-term rates of return in the financial markets, and used the same rate in 2004.

Another assumption used in the determination of the Company's pension and postretirement benefit plan obligations is the appropriate discount rate, which is generally based on the yield on high-quality corporate bonds. The Company lowered its assumed discount rate to 5.75% at December 31, 2004 from 6.0% at December 31, 2003. Changes in the discount rate are not generally expected to have a material impact on the Company's results of operations.

Intangible and long-lived assets. The Company is 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. 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 are based on valuation models using techniques such as multiples of earnings (before interest, taxes and depreciation and amortization). 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. The Company completed the required annual test of goodwill impairment (as of September 30, 2004) under SFAS 142 and determined its goodwill is not impaired as of such date.

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.

For additional information on the Company's critical accounting policies, see "Accounting Pronouncements" and "Regulation and Competition - Other Matters", and the footnotes to the Company's consolidated financial statements.

### INFLATION

The effects of increased costs historically have been mitigated by the Company's ability to recover certain costs over time applicable to its regulated telephone operations through the rate-making process. However, LECs operating over 60% of the Company's total access lines are now governed by alternative regulation plans, some of which restrict or delay the Company's ability to recover increased costs. Additional future regulatory changes may further alter the Company's ability to recover increased costs in its regulated operations. For the properties acquired from Verizon in 2002, which are regulated under price-cap regulation for interstate purposes, price changes are limited to the rate of inflation, minus a productivity offset. For additional information regarding the current regulatory environment, see "Regulation and Competition." As operating expenses in the Company's nonregulated lines of business increase as a result of inflation, the Company, to the extent permitted by competition, attempts to recover the costs by increasing prices for its services and equipment.

### MARKET RISK

The Company is exposed to market risk from changes in interest rates on its long-term debt obligations. The Company has estimated its market risk using sensitivity analysis. Market risk is defined as the potential change in the fair value of a fixed-rate debt obligation due to a hypothetical adverse change in interest rates. Fair value 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, 2004, the fair value of the Company's long-term debt was estimated to be

\$3.1 billion based on the overall weighted average rate of the Company's long-term debt of 6.5% and an overall weighted maturity of 10 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 the Company's long-term debt resulting from a hypothetical increase of 65 basis points in interest rates (ten percent of the Company's overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a \$119.9 million decrease in the fair value of the Company's long-term debt. As of December 31, 2004, after giving effect to interest rate swaps currently in place, approximately 83% of the Company's long-term debt obligations were fixed rate.

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

At December 31, 2004, the Company had outstanding four fair value interest rate hedges associated with the full \$500 million aggregate principal amount of its Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. These hedges are "fixed to variable" interest rate swaps that effectively convert the Company's fixed rate interest payment obligations under these notes into obligations to pay variable rates that range from the sixmonth London InterBank Offered Rate ("LIBOR") plus 3.229% to the sixmonth LIBOR plus 3.67%, with settlement and rate reset dates occurring each six months through the expiration of the hedges in August 2012. At December 31, 2004, the Company realized a rate under these hedges of 6.4%. Interest expense was reduced by \$10.3 million during 2004 as a result of these hedges. The aggregate fair market value of these hedges was \$5.7 million at December 31, 2004 and is reflected both as a liability and as a decrease in the Company's underlying long-term debt on the December 31, 2004 balance sheet. With respect to these hedges, market risk is estimated as the potential change in the fair value of the hedge resulting from a hypothetical 10% increase in the forward rates used to determine the fair value. A hypothetical 10% increase in the forward rates would result in a \$15.5 million decrease in the fair value of these hedges.

As of December 31, 2004, the Company also had outstanding cash flow hedges that effectively locked in the interest rate on a majority of certain anticipated debt transactions that ultimately were completed in February 2005. The Company locked in the interest rate of (i) \$100 million of 2.25 year debt (remarketed in February 2005) at 3.9% and (ii) \$225 million of 10-year debt (issued in February 2005) at 5.5%. Such cash flow hedges had a fair value of \$571,000 as of December 31, 2004 and are reflected as a component of Accumulated Other Comprehensive Loss on the consolidated balance sheet. In January 2005, the Company also entered into a separate cash flow hedge which effectively locked in the interest rate for an additional \$75 million of 10-year debt (issued in February 2005) at 5.4%. In February 2005, upon settlement of such hedges, the Company (i) received \$366,000 related to the 2.25 year debt remarketing which will be amortized as a reduction of interest expense over the remaining term of the debt and (ii) paid \$7.7 million related to the 10-year debt issuance which will be amortized as an increase in interest expense over the 10-year term of the debt.

Effective May 8, 2003, the Company terminated a fair value interest rate hedge associated with \$500 million aggregate principal amount of its Series H senior notes and received \$22.3 million cash upon settlement, which represented the fair value of the hedge at the termination date. Such amount is being amortized as a reduction of interest expense through 2010, the maturity date of the Series H notes.

### DEVELOPMENT OF BILLING SYSTEM

The Company recently implemented a new integrated billing and customer care system. The costs to develop such system have been accounted for in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use". The capitalized costs of the system aggregated \$207 million (before accumulated amortization) at December 31, 2004 and are being amortized over a 20-year period. Virtually all of the Company's customers were converted to the new system in late 2004. In early 2005, the Company implemented software upgrades and other changes to enhance the productivity and efficiency of the system, the cost of which was not material. During the development phase of the new billing system, the Company capitalized payroll related costs of employees dedicated to the project. The Company began expensing these costs in late 2004, but does not expect the impact thereof to have a material adverse effect on its results of operations.

### LIQUIDITY AND CAPITAL RESOURCES

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

Operating activities. Net cash provided by operating activities from continuing operations was \$955.8 million, \$1.068 billion and \$793.4 million in 2004, 2003 and 2002, respectively. The Company's accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of those years. For additional information relating to the continuing and discontinued operations of the Company, see Results of Operations.

Investing activities. Net cash used in investing activities from continuing operations was \$413.3 million, \$464.6 million and \$2.623 billion in 2004, 2003 and 2002, respectively. Cash used for acquisitions was \$86.2 million in 2003 (primarily due to the acquisitions of fiber transport assets and the acquisition of an additional 24.3% interest in a telephone company in which the Company owns a majority interest) and \$2.245 billion in 2002 (substantially all of which relates to the 2002 Verizon acquisitions). Proceeds from the sales of assets were \$4.1 million in 2002 (excluding the Company's 2002 wireless divestiture). Capital expenditures from continuing operations during 2004, 2003 and 2002 were \$385.3 million, \$377.9 million and \$386.3 million, respectively. In the third quarter of 2004, the Company entered into a three-year agreement with EchoStar Communications Corporation ("EchoStar") to provide co-branded satellite television services to the Company's customers. As part of the transaction, the Company paid \$25.0 million to EchoStar (see Note 4 for additional information).

Financing activities. Net cash provided by (used in) financing activities from continuing operations was (\$578.5) million in 2004, (\$403.8) million in 2003 and \$506.3 million in 2002. Payments of debt were \$179.4 million in 2004 and \$432.3 million in 2003. Proceeds from the issuance of debt, net of debt payments, were \$531.4 million during 2002. The Company repurchased 13.4 million shares of common stock for \$401.0 million in 2004 to complete its stock repurchase program approved in February 2004.

On May 6, 2002, the Company issued and sold in an underwritten public offering \$500 million of equity units. Net proceeds to the Company from this issuance were approximately \$483.4 million. Each of the 20 million equity units issued was priced at \$25 and consisted initially of a beneficial interest in a CenturyTel senior unsecured note with a principal amount of \$25 and a contract to purchase shares of CenturyTel common stock no later than May 2005. As discussed below, the senior notes were remarketed in February 2005. Each stock purchase contract will generally require the holder to purchase between .6944 and .8741 of a share of CenturyTel common stock in May 2005 in exchange for \$25, subject to certain adjustments and exceptions. The total distributions on the equity units were initially set at an initial annual rate of 6.875%, consisting of interest (6.02%) and contract adjustment payments (0.855%).

In the third quarter of 2002, the Company issued \$500 million of senior notes due 2012 (which bear interest at 7.875%) and \$165 million of convertible senior debentures (which bear interest at 4.75% and which may be converted under certain specified circumstances into shares of CenturyTel common stock at a conversion price of \$40.455 per share). Holders of the convertible senior debentures will have the right to require the Company to purchase all or a portion of the debentures on August 1, 2006, August 1, 2010 and August 1, 2017 at par plus any accrued and unpaid interest to the purchase date. For additional information, see Note 6 to the Company's consolidated financial statements appearing elsewhere in this report.

On August 1, 2002, the Company sold substantially all of its wireless operations to Alltel and certain other purchasers for an aggregate of approximately \$1.59 billion cash.

The Company used proceeds from the sale of the above-described equity units, senior notes and convertible senior debentures, along with the proceeds received from the sale of the Company's wireless operations and utilization of its \$800 million credit facilities, to finance the third quarter 2002 acquisitions of telephone properties in Alabama and Missouri from Verizon which aggregated \$2.201 billion, the redemption of \$400 million principal amount in remarketable debt securities (plus an associated \$71.1 million premium payment) in October 2002 and the Company's fourth quarter 2002 estimated tax payment, which aggregated \$290 million and included the obligation to pay taxes associated with the sale of substantially all of its wireless operations.

Other. Budgeted capital expenditures for 2005 total \$400 million. The Company anticipates that capital expenditures in its telephone operations will continue to include the upgrading of its plant and equipment, including its digital switches, to provide enhanced

services, particularly in its newly acquired markets, and the installation of fiber optic cable.

On February 2, 2005, the Company signed a definitive purchase agreement to acquire metro
fiber assets in 16 markets from KMC Telecom Holdings, Inc. ("KMC") for \$65 million cash, subject
to purchase price adjustments.

The following table contains certain information concerning the Company's material contractual obligations as of December 31, 2004, except for the KMC purchase price obligation which is as of February 2, 2005.

	Payments due by period					
Contractual obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years	
		(Do	llars in thousa	nds)		
Long-term debt, including current maturities and capital lease obligations (1)	\$ 3,011,636	249,617	806,511(2)	306,557	1,648,951	
Interest on long- term debt obligations	\$ 1,935,814	185,807	347,029	304,936	1,098,042	
KMC purchase price obligation	\$ 65,000	65,000	_	_	-	

- (1) For additional information on the terms of the Company's outstanding debt instruments, see footnote 6 to the consolidated financial statements included in Item 8 of this annual report.
- (2) Includes \$165 million aggregate principal amount of the Company's convertible debentures, Series K, due 2032, which can be put to the Company at various dates beginning in 2006 and \$500 million aggregate principal amount of the Company's senior notes, Series J, due 2007. In February 2005, the Company purchased and retired approximately \$400 million aggregate principal amount of its Series J notes in connection with a remarketing of the Series J notes.

In February 2005, the Company remarketed approximately \$460 million aggregate principal amount of its \$500 million of outstanding Series J senior notes due 2007 at a rate of 4.628%. In connection with the remarketing, the Company purchased and retired approximately \$400 million aggregate principal amount of the notes, resulting in approximately \$100 million aggregate principal amount of such notes remaining outstanding. Proceeds to purchase such notes came from the February 2005 issuance of \$350 million 5% senior notes, Series M, due 2015 and cash on hand. The Company expects to incur a pre-tax charge of approximately \$6 million in the first quarter of 2005 related to purchasing and retiring approximately \$400 million of the Series J notes. For additional information, see Note 6 to the Company's consolidated financial statements appearing elsewhere in this report.

In early 2005, the Company filed preliminary consent solicitation materials with the Securities and Exchange Commission describing plans to solicit consents to amend the purchase contracts forming a part of the Company's equity units to grant the Company the flexibility to settle such purchase contracts in cash rather than in common stock (as described above). The Company is obligated to pay a consent fee to each consenting holder, the amount of which (should all holders consent) would aggregate \$1.75 million. If under the consent solicitation the Company settled all of the purchase contracts in cash and the current stock price of the Company's common stock at the settlement date exceeds \$36, the Company would be obligated to pay to the holders of the purchase contracts \$13.9 million for every \$1 that the stock price is in excess of \$36. The Company cannot provide assurance that its consent solicitation will be initiated or be successful.

In early February 2005, the Company's board of directors approved a stock repurchase program that will allow the Company to repurchase up to an aggregate of \$200 million of either its common stock or convertible equity units prior to December 31, 2005. The Company commenced purchases under this plan in early March 2005.

The Company continually evaluates the possibility of acquiring additional communications operations and expects to continue its long-term strategy of pursuing the acquisition of attractive communications properties in exchange for cash, securities or both. At any given time, the Company may be engaged in discussions or negotiations regarding additional acquisitions. The Company generally does not announce its acquisitions or dispositions until it has entered into a preliminary or definitive agreement. The Company may require additional

financing in connection with any such acquisitions, the consummation of which could have a material impact on the Company's financial condition or operations. Approximately 4.1 million shares of CenturyTel common stock and 200,000 shares of CenturyTel preferred stock remain available for future issuance in connection with acquisitions under CenturyTel's acquisition shelf registration statement.

As of December 31, 2004, the Company had available \$533.0 million of undrawn committed bank lines of credit and the Company's telephone subsidiaries had available for use \$123.0 million of commitments for long-term financing from the Rural Utilities Service and Rural Telephone Bank. The Company has a commercial paper program that authorizes the Company to have outstanding up to \$1.5 billion in commercial paper at any one time; however, borrowings are effectively limited to the amount available under its credit facility. As of December 31, 2004, the Company had no commercial paper outstanding under such program. The Company also has access to debt and equity capital markets, including its shelf registration statements. At December 31, 2004, the Company held over \$167 million of cash and cash equivalents.

In March 2005, the Company secured a new five-year, \$750 million revolving credit facility to replace its existing \$533 million credit facility which expires in July 2005. Up to \$150 million of the facility can be used for letters of credit, which reduces the amount available for other extensions of credit. The credit facility contains financial covenants that require the Company 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 the Company's choice of several prevailing commercial lending rates plus an additional margin that varies depending on the Company's credit ratings and aggregate borrowings under the facility. The Company must pay a quarterly commitment fee on the unutilized portion of the facility, the amount of which varies based on the Company's credit ratings.

Moody's Investors Service ("Moody's") rates CenturyTel's long-term debt Baa2 (with a stable outlook) and Standard & Poor's ("S&P") rates CenturyTel's long-term debt BBB+ (with a stable outlook). Such ratings were affirmed in early 2005 in connection with the Series J remarketing and the Series M note issuance mentioned above. The Company's commercial paper program is rated P2 by Moody's and A2 by S&P. Any downgrade in the Company's credit ratings will increase its borrowing costs and commitment fees under its \$750 million revolving credit facility. Downgrades could also restrict the Company's access to the capital markets, accelerate the conversion rights of holders of the Company's outstanding convertible securities, increase the Company's borrowing costs under new or replacement debt financings, or otherwise adversely affect the terms of future borrowings by, among other things, increasing the amount of the Company's debt covenants and decreasing the Company's financial or operating flexibility.

The following table reflects the Company's 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:

	2004	2003	2002
Debt to total capitalization Ratio of earnings from continuing operations to fixed charges	46.9%	47.8	54.2
and preferred stock dividends	3.57	3.33	2.33

### 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. 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 50% of the Company's 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.

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. On March 2, 2004, a federal appellate court vacated significant portions of these rules, including the standards used to determine which unbundled network elements must be made available to competitors. In response to this court decision, on February 4, 2005, the FCC released rules (effective March 11, 2005) that require 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 unbundling obligations over time as competing carriers deploy their own networks and local exchange competition increases.

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

As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies. The FCC adopted an interim mechanism for a five-year period, effective July 1, 2001, based on embedded, or historical, costs that will provide predictable levels of support to rural local exchange carriers, including substantially all of the Company's local exchange carriers. Based on recent FCC filings, the Company anticipates its 2005 revenues from the USF High Cost Loop support program will be approximately \$10-15 million lower than 2004 levels due to increases in the nationwide average cost per loop factor used by the FCC to allocate funds among all recipients. Wireless and other competitive service providers continue to seek eligible telecommunications carrier ("ETC") status in order to be eligible to receive USF support, which, coupled with changes in usage of telecommunications services, have placed stresses on the USF's funding mechanism. 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 the Company receives from the High Cost Loop support program. As a result of the continued increases in the nationwide average cost per loop factor (caused by limited growth in the size of the High Cost Loop support program and changes in requests for support from the USF), the Company believes the aggregate level of payments it receives from the USF will continue to decline in the near term under the FCC's current rules.

On August 16, 2004, the Federal State Joint Board on Universal Service released a notice requesting 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 the Company. The FCC has taken various other steps in anticipation of restructuring universal service support mechanisms, including opening a docket that will change the method of funding contributions. The FCC is expected to act before its current rules are scheduled to expire on June 30, 2006. Congress is also exploring various universal service issues ranging from targeted universal service legislation to re-writing the 1996 Act. The Company has been and 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. Recent improvements in the quality of "Voice-over-Internet Protocol" ("VoIP") service have led several large cable television and telephone companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers route calls 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 use existing broadband networks to deliver flat-rate, all distance calling plans that may be priced below those currently charged for traditional local and long distance telephone services for several reasons, including lower network cost structures and the current ability of VoIP providers to use ILECs' networks without paying access charges. However, the service must be purchased in addition to the cost of the broadband connection. In December 2003, the FCC initiated rulemaking that is expected to address the effect of VoIP on intercarrier compensation, universal service and emergency services. On March 10, 2004, the FCC released a notice of proposed rulemaking seeking comment on the appropriate regulatory treatment of VoIP service and related issues. 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 an

April 2004 order in which the FCC ruled that the IP-telephony service of AT&T, which converts voice calls to IP format for routing over the public switched telephone network, is a regulated telecommunications service subject to interstate access charges. In addition, in November 2004, the FCC ruled that Internet-based services provided by Vonage Holdings Corporation should be subject to federal rather than state jurisdiction. Several state commissions have filed appeals of this decision to various federal appellate courts. Also pending at the FCC is a petition filed by Level 3 Communications, Inc. asking the FCC to forbear from imposing interstate or intrastate access charges on Internet-based calls that originate or terminate on the public switched telephone network. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for the Company's 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 on February 10, 2005 solicited comments on all proposals previously submitted to it. The Company is involved in this proceeding and will continue to monitor the implications of these plans to its operations.

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

State alternative regulation plans recently adopted by certain of the Company's LECs have also affected revenue growth recently.

Certain long distance carriers continue to request that the Company reduce intrastate access tariffed rates for certain of its LECs. In addition, the Company has recently experienced reductions in intrastate traffic, partially due to the displacement of minutes by wireless and electronic mail services. In 2004 the Company incurred a reduction in its intrastate revenues of approximately \$25.9 million compared to 2003 primarily due to these factors. The corresponding decrease in 2003 compared to 2002 was \$6.8 million. The Company believes such trend of decreased intrastate minutes will continue in 2005, although the magnitude of such decrease cannot be precisely estimated.

In January 2003, the Louisiana Public Service Commission staff began reviewing the feasibility of converting the \$42 million Louisiana Local Optional Service Fund ("LOS Fund") into a state universal service fund. Currently, the LOS Fund is funded primarily by BellSouth, which proposes to expand the base of contributors into the LOS Fund. The Company currently receives approximately \$21 million from the LOS Fund each year. Although the Commission staff has recommended to transfer the fund's \$42 million to a state universal service fund, there can be no assurance that the Commission will adopt this recommendation or that funding will remain at current levels.

Competition to provide traditional LEC services has thus far affected large urban areas to a greater extent than rural, suburban and small urban areas such as those in which the Company's telephone operations are located. While the Company expects its operating revenues in 2005 to continue to experience downward pressure due to continued access line losses and reduced network access revenues, the Company expects its consolidated revenues to increase in 2005 primarily due to increased demand for its long distance, fiber transport, DSL and other nonregulated product offerings (including its new video and wireless initiatives).

Other matters. The Company's 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. The Company is monitoring the ongoing applicability of SFAS 71 to its 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 the Company's telephone operations no longer being subject to SFAS 71 in the near future.

Statement of Financial Accounting Standards No. 101, "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71" ("SFAS 101"), specifies the accounting required when an enterprise ceases to meet the criteria for application of SFAS 71. SFAS 101 requires the elimination of the effects of any actions of regulators that have been

recognized as assets and liabilities in accordance with SFAS 71 but would not have been recognized as assets and liabilities by nonregulated enterprises. Depreciation rates of certain assets established by regulatory authorities for the Company's telephone operations subject to 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 the Company 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, the Company did not adopt the provisions of SFAS 143 for its 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.

The Company's consolidated balance sheet as of December 31, 2004 included regulatory assets of approximately \$3.0 million (primarily deferred costs related to financing costs and regulatory proceedings) and regulatory liabilities of approximately \$200.3 million related to estimated removal costs embedded in accumulated depreciation (as described above). Net deferred income tax assets related to the regulatory assets and liabilities quantified above were \$75.2 million.

When and if the Company's regulated operations no longer qualify for the application of SFAS 71, the Company does not expect to record any impairment charge related to the carrying value of the property, plant and equipment of its regulated telephone operations. Additionally, upon the discontinuance of SFAS 71, the Company would be required to revise the lives of its property, plant and equipment to reflect the estimated useful lives of the assets. The Company does not expect such revisions in asset lives will have a material impact on the Company's results of operations. For regulatory purposes, the accounting and reporting of the Company's telephone subsidiaries will not be affected by the discontinued application of SFAS 71.

The Company has certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2004 have not been material, and the Company currently has no reason to believe that such costs will become material.

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

For information pertaining to the Company's 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 the Company's 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.

The Company's 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 controls 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, the Company 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 the Company's internal control over financial reporting was effective as of December 31, 2004.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 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 of the Company. 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 March 16, 2005

### 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 as listed in Item 15a(i). In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Item 15a(ii). 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CenturyTel, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill and other intangible assets in 2002.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Shreveport, Louisiana March 14, 2005

### Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders CenturyTel, Inc.:

We have audited management's assessment, included in the accompanying Report of Management, that CenturyTel, Inc. maintained effective internal control over financial reporting as of December 31, 2004, 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and 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, management's assessment that CenturyTel, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, CenturyTel, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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 and related financial statement schedule as listed in Items 15(a)(i) and 15(a)(ii), respectively, and our report dated March 14, 2005 expressed an unqualified opinion on those consolidated financial statements and related financial statement schedule. Such report refers to a change in the method of accounting for goodwill and other intangible assets in 2002.

/s/ KPMG LLP

Shreveport, Louisiana March 14, 2005

## CENTURYTEL, INC. Consolidated Statements of Income

			r ended Decemb	
		2004	2003	2002
		(Dollars,	except per sh shares in thou	are amounts,
OPERATING REVENUES	\$		2,367,610	
OPERATING EXPENSES  Cost of services and products (exclusive of depreciation and amortization)  Selling, general and administrative  Corporate overhead costs allocable to discontinued operations  Depreciation and amortization		755,413 397,102	739,210 374,352 - 503,652	635,164 301,681
Total operating expenses		1,653,419	1,617,214	1,396,590
	~ ~			
OPERATING INCOME	<b></b>		750,396	
OTHER INCOME (EXPENSE) Interest expense Income from unconsolidated cellular entity Nonrecurring gains and losses, net Other income (expense)		(211,051) 7,067 - (2,597)	(226,751) 6,160 - 2,154	(221,845) 5,582 3,709 (63,814)
Total other income (expense)		(206,581)	(218,437)	(276,368)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE Income tax expense		547,372 210,128	531,959	299,038 105,505
INCOME FROM CONTINUING OPERATIONS		337,244	344,707	193,533
DISCONTINUED OPERATIONS Income from discontinued operations, net of \$284,459 tax		-		608,091
NET INCOME	\$	337,244	344,707	801,624
Basic earnings per share  from continuing operations from discontinued operations Basic earnings per share	\$ \$ \$	2.45	2.40	1.36 4.29
Diluted earnings per share From continuing operations From discontinued operations Diluted earnings per share	\$ \$ \$	2.41	2.35	4.21 5.56
DIVIDENDS PER COMMON SHARE			. 22	
AVERAGE BASIC SHARES OUTSTANDING		137,215	143,583	141,613
AVERAGE DILUTED SHARES OUTSTANDING		142,144	148,779	144,408

## CENTURYTEL, INC. Consolidated Statements of Comprehensive Income

Year ended December 31,			
<b>-</b> -			
<b>-</b> -			
\$	337,244	344,707	801,624
	(9,491)	35,864	(35,864)
	1,508	-	-
	(351)	(67) 906	(921)
	\$	2004 (Do \$ 337,244 (9,491) 1,508 (351)	2004 2003  (Dollars in thousa: \$ 337,244 344,707  (9,491) 35,864  1,508 -  (351) (67)  - 906

## CENTURYTEL, INC. Consolidated Balance Sheets

	<b></b>		ember 31,
		2004	2003
ASSETS		(Dollars	in thousands)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents Accounts receivable	\$	167,215	203,181
Customers, less allowance of			
\$12,766 and \$13,862		161,827	163,526
Interexchange carriers and other, less			
allowance of \$8,421 and \$9,817		70,753	72,661
Materials and supplies, at average cost Other		5,361 14,691	9,229 14,342
Total current assets		419,847	462,939
NET PROPERTY, PLANT AND EQUIPMENT		3 341 401	3,455,481
NEL PROPERTY, FEMALY AND EQUIPMENT			
GOODWILL AND OTHER ASSETS			
Goodwill Other		3,433,864 601,841	3,425,001
Other		501,841	552,431
Total investments and other assets		4,035,705	3,977,432
TOTAL ASSETS	\$	7,796,953	7.895.852
	•		
LIABILITIES AND EOUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt	\$	249,617	72,453
Accounts payable		141,618	124,320
Accrued expenses and other current liabilities Salaries and benefits		60,858	55,497
Income taxes		54,648	43,082
Other taxes		47,763	35,532
Interest		67,379	64,247
Other		18,875	31,640
Advance billings and customer deposits		50,860	44,612
			471 202
Total current liabilities		691,618	471,383
LONG-TERM DEBT		2,762,019	3,109,302
		933,551	836,651
DEFERRED CREDITS AND OTHER LIABILITIES		•	830,031
STOCKHOLDERS' EQUITY			
Common stock, \$1.00 par value, authorized			
350,000,000 shares, issued and outstanding			
132,373,912 and 144,364,168 shares		132,374	144,364
Paid-in capital		222,205	576,515
Accumulated other comprehensive loss, net of tax		(8,334)	-
Retained earnings		3,055,545	
Unearned ESOP shares Preferred stock - non-redeemable		- 7,975	(500) 7,975
Freierred Stock - non-redeemable	<b>-</b> -		
Total stockholders' equity		3,409,765	3,478,516
~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~~			

## $\label{eq:centurytel} \mbox{Centurytel, INC.} \\ \mbox{Consolidated Statements of Cash Flows}$

		Year	ended Decemb	per 31,
		2004	2003	2002
			lars in thous	
OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		227 044	244 707	801 624
Net income	Ş	331,244	344,707	001,624
Adjustments to reconcile net income to net cash provided by operating activities from				
continuing operations			_	(608,091)
Income from discontinued operations, net of tax			503,652	450,197
Depreciation and amortization		500,904	128,706	71,112
Deferred income taxes		74,374	(6,160)	
Income from unconsolidated cellular entity		(7,067)	(0,100)	(3,709)
Nonrecurring gains and losses, net Changes in current assets and current liabilities			37.000	
Accounts receivable		2,937		(13,481)
Accounts payable		15,514	47,972	
Accrued taxes		27,040	57,709	43,046
Other current assets and other current				26 216
liabilities, net		12,831	17,323 (14,739)	36,316
Retirement benefits		26,954	(14,739)	(9,416)
Increase in noncurrent assets		(31,714)	(23,528)	(30,543)
Increase (decrease) in other noncurrent liabilities		(6,220)	(6,151)	35,489
Other, net		3,034	(19,507)	22,703
Net cash provided by operating activities				
from continuing operations		955,831	1,067,964	793,434
INVESTING ACTIVITIES FROM CONTINUING OPERATIONS				
Acquisitions, net of cash acquired		(2,000)	(86,243)	(2,245,026)
Payments for property, plant and equipment		(385,316)	(377,939)	
		(25.000)	_	-
Investment in debt security Proceeds from sale of assets		-	-	4,144
		8.219	1.104	5,438
Distributions from unconsolidated cellular entity		(9.214)	1,104 (1,560)	(1,378)
Other, net	- <b></b>			
Net cash used in investing activities				
from continuing operations		(413,311)	(464,638)	(2,623,089)
FINANCING ACTIVITIES FROM CONTINUING OPERATIONS				2 122 (10
Proceeds from issuance of debt			(432,258)	2,123,618
Payments of debt				(1,592,246)
Repurchase of common stock		(401,013)		-
Proceeds from settlement of interest rate hedge contract			22,315	20 125
Proceeds from issuance of common stock		29,485		29,125
Payment of debt issuance costs		-	-	(12,999)
Payment of equity unit issuance costs		<del>-</del> -		
Cash dividends			(32,017)	
Other, net		4,296	4,174	4,866
Net cash provided by (used in) financing				
activities from continuing operations		(578,486)	(403,806)	506,341
activities from continuing operations	<b>-</b>			
				1 323 470
Net cash provided by discontinued operations				1,323,479
				165
Net increase (decrease) in cash and cash equivalents			199,520	
Cash and cash equivalents at beginning of year	<b>-</b>	203,181	3,661	3,496
	<del>-</del>			
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$		203,181	
PRESENTATION DESCRIPTION OF THE PROPERTY OF TH				========

# CENTURYTEL, INC. Consolidated Statements of Stockholders' Equity

•	Yea	r ended Decer	mber 31,
	2004	2003	2002
	 (Dollars,		share amounts
COMMON STOCK			
Balance at beginning of year Repurchase of common stock	\$ 144,364 (13,396)	142,956	141,233
<pre>Issuance of common stock through dividend   reinvestment, incentive and benefit plans</pre>	1,406	1,408	1,723
Balance at end of year	132,374	144,364	142,956
PAID-IN CAPITAL			
Balance at beginning of year	576,515	537,804	524,668
Repurchase of common stock	(387,617)	-	-
Issuance of common stock through dividend reinvestment, incentive and benefit plans	20 070	32,572	27 402
Equity unit issuance costs and initial contract	28,079	32,372	27,402
adjustment liability	_	-	(24,377)
Amortization of unearned compensation and other	5,228	6,139	10,111
Balance at end of year	222,205	576,515	537,804
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX			
Balance at beginning of year	-	(36,703)	-
Change in other comprehensive income (loss) (net of reclassification adjustment), net of tax	(8,334)	36,703	(36,703)
Balance at end of year	 (0.224)		(26.202)
barance at end of year	 (0,334/		(36,703)
DEED THEE TARVENCE			
RETAINED EARNINGS Balance at beginning of year	2 750 162	2 427 472	1 666 004
Net income	337.244	2,437,472 344,707	801 624
Cash dividends declared	337,244	344,707	001,024
Common stock - \$.23, \$.22 and \$.21 per share	(31,462)	(31,618)	(29,757)
Preferred stock	(399)	(31,618) (399)	(399)
Balance at end of year		2,750,162	
balance at end of year	 	2,750,162	2,437,472
UNEARNED ESOP SHARES			
Balance at beginning of year	(500)	(1,500)	(2,500)
Release of ESOP shares	500	(1,500) 1,000	1,000
Balance at end of year		(500)	
PREFERRED STOCK - NON-REDEEMABLE			
Balance at beginning and end of year		7,975	
TOTAL STOCKHOLDERS' EQUITY		3,478,516	
COMMON SHARES OUTSTANDING			
Balance at beginning of year	144.364	142,956	141.233
Repurchase of common stock	(13,396)	142,550	
Issuance of common stock through dividend			
reinvestment, incentive and benefit plans	 1,406	1,408	1,723
Balance at end of year		144,364	
***************************************			

### CENTURYTEL, INC.

### Notes to Consolidated Financial Statements December 31, 2004

### (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation - The consolidated financial statements of CenturyTel, Inc. and its subsidiaries (the "Company") include the accounts of CenturyTel, Inc. ("CenturyTel") and its majority-owned subsidiaries.

Regulatory accounting - The Company's 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. The Company is monitoring the ongoing applicability of SFAS 71 to its 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 the Company's telephone operations no longer being subject to SFAS 71 in the near future. The Company's consolidated balance sheet as of December 31, 2004 included regulatory assets of approximately \$3.0 million (primarily deferred costs related to financing costs and regulatory proceedings) and regulatory liabilities of approximately \$200.3 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 \$75.2 million.

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 advanced billings and customer deposits on the Company's balance sheet and recognized as revenue over the period that the services are provided. Revenue that is billed in arrears includes 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.

Certain of the Company's telephone subsidiaries participate in revenue sharing arrangements with other telephone companies for interstate revenue and for certain intrastate revenue. Such sharing arrangements are funded by toll revenue and/or access charges within state jurisdictions and by access charges in the interstate market. Revenues earned through the various sharing arrangements are initially recorded based on the Company's estimates. Property, plant and equipment - Telephone plant is stated 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 2.8% to 23%.

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. Impairment of goodwill is tested at least annually by comparing the fair value of the reporting unit to its carrying value (including goodwill). Estimates of the fair value of the reporting unit are based on valuation models using criterion such as multiples of earnings.

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) and also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. As a result of the Company's agreement in March 2002 to sell its wireless operations (which was consummated on August 1, 2002) (see Note 3), such operations have been reflected as discontinued operations for the year ended December 31, 2002.

Affiliated transactions - Certain service subsidiaries of CenturyTel provide installation and maintenance services, materials and supplies, and managerial, operational, technical, accounting and administrative services to 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. These transactions are recorded by the Company's telephone subsidiaries at their cost to the extent permitted by regulatory authorities. Intercompany profit on transactions with regulated affiliates is limited to a reasonable return on investment and has not been eliminated in connection with consolidating the results of operations of CenturyTel and its subsidiaries. Intercompany profit on transactions with affiliates not subject to SFAS 71 has been eliminated.

Income taxes - CenturyTel files a consolidated federal income tax return with its eligible subsidiaries. The Company uses the asset and liability method of accounting for income taxes under which deferred tax assets and liabilities are established for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases.

Derivative financial instruments - The Company accounts 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, the Company designates 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. The Company also formally assesses, 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 the Company determines that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, the Company would discontinue hedge accounting prospectively. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Management periodically reviews the Company's exposure to interest rate fluctuations and implements strategies to manage the exposure.

Earnings per share - Basic earnings per share amounts are determined on the basis of the weighted average number of common shares outstanding during the year. Diluted earnings per share gives effect to all potential dilutive common shares that were outstanding during the period. In the fourth quarter of 2004, the Company adopted the requirements of Emerging Issues Task Force No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share," in calculating its diluted earnings per share. See Note 13 for additional information.

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

During 2004 the Company granted 952,975 options (the "2004 Options") at market price. The weighted average fair value of each of the 2004 Options was estimated as of the date of grant to be \$10.25 using an option-pricing model with the following assumptions: dividend yield - .7%; expected volatility - 30%; weighted average risk-free interest rate - 3.6%; and expected option life - seven years.

During 2003 the Company granted 1,720,317 options (the "2003 Options") at market price. The weighted average fair value of each of the 2003 Options was estimated as of the date of grant to be \$9.94 using an option-pricing model with the following assumptions: dividend yield - .7%; expected volatility - 30%; weighted average risk-free interest rate - 3.4%; and expected option life - seven years.

During 2002 the Company granted 1,983,150 options (the "2002 Options") at market price. The

weighted average fair value of each of the 2002 Options was estimated as of the date of grant to be \$11.66 using an option-pricing model with the following assumptions: dividend yield - .7%; expected volatility - 30%; weighted average risk-free interest rate - 3.4%; and expected option life - seven years.

If compensation cost for CenturyTel's options had been determined consistent with SFAS 123, the Company's net income and earnings per share on a pro forma basis for 2004, 2003 and 2002 would have been as follows:

Year ended December 31,		2004	2003	2002
			ars in thous per share a	
Net income, as reported  Less: Total stock-based compensation  expense determined under fair value	\$	337,244	344,707	801,624
based method, net of tax	\$	(9,767)	(13,183)	(15,001)
Pro forma net income	\$	•	331,524	
	==:	============		=======
Basic earnings per share				
As reported	\$	2.45	2.40	5.66
Pro forma	\$	2.38	2.31	5.55
Diluted earnings per share				
As reported	\$	2.41	2.35	5.56
Pro forma	\$	2.34	2.26	5.46

Beginning in the third quarter of 2005, the Company will adopt the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), "Share-Based Payments" ("SFAS 123(R)"). SFAS 123(R) requires the Company to measure the cost of the employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. Such cost will be recognized as an expense over the period during which the employee is required to provide service in exchange for the award. In accordance with SFAS 123(R), compensation cost is also recognized over the applicable remaining vesting period for any awards that are not fully vested as of the effective date.

Cash equivalents - The Company considers short-term investments with a maturity at date of purchase of three months or less to be cash equivalents. Discontinued operations - On August 1, 2002, the Company sold substantially all of its wireless operations to an affiliate of ALLTEL Corporation ("Alltel") and certain other purchasers for an aggregate of approximately \$1.59 billion in cash. As a result, the Company's wireless operations have been reflected as discontinued operations for 2002. See Note 3 for additional information. Reclassifications - Certain amounts previously reported for prior years have been reclassified to conform with the 2004 presentation, including the presentation of the Company's segment reporting. See Note 17 for additional information.

### (2) ACQUISITIONS

On July 1, 2002, the Company purchased approximately 300,000 telephone access lines in the state of Alabama from Verizon Communications, Inc. ("Verizon") for approximately \$1.022 billion cash. On August 31, 2002, the Company purchased approximately 350,000 telephone access lines in the state of Missouri from Verizon for approximately \$1.179 billion cash. The assets purchased in these transactions included (i) franchises authorizing the provision of local telephone service, (ii) related property and equipment comprising Verizon's local exchange operations in predominantly rural markets throughout Alabama and Missouri and (iii) Verizon's assets used to provide digital subscriber line ("DSL") and other high speed data services within the purchased exchanges. For financing arrangements related to these acquisitions, see Note 6.

In June and December 2003, the Company acquired certain fiber transport assets for an aggregate of \$55.2 million cash (of which \$3.8 million was paid as a deposit in 2002). In the fourth quarter of 2003, the Company purchased an additional 24.3% interest in a telephone company in which it owned a majority interest for \$32.4 million cash.

The results of operations of the acquired properties are included in the Company's results of operations from and after the respective acquisition dates.

The following pro forma information represents the consolidated results of continuing

operations of the Company for the year ended December 31, 2002 as if the Verizon acquisitions in 2002 had been consummated as of January 1, 2002.

2002

(Dollars in thousands, except per share amounts)

Operating revenues from continuing operations Income from continuing operations	•	2,285,866 218,252
Basic earnings per share from continuing operations	\$	1.54
Diluted earnings per share from continuing operations	\$	1.52

The pro forma information is based on various assumptions and estimates. The pro forma information (i) reflects the effect of reduced interest expense after August 1, 2002 as a result of reducing outstanding indebtedness from utilization of proceeds received from the August 1, 2002 sale of substantially all of the Company's wireless operations described in Note 3 and (ii) makes no pro forma adjustments to reflect any assumed consummation of such sale (or any use of such sale proceeds) prior to August 1, 2002. The pro forma information is not necessarily indicative of the operating results that would have occurred if the Verizon acquisitions had been consummated as of January 1, 2002, nor is it necessarily indicative of future operating results. The pro forma information does not give effect to any actual or potential revenue enhancements or cost synergies or other operating efficiencies resulting from the acquisitions.

(3) DISCONTINUED OPERATIONS

On August 1, 2002, the Company sold substantially all of its wireless operations to Alltel and certain other purchasers for an aggregate of approximately \$1.59 billion in cash. In connection with this transaction, the Company divested its (i) interests in its majority-owned and operated cellular systems, which at June 30, 2002 served approximately 783,000 customers and had access to approximately 7.8 million pops, (ii) minority cellular equity interests representing approximately 1.8 million pops at June 30, 2002, and (iii) licenses to provide PCS covering 1.3 million pops in Wisconsin and Iowa. Proceeds from the sale of the wireless operations were used to partially fund the Company's acquisitions of telephone properties in Alabama and Missouri during the third quarter of 2002.

As a result of the sale, the Company's wireless operations have been reflected as discontinued operations in the Company's consolidated statements of income and cash flows for the year ended December 31, 2002.

The depreciation and amortization of long-lived and amortizable intangible assets related to the wireless operations ceased on March 19, 2002, the date of the definitive agreement to sell such operations.

The Company had no outstanding indebtedness directly related to its wireless operations; therefore, no interest expense was allocated to discontinued operations. The following table represents certain summary income statement information related to the Company's wireless operations that is reflected in discontinued operations.

Year ended December 31,	2002
	(Dollars in thousands)
Operating revenues	\$ 246,705
Operating income (1) Income from unconsolidated cellular entities Minority interest expense Gain on sale of discontinued operations Other income	\$ 71,258 25,768 (8,569) 803,905 188
Pre-tax income from discontinued operations Income tax expense	\$ 892,550 (284,459)
Income from discontinued operations	\$ 608,091

......

(1) Excludes corporate overhead costs of \$9.5 million allocated to the wireless operations. Included as a reduction in operating income is a \$30.5 million charge associated with the write-off of all amounts expended to develop the wireless portion of the Company's new billing system.

The following table represents certain summary cash flow statement information related to the Company's wireless operations reflected as discontinued operations:

Year ended December 31,	2002
	(Dollars in thousands)
Net cash used in operating activities Net cash provided by investing activities Net cash provided by financing activities	\$ (248,716)(1) 1,572,195 (2) -
Net cash provided by discontinued operations	\$ 1,323,479

- (1) Includes approximately \$305 million estimated tax payment related to sale of wireless operations.
- (2) Includes cash proceeds of \$1.59 billion from the sale of substantially all of the Company's wireless operations.

### (4) GOODWILL AND OTHER ASSETS

Goodwill and other assets at December 31, 2004 and 2003 were composed of the following:

December 31,	2004	2003
	 (Dollars	in thousands)
Goodwill	\$ 3,433,864	3,425,001
Billing system development costs, less accumulated amortization		
of \$4,652 and \$508	202,349	162,980
Cash surrender value of life insurance contracts	93,792	93,960
	46.800	59,055
Prepaid pension asset	35,300	35,300
Franchise costs	30,092	27,653
Marketable securities	28.435	31,239
Deferred interest rate hedge contracts	21,013	31,233
Investment in debt security		
Customer base, less accumulated amortization of \$3,756 and \$2,242	18,944	20,458
Other	125,116	121,786
	\$ 4,035,705	3,977,432
	 	=======================================

As of September 30, 2004, the Company completed the required annual impairment test under SFAS 142 and determined its goodwill was not impaired.

The Company recently implemented a new integrated billing and customer care system. The costs to develop such system have been accounted for in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Aggregate capitalized costs (before accumulated amortization) totaled \$207.0 million and \$163.5 million at December 31, 2004 and 2003, respectively. Such system is being amortized over a twenty-year period.

In the third quarter of 2004, the Company entered into a three-year agreement with EchoStar Communications Corporation ("EchoStar") to provide co-branded satellite television services to the Company's customers. As part of the transaction, the Company invested \$25 million in an EchoStar convertible subordinated debt security, which had a fair value at date of issuance of approximately \$20.8 million and matures in 2011. The remaining \$4.2 million paid was established as an intangible asset attributable to the Company's contractual rights to provide video service and is being amortized over a three-year period.

In connection with the acquisitions of properties from Verizon in 2002, the Company assigned \$35.3 million of the purchase price 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 asset has an indefinite life and therefore is not subject to amortization currently.

The Company assigned \$22.7 million of the purchase price to a customer base intangible asset in connection with the acquisitions of Verizon properties in 2002. Such asset is being amortized over 15 years. In addition, as mentioned above, an intangible asset was established related to the contractual rights to provide video service. Total amortization expense for these identifiable intangible assets for 2004, 2003 and 2002 was \$2.0 million, \$1.5 million and \$729,000, respectively, and is expected to be \$2.9 million for each of the subsequent two years, \$2.4 million in 2007 and \$1.5 million annually thereafter through 2009.

### (5) PROPERTY, PLANT AND EQUIPMENT

Net property, plant and equipment at December 31, 2004 and 2003 was composed of the following:

December 31,		2004	2003
		(Dollars	in thousands)
Cable and wire Central office General support Fiber transport and CLEC Information origination/termination Construction in progress Other	\$	3,948,784 2,385,406 785,025 150,098 56,428 66,485 38,791	3,817,646 2,285,528 811,301 127,080 49,643 58,018 34,939
Accumulated depreciation			7,184,155 (3,728,674)
Net property, plant and equipment	\$ ====	3,341,401	3,455,481

Depreciation expense was \$498.9 million, \$502.1 million and \$449.5 million in 2004, 2003 and 2002, respectively. The year 2004 included a reduction in depreciation expense of \$13.2 million to adjust the balances of certain over-depreciated property, plant and equipment accounts.

### (6) LONG-TERM DEBT

The Company's long-term debt as of December 31, 2004 and 2003 was as follows:

December 31,	2004	2003
	 (Dollars in	thousands)
CenturyTel		
Senior notes and debentures:		
7.75% Series A	\$ -	50,000
8.25% Series B	-	100,000
6.55% Series C, due 2005	50,000	50,000
7.20% Series D, due 2025	100,000	100,000
6.15% Series E, due 2005	100,000	100,000
6.30% Series F, due 2008	240,000	240,000
6.875% Series G, due 2028	425,000	425,000
8.375% Series H, due 2010	500,000	500,000
6.02% Series J, due 2007*	500,000	500,000
•	165,000	165,000
4.75% Series K, due 2032	500,000	500,000
7.875% Series L, due 2012	300,000	500,000
Employee Stock Ownership Plan commitment	(2.010)	(4,501)
Unamortized net discount	(3,919)	(4,501)
Net fair value of derivative instruments	10.055	7 747
related to Series H and L senior notes	10,865	7,747
Other	 79	114
Total CenturyTel	 2,587,025	2,733,860

### Subsidiaries

First mortgage debt

<sup>5.92\*\*\*</sup> notes, payable to agencies of the U. S. government and cooperative lending

associations, due in installments through 2028 7.98% notes, due through 2016 Other debt 210,403 234,7 4,964 5,2	211 513
Other debt	513
6.98*** unsecured medium-term notes, due through 2008 197,999 199,6	
8.76%** notes, due in installments through 2028 6,187 3,	739
5.35%** capital lease obligations, due through 2008 5,058 4,5	589
Total subsidiaries 424,611 447,8	395
Total long-term debt 3,011,636 3,181,	
Less current maturities 249,617 72,	453
Long-term debt, excluding current maturities \$ 2,762,019 3,109,	302

- \* In February 2005, the Company purchased and retired approximately \$400 million of the Series J notes; the interest rate on the remaining \$100 million was reset to 4.628%.
- \*\* Weighted average interest rate at December 31, 2004

The approximate annual debt maturities for the five years subsequent to December 31, 2004 are as follows (after giving consideration to the Company purchasing and retiring approximately \$400 million of its Series J notes in February 2005): 2005 - \$249.6 million; 2006 - \$281.3 million (including \$165 million aggregate principal amount of the Company's convertible debentures, Series K, due 2032, which can be put to the Company at various dates beginning in 2006); 2007 - \$125.2 million; 2008 - \$285.9 million; and 2009 - \$20.6 million.

Certain of the loan agreements of CenturyTel and its subsidiaries 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, 2004, restricted net assets of subsidiaries were \$227.6 million and subsidiaries' retained earnings in excess of amounts restricted by debt covenants totaled \$1.4 billion. At December 31, 2004, all of the consolidated retained earnings reflected on the balance sheet was available under CenturyTel's 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 debenture does not contain any financial covenants, but does include restrictions that limit the Company's ability to (i) incur, issue or create liens upon its 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 tied to the credit ratings of the Company, or that restrict the issuance of new securities in the event of a material adverse change in the Company.

Approximately 21% of the Company's property, plant and equipment is pledged to secure the long-term debt of subsidiaries.

In May 2004, the Company prepaid all \$100 million aggregate principal amount of its 8.25%, Series B notes, due 2024. The Company incurred a \$4.6 million pre-tax expense (a \$3.6 million prepayment premium and a \$1.0 million write-off of unamortized deferred debt costs) in the second quarter of 2004 associated with this prepayment.

On May 6, 2002, the Company issued and sold in an underwritten public offering \$500 million of equity units. Net proceeds to the Company from this issuance were approximately \$483.4 million. Each of the 20 million equity units issued was priced at \$25 and consisted initially of a beneficial interest in a CenturyTel senior unsecured note (Series J) with a principal amount of \$25 and a contract to purchase shares of CenturyTel common stock no later than May 2005. As discussed below, the senior notes were remarketed in February 2005. Each purchase contract will generally require the holder to purchase between .6944 and .8741 of a share of CenturyTel common stock in May 2005 based on the then current stock price of CenturyTel common stock in exchange for \$25, subject to certain adjustments and exceptions. Accordingly, upon full settlement of the purchase contracts in May 2005, the Company will receive proceeds of \$500 million and will deliver between 13.9 million and 17.5 million common shares in the aggregate. The senior notes were initially pledged by the holders to secure their obligations under the purchase contracts. The total distributions on the equity units were initially set at an initial annual rate of 6.875%, consisting of interest (6.02%) and contract adjustment payments (0.855%), each payable quarterly.

The senior note portion of the equity units is reflected on the December 31, 2004 balance sheet as long-term debt in the amount of \$500 million. Interest expense on the senior notes has

accrued at a rate of 6.02%, the initial interest rate through February 14, 2005. The present value of the aggregate contract adjustment payments has been recorded as an \$11.6 million reduction to paid-in capital and as an equivalent liability. The Company is amortizing the difference between the aggregate amount of all payments and the present value thereof as interest expense over the three-year term of the purchase contracts. Upon making each such payment, the Company will allocate most of the payment to the reduction of its \$11.6 million liability, and record the remainder as interest expense. The issuance costs of the equity units have been allocated to the units' debt and equity components. The debt issuance costs (\$3.3 million) were computed based on typical costs of a debt transaction and will be amortized to interest expense over the term of the senior notes. The remainder of the issuance costs (\$12.6 million) were treated as a cost of raising equity and recorded as a charge to paid-in capital.

In mid-February 2005, substantially all of the senior notes were remarketed, at which time the interest rate on the senior notes was reset in order to generate sufficient proceeds to secure the holder's obligation under the related purchase contracts. In connection with the remarketing, the Company purchased and retired approximately \$400 million of the Series J notes. As of February 15, 2005, only approximately \$100 million aggregate principal amount of the Series J notes remained outstanding. The Company financed this purchase with the net proceeds from its offering of \$350 million of senior notes, Series M, due 2015, and cash on hand.

As of December 31, 2004, the Company had available a \$533 million three-year revolving credit facility, which was scheduled to expire in July 2005. The Company had no outstanding borrowings under its facility at December 31, 2004. In March 2005, the Company secured a five-year \$750 million revolving credit facility to replace the above-mentioned facility. At December 31, 2004, the Company's telephone subsidiaries had available for use \$123.0 million of commitments for long-term financing from the Rural Utilities Service and Rural Telephone Bank.

In the third quarter of 2002, the Company issued \$165 million of convertible senior debentures, Series K, due 2032 (which bear interest at 4.75% and which may be converted under certain specified circumstances into shares of CenturyTel common stock at a conversion price of \$40.455 per share). Holders of the convertible senior debentures will have the right to require the Company to purchase all or a portion of the debentures on August 1, 2006, August 1, 2010 and August 1, 2017. In each case, the purchase price payable will be equal to 100% of the principal amount of the debentures to be purchased plus any accrued and unpaid interest to the purchase date. The Company will pay cash for all debentures so purchased on August 1, 2006. For any such purchases on or after August 1, 2010, the Company may choose to pay the purchase price in cash or shares of its common stock, or any combination thereof (except that the Company will pay any accrued and unpaid interest in cash).

On October 15, 2002, the Company redeemed \$400 million principal amount of its Series I Remarketable Senior Notes at par value, plus accrued interest. In connection with such redemption, the Company also paid a premium of approximately \$71.1 million in accordance with the redemption provisions of the associated remarketing agreement. Such premium payment (net of \$11.1 million of unamortized net premium primarily associated with the option payment received by the Company in 2000 in connection with the original issuance of the remarketable notes) is reflected as an Other Expense in the Company's results of operations for the year ended December 31, 2002.

### (7) DERIVATIVE INSTRUMENTS

In May and July 2003, the Company entered into four separate fair value interest rate hedges associated with the full \$500 million principal amount of its Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. These hedges are "fixed to variable" interest rate swaps that effectively convert the Company's fixed rate interest payment obligations under these notes into obligations to pay variable rates that range from the six-month London InterBank Offered Rate ("LIBOR") plus 3.229% to the six-month LIBOR plus 3.67%, with settlement and rate reset dates occurring each six months through the expiration of the hedges in August 2012. As of December 31, 2004, the Company realized a weighted average interest rate of 6.4% related to these hedges. Interest expense was reduced by \$10.3 million during 2004 as a result of these hedges. The aggregate fair value of such hedges at December 31, 2004 was \$5.7 million and is reflected on the accompanying balance sheet as both a liability (included in "Deferred credits and other liabilities") and as a decrease to the Company's underlying long-term debt.

As of December 31, 2004, the Company also had outstanding cash flow hedges that effectively locked in the interest rate on the majority of certain anticipated debt transactions that ultimately were completed in February 2005. The Company locked in the interest rate on (i) \$100 million of 2.25 year debt (remarketed in February 2005) at 3.9% and (ii) \$225 million of 10-year debt (issued in February 2005) at 5.5%. Such cash flow hedges had a fair value of \$571,000 as of December 31, 2004 and is reflected as a component of Accumulated Other Comprehensive Loss on the

consolidated balance sheet. In January 2005, the Company also entered into a separate cash flow hedge which effectively locked in the interest rate for an additional \$75 million of 10-year debt (issued in February 2005) at 5.4%. In February 2005, upon settlement of such hedges, the Company (i) received \$366,000 related to the 2.25 year debt remarketing which will be amortized as a reduction of interest expense over the remaining term of the debt and (ii) paid \$7.7 million related to the 10-year debt issuance which will be amortized as an increase in interest expense over the 10-year term of the debt.

During 2002, the Company entered into (i) a cash flow hedge designed to lock in a fixed interest rate for \$100 million of the \$500 million senior notes issued in the third quarter of 2002 which was settled in the third quarter of 2002 for a \$1.1 million payment by the Company (which is being amortized as additional interest expense over a ten-year period, which equates to the term of the debt issuance hedged) and (ii) a cash flow hedge designed to eliminate the variability of interest payments for \$400 million of variable rate debt under the Company's \$800 million credit facilities. During the second quarter of 2003, the Company retired all outstanding indebtedness associated with its \$800 million credit facilities; therefore, such cash flow hedge was deemed ineffective in 2003 and resulted in a \$722,000 unfavorable pre-tax charge to the Company's income.

During 2002, the Company entered into a fair value hedge with respect to the Company's \$500 million aggregate principal amount of 8.375% Series H senior notes, due 2010. In May 2003, the Company terminated this hedge. In connection with such termination, the Company received approximately \$22.3 million in cash upon settlement, which represented the fair value of the hedge at the termination date. Such amount is being amortized as a reduction of interest expense through 2010, the maturity date of the Series H notes.

### (8) DEFERRED CREDITS AND OTHER LIABILITIES

Deferred credits and other liabilities at December 31, 2004 and 2003 were composed of the following:

December 31,	2004	2003
	 (Dollars in	thousands)
Deferred federal and state income taxes Accrued postretirement benefit costs Additional minimum pension liability Minority interest Fair value of interest rate swap Other	\$ 601,757 232,546 18,450 7,508 6,283 67,007	528,551 222,613 - 7,218 11,693 66,576
	\$ 933,551	836,651

### (9) STOCKHOLDERS' EQUITY

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

December 31,	2004
	(In thousands)
Incentive compensation programs Acquisitions Employee stock purchase plan Dividend reinvestment plan Conversion of convertible preferred stock Other employee benefit plans	9,717 4,064 4,721 422 435 3,393
	22,752

During 2004, the Company repurchased approximately 13.4 million shares of common stock to complete its \$400 million stock repurchase program approved by the Company's board of directors in early 2004. In February 2005, the Company's board of directors approved a stock repurchase

program that will allow the Company to repurchase up to an aggregate of \$200 million of either its common stock or convertible equity units prior to December 31, 2005.

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, 2004, the holders of 8.1 million shares of common stock were entitled to ten votes per share. Preferred stock - As of December 31, 2004, CenturyTel had 2.0 million shares of authorized convertible preferred stock, \$25 par value per share. At December 31, 2004 and 2003, there were 319,000 shares of outstanding 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.

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

### (10) POSTRETIREMENT BENEFITS

The Company sponsors health care plans (which use a December 31 measurement date) that provide postretirement benefits to all qualified retired employees.

In May 2004, the Financial Accounting Standards Board issued Financial Statement Position FAS 106-2, which provides accounting guidance to sponsors of postretirement health care plans that are impacted by the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act"). The Company believes that certain drug benefits offered under its postretirement health care plans will qualify for subsidy under Medicare Part D. In the third quarter of 2004, the Company estimated that the effect of the Act on the Company would not be material. The Company first reflected the effects of the Act as of the December 31, 2004 measurement date. As of this date, the Company estimated that the reduction in its accumulated benefit obligation attributable to prior service cost was approximately \$7 million and has reflected such amount as an actuarial gain.

In 2003, the Company announced changes, effective January 1, 2004, that would decrease its subsidization of benefits provided under its postretirement benefit plan.

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

December 31,		2004	2003	2002
		(Dol	lars in thous	ands)
Change in benefit obligation				
Benefit obligation at beginning of year	\$	311,421	253,762	215,872
Service cost		6,404	6,176	6,669
Interest cost		17,585	18,216	15,962
Participant contributions		1,362	1,199	617
Acquisitions		-	-	56,539
Plan amendments		2,529	(34,597)	-
Actuarial (gain) loss		(18,185)	79,163	(29,534)
Benefits paid		(15,396)	(12,498)	(12,363)
Benefit obligation at end of year	\$	305,720	311,421	253,762
	======			
Change in plan assets				
Fair value of plan assets at beginning of year	\$	29,877	•	,
Return on assets		2,377	4,479	
Employer contributions		11,350	•	6,784
Participant contributions		1,362	•	
Benefits paid		(15,396)	(12,498)	(12,363)
Fair value of plan assets at end of year	\$	29,570	29,877	28,697

Net periodic postretirement benefit cost for 2004, 2003 and 2002 included the following components:

Year ended December 31,	2004	2003	2002
	 (Doll	ars in thousan	nds)
Service cost	\$ 6,404	6,176	6,669
Interest cost	17,585	18,216	15,962
Expected return on plan assets	(2,465)	(2,367)	(3,656)
Amortization of unrecognized actuarial loss	3,611	1,731	1,470
Amortization of unrecognized prior service cost	(3,648)	(2,447)	(129)
Net periodic postretirement benefit cost	\$ 21,487	21,309	20,316

The following table sets forth the amounts recognized as liabilities for postretirement benefits at December 31, 2004, 2003 and 2002.

December 31,	2004	2003	2002	
	 (Dollars in thousands)			
Benefit obligation Fair value of plan assets Unamortized prior service cost Unrecognized net actuarial loss	\$ (305,720) 29,570 (26,891) 68,185	(311,421) 29,877 (33,068) 89,893	(253,762) 28,697 (918) 14,573	
Accrued benefit cost	\$ (234,856)	(224,719)	(211,410)	

Assumptions used in accounting for postretirement benefits as of December 31, 2004 and 2003 were:

	2004	2003
Determination of benefit obligation		
Discount rate	5.75%	6.0
Healthcare cost increase trend rates		
(Medical/Prescription Drug)		
Following year	10.0%/15.0%	11.0/16.0
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	2010/2015	2010/2015
Determination of benefit cost		
Discount rate	6.0%	6.75
Expected return on plan assets	8.25%	8.25

The Company employs 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. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset studies and periodic portfolio reviews.

The Company's postretirement benefit plan weighted-average asset allocations at December 31, 2004 and 2003 by asset category are as follows:

	2004	2003			
Equity securities	63.0%	80.5			
Debt securities	34.1	16.4			
Other	2.9	3.1			
Total	100.0%	100.0			
***************************************					

In determining the expected return on plan assets, historical markets are studied and long-term relationships between equities and fixed income are preserved consistent with the widely-accepted capital market principle that assets with higher volatility and risk generate a greater return over the long term. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are also reviewed 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:

	ercentage t Increase	1-Percentage Point Decrease
	(Dollars in	thousands)
Effect on total of service and		
interest cost components	\$ 1,562	(1,489)
Effect on postretirement benefit obligation	\$ 20,004	(18,775)

The Company expects to contribute approximately \$15 million to its postretirement benefit plan in 2005.

The Company's estimated future projected benefit payments under its postretirement benefit plan are as follows:

Year	 re Medicare Subsidy	Medicare Subsidy	Net of Medicare Subsidy
		(Dollars in thousands)	
2005	\$ 15,200	=	15,200
2006	\$ 16,900	(800)	16,100
2007	\$ 17,900	(800)	17,100
2008	\$ 18,700	(900)	17,800
2009	\$ 19,600	(1,000)	18,600
2010-2014	\$ 99,400	(5,500)	93,900

### (11) RETIREMENT AND SAVINGS PLANS

CenturyTel and certain subsidiaries sponsor defined benefit pension plans for substantially all employees. CenturyTel also sponsors an Outside Directors' Retirement Plan and a Supplemental Executive Retirement Plan to provide directors and officers, respectively, with supplemental retirement, death and disability benefits. The Company uses a December 31 measurement date for its plans.

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

December 31,		2004	2003	2002		
		(Dollars in thousands)				
Change in benefit obligation						
Benefit obligation at beginning of year	\$	390,833	346,256	271,490		
Service cost		14,175	12,840	10,353		
Interest cost		23,156	23,617	20,053		
Plan amendments		428	_	_		
Acquisitions		-	_	51,428		
Settlements		-	(9,962)	_		
Actuarial loss		16,304	46,221	9,231		
Benefits paid		(26,266)	(28,139)	(16,299)		
Benefit obligation at end of year	\$	418,630	390,833	346,256		
	=======					

Change in plan assets

Benefits paid  Fair value of plan assets at end of year	\$	(26,266) 363,981	(28,139) 348,308	(16,299)  266,420
Acquisitions		· -	6,807	51,428
Employer contributions		6,047	50,437	3,387
Return on plan assets		35,892	52,783	(42,998)
Fair value of plan assets at beginning of year	ar \$	348,308	266,420	270,902

At December 31, 2004 and 2003, the Company's underfunded pension plans (meaning those with benefit obligations in excess of plan assets) had aggregate benefit obligations of \$172.0 million and \$138.4 million, respectively, and aggregate plan assets of \$109.0 million and \$84.4 million, respectively.

Net periodic pension expense for 2004, 2003 and 2002 included the following components:

Year ended December 31,	2004	2003	2002		
	 (Dollars in thousands)				
Service cost Interest cost Expected return on plan assets Settlements Recognized net losses Net amortization and deferral	\$ 14,175 23,156 (28,195) 1,093 5,525 279	12,840 23,617 (22,065) 2,233 7,214 397	10,353 20,053 (28,575) - 1,248 395		
Net periodic pension expense	\$ 16,033	24,236	3,474		

The following table sets forth the combined plans' funded status and amounts recognized in the Company's consolidated balance sheet at December 31, 2004, 2003 and 2002.

December 31,		2004	2003	2002		
		(Dollars in thousands)				
Benefit obligation Fair value of plan assets Unrecognized transition asset Unamortized prior service cost Unrecognized net actuarial loss	\$	(418,630) 363,981 (648) 3,618 98,479	(390,833) 348,308 (900) 3,721 98,759	(346,256) 266,420 (1,152) 4,370 102,664		
Prepaid pension cost	\$ ========	46,800	59,055 =========	26,046		

The Company's accumulated benefit obligation as of December 31, 2004 and 2003 was \$353.1 million and \$329.0 million, respectively.

Amounts recognized on the balance sheet consist of:

December 31,		2004	2003	2002
		(Dolla	rs in thousar	nds)
Prepaid pension cost (reflected in Other Assets) Additional minimum pension liability (reflected	\$	46,800	59,055	26,046
in Deferred Credits and Other Liabilities)		(18,450)	-	(56,388)
Intangible asset (reflected in Other Assets)		3,043	-	1,212
Accumulated Other Comprehensive Loss		15,407	-	55,176
	\$ ====	46,800	59,055	26,046

Assumptions used in accounting for the pension plans as of December 2004 and 2003 were:

	2004	2003
Determination of benefit obligation		
Discount rate	5.75%	6.0
Weighted average rate of compensation increase	4.0%	4.0
Determination of benefit cost		
Discount rate	6.0%	6.75
Weighted average rate of compensation increase	4.0%	4.50
Expected long-term rate of return on assets	8.25%	8.25

The Company employs 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. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset studies and periodic portfolio reviews.

The Company's pension plans weighted-average asset allocations at December 31, 2004 and 2003 by asset category are as follows:

	2004	2003
Equity securities	71.7%	54.0
Debt securities	25.5	11.0
Cash and cash equivalents	-	32.3
Other	2.8	2.7
Total	100.0%	100.0
=======================================	=======================================	========

In determining the expected return on plan assets, historical markets are studied and long-term relationships between equities and fixed income are preserved consistent with the widely-accepted capital market principle that assets with higher volatility and risk generate a greater return over the long term. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are also reviewed to check for reasonableness.

The amount of the 2005 contribution will be determined based on a number of factors, including the results of the 2005 actuarial valuation report. At this time, the amount of the 2005 contribution is not known.

The Company's estimated future projected benefit payments under its defined benefit pension plans are as follows: 2005 - \$20.7 million; 2006 - \$22.1 million; 2007 - \$23.4 million; 2008 - \$26.2 million; 2009 - \$28.4 million; and 2010-2014 - \$176.8 million.

CenturyTel sponsors an Employee Stock Ownership Plan ("ESOP") which covers most employees with one year of service with the Company and is funded by Company contributions determined annually by the Board of Directors. The Company's expense related to the ESOP during 2004, 2003 and 2002 was \$8.1 million, \$8.9 million, and \$9.3 million, respectively. At December 31, 2004, the ESOP owned an aggregate of 6.8 million shares of CenturyTel common stock.

CenturyTel and certain subsidiaries 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 of the Company. The Company's matching contributions to the 401(k) Plans were \$9.1 million in 2004, \$8.2 million in 2003 and \$6.7 million in 2002.

### (12) INCOME TAXES

Income tax expense from continuing operations included in the Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002 was as follows:

Year ended December 31,	2004	2003	2002
		s in thousa	

Federal			
Current	\$ 121,374	58,659	22,987
Deferred	59,973	118,600	80,056
State			
Current	14,380	(113)	11,406
Deferred	14,401	10,106	(8,944)
	\$ 210,128	187,252	105,505

Income tax expense for 2003 was reduced by \$21.6 million primarily as a result of reducing the valuation allowance related to net state operating loss carryforwards as it was more likely than not that future taxable income will be sufficient to enable the Company to utilize this portion of the operating loss carryforwards.

Income tax expense from continuing operations was allocated as follows:

	2004	2003	2002
	(Doll	ars in thousa	nds)
\$ 2	210 128	187 252	105.505
Ş 2	210,120	107,232	103,303
	(3,244)	(4,385)	(7,471)
	(5,195)	19,763	(19,763)
	\$ 2	(Doll \$ 210,128	(Dollars in thousa \$ 210,128 187,252 (3,244) (4,385)

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

Year ended December 31,	2004	2003	2002
	(Percentag	ge of pre-tax	income)
Statutory federal income tax rate State income taxes, net of federal	35.0%	35.0	35.0
income tax benefit	3.4	1.2	.5
Amortization of investment tax credits	-	-	(.1)
Amortization of regulatory liability	-	(.1)	(.3)
Other, net	-	(.9)	.2
Effective income tax rate	38.4%	35.2	35.3
Effective income tax rate	JO.47	,,,,, :========	

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 were as follows:

December 31,	2004	2003		
	(Dollars in	(Dollars in thousands)		
Deferred tax assets Postretirement benefit costs Regulatory support Net state operating loss carryforwards Other employee benefits Other	\$ 72,353 12,509 48,735 19,096 31,593	59,215 12,464 41,358 10,160 24,819		
Gross deferred tax assets Less valuation allowance	184,286 (27,112)	148,016 (19,735)		
Net deferred tax assets	157,174	128,281		

Deferred tax liabilities			
Property, plant and equipment, primarily			
due to depreciation differences		(340,175)	(291,482)
Goodwill		(394,832)	(350,812)
Deferred debt costs		(2,275)	(2,470)
Intercompany profits		(3,301)	(3,485)
Other		(18,348)	(8,583)
Gross deferred tax liabilities		(758,931)	(656,832)
Net deferred tax liability	\$	(601,757)	(528,551)
	=====		========

The Company establishes valuation allowances when necessary to reduce the deferred tax assets to amounts expected to be realized. As of December 31, 2004, the Company had available tax benefits associated with net state operating loss carryforwards, which expire through 2024, of \$48.7 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. The Company considers its scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. As a result of such assessment, \$27.1 million was reserved through the valuation allowance as of December 31, 2004 as it is likely that this amount of net operating loss carryforwards will not be utilized prior to expiration.

#### (13)EARNINGS PER SHARE

In the fourth quarter of 2004, the Company adopted Emerging Issues Task Force No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share" ("EITF 04-8"). EITF 04-8 requires contingently convertible instruments be included in the diluted earnings per share calculation. The Company's \$165 million Series K senior notes (issued in the third quarter of 2002) are convertible into common stock under various contingent circumstances, including the common stock attaining a specified trading price in excess of the notes' fixed conversion price. Beginning in the fourth quarter of 2004, the Company's diluted earnings per share and diluted shares outstanding reflect the application of EITF 04-8. Prior periods have been restated to reflect this change in accounting.

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

Year ended December 31,	2004	2003	2002
		, except per d shares in t	
Income (Numerator):    Income from continuing operations    Discontinued operations, net of tax	\$ 337,244	-	193,533 608,091
Net income Dividends applicable to preferred stock		344,707 (399)	801,624
Net income applicable to common stock for computing basic earnings per share Interest on convertible debentures, net of tax Dividends applicable to preferred stock	336,845 4,829 399	344,308 5,079 399	1,845
Net income as adjusted for purposes of computing diluted earnings per share	\$ 342,073	349,786	803,469
Shares (Denominator): Weighted average number of shares outstanding during period Employee Stock Ownership Plan shares not committed to be released	 137,225	143,673 (90)	141,796
Weighted average number of shares outstanding during period for computing basic earnings per share Incremental common shares attributable to dilutive securities:	137,215	143,583	141,613
Shares issuable under convertible securities Shares issuable under outstanding stock options	4,514 415	4,514 682	1,964 831

Number of shares as adjusted for purposes of computing diluted earnings per share		142,144	148,779	144,408
Paris annings now share				
Basic earnings per share				
From continuing operations	Ş	2.45	2.40	1.36
From discontinued operations	\$	_	-	4.29
Basic earnings per share	, \$	2.45	2.40	5.66
hasic earnings per share	Ÿ	2.43	2.10	2.00
Diluted earnings per share				
	_		0 35	1 25
From continuing operations	Ş	2.41	2.35	1.35
From discontinued operations	\$	-	-	4.21
Diluted earnings per share	s	2.41	2.35	5.56
niided earnings her share	Y	5.71	2.55	3.30

The weighted average number of options to purchase shares of common stock that were excluded from the computation of diluted earnings per share because the exercise price of the option was greater than the average market price of the common stock was 2.4 million for 2004, 2.6 million for 2003 and 3.3 million for 2002.

### (14) STOCK OPTION PROGRAMS

CenturyTel currently maintains programs which allow the Board of Directors, through the Compensation Committee, to grant (i) incentives to certain employees in any one or a combination of several forms, including incentive and non-qualified stock options; stock appreciation rights; restricted stock; and performance shares and (ii) stock options to outside directors. As of December 31, 2004, CenturyTel had reserved 9.7 million shares of common stock which may be issued under CenturyTel's current incentive compensation programs.

Under the Company's programs, options have been granted to employees and directors at a price either equal to or exceeding the then-current market price. All of the options expire ten years after the date of grant and the vesting period ranges from immediate to three years.

Stock option transactions during 2004, 2003 and 2002 were as follows:

	Number of options	Average price
Outstanding December 31, 2001 Exercised Granted Forfeited	6,367,520 (1,366,560) 1,983,150 (88,308)	\$ 23.51 13.97 32.28 28.59
Outstanding December 31, 2002 Exercised Granted Forfeited	6,895,802 (1,059,414) 1,720,317 (822,133)	27.95 22.30 27.36 33.34
Outstanding December 31, 2003 Exercised Granted Forfeited	6,734,572 (827,486) 952,975 (146,503)	28.14 22.96 28.22 27.90
Outstanding December 31, 2004	6,713,558	28.79
Exercisable December 31, 2004	4,686,177	28.71
Exercisable December 31, 2003	3,807,355	27.21

The following tables summarize certain information about CenturyTel's stock options at December 31, 2004.

€	exercise prices	Number of options	life outstanding	exe	rcise price
\$	13.33-17.64	605,300	1.7	\$	14.51
	24.36-29.88	3,563,019	7.3		27.68
	30.00-39.00	2,523,274	6.1		33.64
	45.54-46.19	21,965	4.2		45.62
	13.33-46.19	6,713,558	6.3		28.79
		=======			

### Options exercisable

Range of exercise prices	Number of options exercisable	Weighted average exercise price
\$ 13.33-17.64 24.36-29.88 30.00-39.00 45.54-46.19	605,300 2,055,911 2,003,001 21,965	\$ 14.51 27.75 33.80 45.62
13.33-46.19	4,686,177	28.71

# (15) SUPPLEMENTAL CASH FLOW DISCLOSURES

The amount of interest actually paid by the Company, net of amounts capitalized of \$762,000, \$488,000 and \$1.2 million during 2004, 2003 and 2002, respectively, was \$207.2 million, \$221.1 million and \$210.9 million during 2004, 2003 and 2002, respectively. Income taxes paid were \$129.9 million in 2004, \$91.6 million in 2003 and \$325.5 million in 2002. Income tax refunds totaled \$8.9 million in 2004, \$85.7 million in 2003 and \$2.7 million in 2002.

The Company has consummated the acquisitions of various operations, along with certain other assets, during the three years ended December 31, 2004. In connection with these acquisitions, the following assets were acquired and liabilities assumed:

Year ended December 31,	2004	2003	2002
	 (Dol	lars in thou	sands)
Property, plant and equipment, net	\$ - 5.274	46,390 21,743	866,575 1,335,157
Deferred credits and other liabilities Other assets and liabilities, excluding	(3,381)	21,754	(56,897)
cash and cash equivalents	 107	(3,644)	100,191
Decrease in cash due to acquisitions	\$ 2,000	86,243	2,245,026

The Company has disposed of various operations reflected within continuing operations, along with certain other assets, during the three years ended December 31, 2004. In connection with these dispositions, the following assets were sold, liabilities eliminated, assets received and gain recognized:

Year ended December 31,	2004	2003	2002
	 (Dollars	in thou	sands)
Other assets and liabilities, excluding cash and cash equivalents Gain on sale of assets	\$ <del>-</del> -	-	(435) (3,709)
Increase in cash due to dispositions	\$ -	-	(4,144)

For information on the Company's discontinued operations, see Note 3.

### (16) FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of certain of the Company's financial instruments at December 31, 2004 and 2003.

	Carrying Amount	Fair value	
	 (Dollars i	in thousands)	
December 31, 2004			
Financial assets			
Other	\$ 96,808	96,808	(2)
Financial liabilities Long-term debt (including			
current maturities)	\$ 3,011,636	3,132,041	(1)
Interest rate swaps	\$ 6,283	6,283	(2)
Other	\$  50,860	50,860	(2)
December 31, 2003			
Financial assets			
Other	\$ 82,258	82,258	(2)
Financial liabilities Long-term debt (including			
current maturities)	\$ 3,181,755	3,440,279	(1)
Interest rate swaps	\$ 11,693	11,693	(2)
Other	\$ 44,612	44,612	(2)

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

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

## (17) BUSINESS SEGMENTS

The Company is an integrated communications company engaged primarily in providing an array of communications services to its customers, including local exchange, long distance, Internet access and broadband services. The Company strives to maintain its customer relationships by, among other things, bundling its service offerings to provide its customers with a complete offering of integrated communications services. Effective in the first quarter of 2004, as a result of the Company's increased focus on integrated bundle offerings and the varied discount structures associated with such offerings, the Company determined that its results of operations would be more appropriately reported as a single reportable segment under the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information." Therefore, the results of operations for 2004 reflect the presentation of a single reportable segment. Results of operations for 2003 and 2002 have been conformed to the Company's 2004 presentation of a single reportable segment.

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

Year ended December 31,	2004	2003	2002

#### (Dollars in thousands)

Local service	\$	716,028	712,565	570,871
Network access		966,011	1,001,462	884,982
Long distance		186,997	173,884	146,536
Data		275,777	244,998	179,695
Fiber transport and CLEC		74,409	43,041	21,666
Other		188,150	191,660	168,246
makel an expectation of the second				
Total operating revenues	Ş	2,407,372	2,367,610	1,971,996

For a description of each of the sources of revenues, see Management's Discussion and Analysis and Results of Operations - Operating Revenues.

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.

### (18) COMMITMENTS AND CONTINGENCIES

Construction expenditures and investments in vehicles, buildings and equipment during 2005 are estimated to be \$400 million.

In Barbrasue Beattie and James Sovis, on behalf of themselves and all others similarly situated, v. CenturyTel, Inc., filed on October 29, 2002 in the United States District Court for the Eastern District of Michigan (Case No. 02-10277), the plaintiffs allege that the Company unjustly and unreasonably billed customers for inside wire maintenance services, and seek unspecified money damages and injunctive relief under various legal theories on behalf of a purported class of over two million customers in the Company's telephone markets. The Court has not yet ruled on the plaintiffs' certification motion, and has not yet set a date to resolve this issue. Given the current status of this case, the Company cannot estimate the potential impact, if any, that this case will have on its results of operations.

The Telecommunications Act of 1996 allows local exchange carriers to file access tariffs on a streamlined basis and, if certain criteria are met, deems those tariffs lawful. Tariffs that have been "deemed lawful" in effect nullify an interexchange carrier's ability to seek refunds should the earnings from the tariffs ultimately result in earnings above the authorized rate of return prescribed by the FCC. Certain of the Company's telephone subsidiaries file interstate tariffs directly with the FCC using this streamlined filing approach. As of December 31, 2004, the amount of the Company's earnings in excess of the authorized rate of return reflected as a liability on the balance sheet for the combined 2001/2002 and 2003/2004 monitoring periods aggregated approximately \$63 million. The settlement period related to (i) the 2001/2002 monitoring period lapses on September 30, 2005 and (ii) the 2003/2004 monitoring period lapses on September 30, 2007. The Company will continue to monitor the legal status of any pending or future proceedings that could impact its entitlement to these funds, and may recognize as revenue some or all of the over-earnings at the end of the settlement period or as the legal status becomes more certain.

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

\* \* \* \* \* \* \* \* \*

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

		quarter	quarter	Third quarter	quarter
2004		(Dollars i	n thousands,	except per sha audited)	
***************************************					
Operating revenues	\$	593,704	603,555	603,879	606,234
Operating income	\$	183,557	189,911	190,869	189,616
Net income	\$	83,279	83,284	86,192	84,489
Basic earnings per share	\$	.58	.60	.64	.63
Diluted earnings per share	\$	.57	. 59	.63	.62
2003					
Operating revenues	\$	578,014	586,729	600,264	602,603
Operating income				190,781	
Net income	\$			90,979	
Basic earnings per share	\$	.59	.61	.63	.57
Diluted earnings per share	\$	.58	.60	.62	.56
2002	<b>.</b>				
Operating revenues	\$	422,918	438,702	524,497	585,879
Operating income				157,716	189,110
Income from continuing operations		43,117	41,482	64,589	44,345
Net income	\$	70,767	78,763	607,749	44,345
Basic earnings per share from continuing operations	\$	.30	.29	.46	.31
Basic earnings per share	\$	.50		4.29	.31
Diluted earnings per share from continuing operations	\$	.30	. 29	.45	.31
Diluted earnings per share	\$	.50	. 55	4.20	.31

Diluted earnings per share for all periods has been restated to reflect the application of EITF 04-8. See Note 13 for additional information.

Diluted earnings per share for the fourth quarter of 2003 included a \$.06 per share charge related to operating taxes, net of related revenue effect, and interest associated with various operating tax audits.

Diluted earnings per share for the third quarter of 2002 included \$3.67 per share related to the gain on the sale of substantially all of the Company's wireless operations, net of amounts written off for costs expended related to the wireless portion of the new billing system currently in development. Diluted earnings per share for the fourth quarter of 2002 was negatively impacted by \$.26 per share related to the redemption premium on the Company Series I remarketable notes that were redeemed in October 2002.

On July 1 and August 31, 2002, the Company acquired nearly 650,000 telephone access lines and related assets from Verizon. See Note 2 for additional information.

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. The Company maintains disclosure controls and procedures designed to provide reasonable assurances that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is timely recorded, processed, summarized and reported as required. The Company's Chief Executive Officer, Glen F. Post, III, and the Company's Chief Financial Officer, R. Stewart Ewing, Jr., have evaluated the Company's disclosure controls and procedures as of December 31, 2004. Based on the evaluation, Messrs. Post and Ewing concluded that the Company's disclosure controls and procedures have been effective in providing reasonable assurance that they have been timely alerted of material information required to be filed in this annual report. Since the date of Messrs. Post's and Ewing's most recent evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls.

The design of any system of controls is based in part upon certain assumptions about the likelihood of future events and contingencies, and there can be no assurance that any design will succeed in achieving its stated goals. Because of the inherent limitations in any control system, you should be aware that misstatements due to error or fraud could occur and not be detected.

Reports on Internal Controls Over Financial Reporting. Incorporated by reference from the reports appearing at the forefront of Item 8 "Financial Statements and Supplementary Data".

Item 9B. Other Information

None.

Item 10. Directors and Executive Officers of the Registrant.

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

Name	Age	Office(s) held with CenturyTel
Glen F. Post, III	52	Chairman of the Board of Directors and Chief Executive Officer
Karen A. Puckett	44	President and Chief Operating Officer
R. Stewart Ewing, Jr.	53	Executive Vice President and Chief Financial Officer
David D. Cole	47	Senior Vice President - Operations Support
Stacey W. Goff	39	Senior Vice President, General Counsel and Secretary
Michael Maslowski	57	Senior Vice President and Chief Information Officer

Each of the Registrant's executive officers, except for Ms. Puckett and Mr. Goff, has served as an officer of the Registrant and one or more of its subsidiaries in varying capacities for more than the past five years.

Ms. Puckett has served as President and Chief Operating Officer of the Company since August 2002, as Executive Vice President and Chief Operating Officer of the Company from July 2000 through August 2002 and as Sales and Marketing Senior Officer of BroadStream Communications from July 1999 through July 2000. Commco Technology LLC (formerly BroadStream Communications) filed for bankruptcy on December 18, 2000 in the United States Bankruptcy Court, District of Connecticut (Bridgeport). Ms. Puckett was an officer of BroadStream Communications from July 1999 through July 2000.

Mr. Post has served as Chairman of the Board since June 2002, and previously served as Vice Chairman of the Board from 1993 to 2002 and President from 1990 to 2002.

In August 2003, Mr. Goff was promoted to Senior Vice President, General Counsel and Secretary. He previously served as Vice President and Assistant General Counsel from 2000 to July 2003 and as Director-Corporate Legal from 1998 to 2000.

The balance of the information required by Item 10 is incorporated by reference to the Registrant's definitive proxy statement relating to its 2005 annual meeting of stockholders (the "Proxy Statement"), which Proxy Statement will be filed pursuant to Regulation 14A within the first 120 days of 2005.

Item 11. Executive Compensation.

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

- Item 12. Security Ownership of Certain Beneficial Owners and Management.

  The information required by Item 12 is incorporated by reference to the Proxy Statement.
- Item 13. Certain Relationships and Related Transactions.

  The information required by Item 13 is incorporated by reference to the Proxy Statement.
- 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 controls over financial reporting

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements and Financial Statement Schedule

Report of Independent Registered Public Accounting Firm on management's assessment of, and the effective operation of, internal controls over financial reporting Consolidated Statements of Income for the years ended December 31, 2004, 2003 and 2002

Consolidated Statements of Comprehensive Income for the years ended December 31, 2004, 2003 and 2002
Consolidated Balance Sheets - December 31, 2004 and 2003
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002
Notes to Consolidated Financial Statements
Consolidated Quarterly Income Statement Information (unaudited)

### (2) Schedule:\*

- II Valuation and Qualifying Accounts
- \* Those schedules not listed above are omitted as not applicable or not required.
- (3) Exhibits:
- 3.1 Amended and Restated Articles of Incorporation of Registrant, dated as of May 6, 1999, (incorporated by reference to Exhibit 3(i) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1999).
- 3.2 Registrant's Bylaws, as amended through August 26, 2003 (incorporated by reference to Exhibit 3.1 of Registrant's Current Report on Form 8-K dated August 26, 2003 and filed on December 2, 2003).
- 3.3 Corporate Governance Guidelines, as amended through February 22, 2005, included elsewhere herein.
- 3.4 Charters of Committees of Board of Directors
  - (a) Charter of the Audit Committee of the Board of Directors, as amended through November 18, 2004, included elsewhere herein.
  - (b) Charter of the Compensation Committee of the Board of Directors, as amended through February 25, 2004 (incorporated by reference to Exhibit 3.3 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
  - (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
    Registrant's 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 25, 2004 (incorporated by reference to Exhibit 3.3 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
- 4.1 Rights Agreement, dated as of August 27, 1996,

between Registrant and Society National Bank, as Rights Agent, including the form of Rights Certificate (incorporated by reference to Exhibit 1 of Registrant's Current Report on Form 8-K filed August 30, 1996) and Amendment No.1 thereto, dated May 25, 1999 (incorporated by reference to Exhibit 4.2(ii) to Registrant's Report on Form 8-K dated May 25, 1999) and Amendment No. 2 thereto, dated and effective as of June 30, 2000, by and between the Registrant and Computershare Investor Services, LLC, as rights agent (incorporated by reference to Exhibit 4.1 of Registrant's Quarterly report on 10-Q for the quarter ended September 30, 2000).

- 4.2 Form of common stock certificate of the Registrant (incorporated by reference to Exhibit 4.3 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
- 4.3 Instruments relating to the Company's public senior debt
  - (a) Indenture dated as of March 31, 1994
    between the Company and Regions Bank
    (formerly First American Bank & Trust of
    Louisiana), as Trustee (incorporated by
    reference to Exhibit 4.1 of the Company's
    Registration Statement on Form S-3,
    Registration No. 33-52915).
  - (b) Resolutions designating the terms and conditions of the Company's 6.55% Senior Notes, Series C, due 2005 and 7.2% Senior Notes, Series D, due 2025 (incorporated by reference to Exhibit 4.27 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995).
  - (c) Resolutions designating the terms and conditions of the Company's 6.15% Senior Notes, Series E, due 2005; 6.30% Senior Notes, Series F, due 2008; and 6.875% Debentures, Series G, due 2028, (incorporated by reference to Exhibit 4.9 to Registrant's Annual Report on Form 10-K for the year ended December 31, 1997).
  - (d) Form of Registrant's 8.375% Senior Notes, Series H, Due 2010, issued October 19, 2000 (incorporated by reference to Exhibit 4.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
  - (e) For information on Registrant's Series J notes and related First Supplemental Indenture, see Item 4.6 below.
  - (f) Second Supplemental Indenture dated as of August 20, 2002 between CenturyTel and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana and Regions Bank of Louisiana), as Trustee, designating and outlining the terms and conditions of CenturyTel's 4.75% Convertible Senior Debentures, Series K, due 2032 (incorporated by reference to Exhibit 4.3 of CenturyTel's registration statement on Form S-4, File No. 333-100480).
  - (g) Form of 4.75% Convertible Debentures, Series K, due 2032 (included in Exhibit 4.3(f)).

- (h) Board resolutions designating the terms and conditions of CenturyTel's 7.875% Senior Notes, Series L, due 2012 (incorporated by reference to exhibit 4.2 of CenturyTel's registration statement on Form S-3, File No. 333-100481).
- (i) Form of 7.875% Senior Notes, Series L, due 2012 (included in Exhibit 4.3(h)).
- (j) Third Supplemental Indenture dated as of February 14, 2005 between CenturyTel and Regions Bank (successor-in-interest to First American Bank & Trust of Louisiana and Regions Bank of Louisiana), 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 CenturyTel's Current Report on Form 8-K dated February 15, 2005).
- (k) Form of 5% Senior Notes, Series M, due 2015 (included in Exhibit 4.3(j)).
- 4.4 \$750 Million Five-Year Revolving Credit Facility, dated March 7, 2005, between CenturyTel, Inc. and the lenders named therein, included elsewhere herein.
- 4.5 First Supplemental Indenture, dated as of November 2, 1998, to Indenture between CenturyTel of the Northwest, Inc. and The First National Bank of Chicago (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
- 4.6 Agreements relating to equity units issued by CenturyTel in May 2002:
  - (a) Purchase Contract Agreement, dated as of May 1, 2002, between CenturyTel and Wachovia Bank, National Association, as Purchase Contract Agent (incorporated by reference to Exhibit 4.13 to CenturyTel's Registration Statement on Form S-3, File No. 333-84276).
  - (b) Pledge Agreement, dated as of May 1, 2002, by and among CenturyTel, JPMorgan Chase Bank, as Collateral Agent, Custodial Agent, and Securities Intermediary, and Wachovia Bank, National Association, as Purchase Contract Agent (incorporated by reference to Exhibit 4.15 to CenturyTel's Registration Statement on Form S-3, File No. 333-84276).
  - (c) First Supplemental Indenture, dated as of May 1, 2002, between CenturyTel and Regions Bank, as Trustee, to the Indenture, dated as of March 31, 1994, between CenturyTel and Regions Bank, as Trustee, relating to CenturyTel's Senior Notes, Series J, due 2007 issued in connection with the equity units (incorporated by reference to Exhibit 4.2(b) to CenturyTel's Registration Statement on Form S-3, File No. 333-84276).
- 10.1 Qualified Employee Benefit Plans (excluding several narrow-based qualified plans that cover union employees or other limited groups of Company employees)
  - (a) Registrant's Employee Stock Ownership Plan and Trust, as amended and restated February 28, 2002 and amendment thereto dated December 31, 2002 (incorporated by

- reference to Exhibit 10.1(a) of Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
- (b) Registrant's Dollars & Sense Plan and Trust, as amended and restated, effective September 1, 2000 and amendment thereto dated December 31, 2002 (incorporated by reference to Exhibit 10.1(b) of Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
- (c) Registrant's Amended and Restated Retirement Plan, effective as of February 28, 2002, and amendment thereto dated December 31, 2002 (incorporated by reference to Exhibit 10.1(c) of Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).

# 10.2 Stock-based Incentive Plans

- (a) Registrant's 1983 Restricted Stock Plan, dated February 21, 1984, as amended and restated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated November 21, 1996, (incorporated by reference to Exhibit 10.1(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996), and amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), and amendment thereto dated April 25, 2001 (incorporated by reference to Exhibit 10.1 of Registrant's 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) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- (b) Registrant's 1995 Incentive Compensation Plan approved by Registrant's shareholders on May 11, 1995 (incorporated by reference to Exhibit 4.4 to Registration No. 33-60061) and amendment thereto dated November 21, 1996 (incorporated by Reference to Exhibit 10.1 (1) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996), and amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997) and amendment thereto dated May 29, 2003 (incorporated by reference to Exhibit 10.1 to Registrant's 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 May 22, 1995, entered into by Registrant and its officers (incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995).
  - (ii) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of June 23, 1995, entered into by Registrant and certain key employees (incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995).

- (iii) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of February 24, 1997, entered into by Registrant and its officers (incorporated by reference to Exhibit 10.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997).
- (iv) Form of Stock Option Agreement, pursuant to 1995 Incentive Compensation Plan and dated as of February 21, 2000, entered into by Registrant and its officers (incorporated by reference to Exhibit 10.1 (t) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
- (v) Form of Restricted Stock and
  Performance Share Agreement, dated as of
  February 22, 1999, relating to equity
  incentive awards granted in 1999 pursuant
  to the Registrant's 1995 Incentive
  Compensation Plan that were vested or
  earned wholly or in part in early 2004
  (incorporated by reference to Exhibit
  10.1(x) to Registrant's Annual Report on
  Form 10-K for the year ended December 31,
  1999).
- (c) Amended and Restated Registrant's 2000 Incentive Compensation Plan, as amended through May 23, 2000 (incorporated by reference to Exhibit 10.2 to Registrant's 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 to Registrant's 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 Registrant and its officers (incorporated by reference to Exhibit 10.2(e) to Registrant's 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 Registrant and its officers (incorporated by reference to Exhibit 10.2(d)(ii) of Registrant's Annual Report on Form 10-K for the year ended December 31, 2002). Amended and Restated CenturyTel, Inc. 2002 Directors Stock Option
- year ended December 31, 2002).

  Amended and Restated CenturyTel,
  Inc. 2002 Directors Stock Option
  Plan, dated as of February 25,
  2004, (incorporated by reference to
  Exhibit 10.2(e) of Registrant's
  Annual Report on Form 10-K for the
  year ended December 31, 2003).
  - (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 Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
- (e) Amended and Restated CenturyTel, Inc. 2002 Management Incentive Compensation Plan, dated as of February 25, 2004 (incorporated by reference to Exhibit 10.2(f) of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
  - (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 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 and dated as of February 24, 2003, entered into by Registrant and its officers (incorporated by reference to Exhibit 10.2(f)(ii) of Registrant's 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 Registrant and its officers (incorporated by reference to Exhibit 10.2(f)(iii) of Registrant's 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 Registrant and its executive officers (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2003).
  - (v) Form of Stock Option Agreement, pursuant to the foregoing plan and dated as of February 17, 2005, entered into by Registrant and its officers, included elsewhere herein.
  - (vi) Form of Restricted Stock Agreement, pursuant to the foregoing plan and dated as of February 17, 2005, entered into by Registrant and its executive officers, included elsewhere herein.
- Other Non-Qualified Employee Benefit Plans

  (a) Registrant's Key Employee Incentive Compensation
  Plan, dated January 1, 1984, as amended and restated
  as of November 16, 1995 (incorporated by reference
  to Exhibit 10.1(f) to Registrant's Annual Report on
  Form 10-K for the year ended December 31, 1995) and

amendment thereto dated November 21, 1996 (incorporated by reference to Exhibit 10.1 (f) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1996), amendment thereto dated February 25, 1997 (incorporated by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997), amendment thereto dated April 25, 2001 (incorporated by reference to Exhibit 10.2 of Registrant's 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 10.3(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).

- (b) Registrant's Restated Supplemental Executive Retirement Plan, dated April 3, 2000 (incorporated by reference to Exhibit 10.1(d) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
- (c) Registrant's Restated Supplemental Defined Contribution Plan, restated as of July 17, 2001 (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001).
- (d) Registrant's Amended and Restated Supplemental Dollars & Sense Plan, effective as of January 1, 1999 (incorporated by reference to Exhibit 10.1 (q) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998).
- (e) Registrant's Supplemental Defined Benefit Plan, effective as of January 1, 1999 (incorporated by reference to Exhibit 10.1 (y) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1998), and amendment thereto dated February 28, 2002 (incorporated by reference to Exhibit 10.3(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- (f) Registrant's Amended and Restated Salary Continuation (Disability) Plan for Officers, dated November 26, 1991 (incorporated by reference to Exhibit 10.16 of Registrant's Annual Report on Form 10- K for the year ended December 31, 1991).
- (g) Registrant's Restated Outside Directors'
  Retirement Plan, dated as of November 16, 1995
  (incorporated by reference to Exhibit 10.1(t) to
  Registrant's Annual Report on Form 10-K for the year
  ended December 31, 1995) and amendment thereto
  dated April 17, 2000 (incorporated by reference to
  Exhibit 10.3(g) to Registrant's Annual Report on
  Form 10-K for the year ended December 31, 2001)
  and amendment thereto dated December 31, 2002
  (incorporated by reference to Exhibit 10.3(g) of
  Registrant's Annual Report on Form 10-K for the year
  ended December 31, 2002).
- (h) Registrant's Restated Deferred Compensation Plan for Outside Directors, dated as of November 16, 1995 (incorporated by reference to Exhibit 10.1(u) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995) and amendment thereto dated April 17, 2000 (incorporated by reference to Exhibit 10.3(h) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- (i) Registrant's Executive Officer Short-Term Incentive

Program (incorporated by reference to 2001 Proxy Statement).

- (j) Registrant's 2001 Employee Stock Purchase Plan (incorporated by reference to Registrant's 2001 Proxy Statement).
- 10.4 Employment, Severance and Related Agreements
  - (a) Change of Control Agreement, dated February 22, 2000 by and between Glen F. Post, III and Registrant (incorporated by reference to Exhibit 10.1(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
  - (b) Form of Change of Control Agreement, dated February 22, 2000, by and between Registrant and David D. Cole, R. Stewart Ewing and Michael E. Maslowski (incorporated by reference exhibit 10.1(c) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
  - (c) Form of Change of Control Agreement dated July 24, 2000, by and between the Registrant and Karen A. Puckett (incorporated by reference to Exhibit 10.1(c) of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2000).
  - (d) Form of Change of Control Agreement dated August 26, 2003 by and between Registrant and Stacey W. Goff (incorporated by reference to Exhibit 10.1(c) of Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 2000).
- Registrant's Corporate Compliance Program (incorporated by reference to Exhibit 14 of Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
- 21 Subsidiaries of the Registrant, included elsewhere herein.
- Independent Registered Public Accounting Firm Consent, included elsewhere herein.
- 31.1 Registrant's Chief Executive Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, included elsewhere herein.
- 31.2 Registrant's Chief Financial Officer certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, included elsewhere herein.
- Registrant's Chief Executive Officer and Chief Financial Officer certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, included elsewhere herein.

  Reports on Form 8-K.

The following items were reported in a Form 8-K filed October 28, 2004:

Items 2.02 and 9.01. Results of Operations and Financial Condition - News release announcing third quarter 2004 operating results.

### 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: March 16, 2005

By: /s/ Glen F. Post, III

01--- E D.--- ---

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.

/s/ Glen F. Post, III Glen F. Post, III	Chairman of the Board and Chief Executive Officer March		2005
Chief Financial Officer	Executive Vice President and /s/ R. S		
R. Stewart Ewing, Jr.	March	16,	2005
/s/ Neil A. Sweasy Neil A. Sweasy	Vice President and Controller March		2005
/s/ William R. Boles, Jr.	Director		
William R. Boles, Jr.	March	16,	2005
/s/ Virginia Boulet Virginia Boulet	Director	16	2005
/s/ Calvin Czeschin	March	10,	2005
Calvin Czeschin	Director March	16,	2005
/s/ James B. Gardner	Director		
James B. Gardner	March	16,	2005
/s/ W. Bruce Hanks W. Bruce Hanks	Director		
	March	. 16,	2005
/s/ R. L. Hargrove, Jr. R. L. Hargrove, Jr.	Director March	16,	2005
/s/ Johnny Hebert	Director		
Johnny Hebert	March	16,	2005

/s/ C. G. Melville, Jr.	Director	
C. G. Melville, Jr.		March 16, 2005
/s/ Fred Nichols	Director	
Fred Nichols		March 16, 2005
/s/ Harvey P. Perry	Director	
Harvey P. Perry		March 16, 2005
/s/ Jim D. Reppond	Director	
Jim D. Reppond		March 16, 2005
/s/ Joseph R. Zimmel	Director	
Joseph R. Zimmel		March 16, 2005

# SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS CENTURYTEL, INC.

For the years ended December 31, 2004, 2003 and 2002

Description	Balance a beginning of period	costs and	Deductions from allowance	Other changes	Balance at end of period
	(Dollars in thousands)				
Year ended December 31, 2004 Allowance for doubtful accounts Valuation allowance for deferred tax assets	\$ 23,67 \$ 19,73	•	(30,364)		21,187 27,112
Year ended December 31, 2003 Allowance for doubtful accounts Valuation allowance for deferred tax assets	\$ 33,96 \$ 28,38	,	(42,193) (21,623)		23,679 19,735
Year ended December 31, 2002 Allowance for doubtful accounts Valuation allowance for deferred tax assets	\$ 13,90 \$ 19,69	,	(17,134)	(1) 3,143	(3) 33,962 28,380

- (1) Customers' accounts written-off, net of recoveries.
- (2) Change in the valuation allowance allocated to income tax expense.
- (3) 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.