CENTURYTEL INC
Form 10-Q
May 15, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2001

or

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

Commission File Number: 1-7784

CenturyTel, Inc.
(Exact name of registrant as specified in its charter)

Louisiana (State or other jurisdiction of incorporation or organization)	72-0651161 (I.R.S. Employer Identification No.)

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

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

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

[X] Yes [ ] No

As of April 30, 2001, there were 140,995,276 shares of common stock outstanding.

CenturyTel, Inc.

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PART I. FINANCIAL INFORMATION
CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three months ended March 31,	
	2001	2000
	(Dollars, except per share amounts, and shares in thousands)	
OPERATING REVENUES		
Telephone	$ 371,249	276,926
Wireless	104,406	100,404
Other	40,353	35,626
Total operating revenues	516,008	412,956
OPERATING EXPENSES		
Cost of sales and operating expenses	266,368	216,723
Depreciation and amortization	115,432	84,811
Total operating expenses	381,800	301,534

OPERATING INCOME	134,208	111,422
OTHER INCOME (EXPENSE)		
Interest expense	(61,703)	(36,042)
Income (loss) from unconsolidated cellular entities	5,321	(1,459)
Minority interest	(2,649)	(2,292)
Gain on sale of assets	-	9,910
Other income and expense	2,923	4,229
Total other income (expense)	(56,108)	(25,654)
INCOME BEFORE INCOME TAX EXPENSE	78,100	85,768
Income tax expense	31,378	36,484
NET INCOME	$ 46,722	49,284
BASIC EARNINGS PER SHARE	$ .33	.35
DILUTED EARNINGS PER SHARE	$ .33	.35
DIVIDENDS PER COMMON SHARE	$ .05	.0475
AVERAGE BASIC SHARES OUTSTANDING	140,572	139,737
AVERAGE DILUTED SHARES OUTSTANDING	142,482	141,728

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
NET INCOME	$ 46,722	49,284
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized holding loss arising during period, net of ($1,549) and ($3,765) tax	(2,877)	(6,993)

COMPREHENSIVE INCOME	$ 43,845	42,291

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2001	December 31 2000
	(Dollars in thousands	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 15,873	19,03
Accounts receivable, less allowance of $10,904 and $12,857	271,468	307,16
Materials and supplies, at average cost	33,858	38,53
Other	14,120	11,76
Total current assets	335,319	376,50
NET PROPERTY, PLANT AND EQUIPMENT	2,954,667	2,959,29
INVESTMENTS AND OTHER ASSETS		
Excess cost of net assets acquired, less accumulated amortization of $235,953 and $219,809	2,526,785	2,509,03
Other	571,954	548,46
Total investments and other assets	3,098,739	3,057,49
TOTAL ASSETS	$ 6,388,725	6,393,29
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 155,574	149,96
Short-term debt	319,347	276,00
Accounts payable	97,227	127,28
Accrued expenses and other liabilities		
Salaries and benefits	38,682	33,85
Taxes	63,967	40,02
Interest	56,025	52,01
Other	20,744	23,34
Advance billings and customer deposits	41,335	40,87
Total current liabilities	792,901	743,37
LONG-TERM DEBT	2,980,442	3,050,29
DEFERRED CREDITS AND OTHER LIABILITIES	540,376	567,54
STOCKHOLDERS' EQUITY		

Common stock, $1.00 par value, authorized 350,000,000 shares, issued and outstanding 140,992,706 and 140,667,251 shares	140,993	140,66
Paid-in capital	515,478	509,84
Unrealized holding gain on investments, net of taxes	22,594	25,47
Retained earnings	1,391,216	1,351,62
Unearned ESOP shares	(3,250)	(3,50
Preferred stock - non-redeemable	7,975	7,97
Total stockholders' equity	2,075,006	2,032,07
TOTAL LIABILITIES AND EQUITY	$ 6,388,725	6,393,29

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	$ 140,667	139,946
Conversion of convertible securities into common stock	254	254
Issuance of common stock through dividend reinvestment, incentive and benefit plans	72	29
Balance at end of period	140,993	140,229
PAID-IN CAPITAL		
Balance at beginning of period	509,840	493,432
Conversion of convertible securities into common stock	3,046	3,046
Issuance of common stock through dividend reinvestment, incentive and benefit plans	1,170	1,025
Amortization of unearned compensation and other	1,422	1,030
Balance at end of period	515,478	498,533
UNREALIZED HOLDING GAIN ON INVESTMENTS, NET OF TAXES		
Balance at beginning of period	25,471	64,362
Change in unrealized holding gain on investments	(2,877)	(6,993)
Balance at end of period	22,594	57,369
RETAINED EARNINGS		
Balance at beginning of period	1,351,626	1,146,967
Net income	46,722	49,284
Cash dividends declared		
Common stock-$.05 and $.0475 per share, respectively	(7,032)	(6,642)
Preferred stock	(100)	(100)
Balance at end of period	1,391,216	1,189,509

UNEARNED ESOP SHARES		
Balance at beginning of period	(3,500)	(4,690)
Release of ESOP shares	250	440
Balance at end of period	(3,250)	(4,250)
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning and end of period	7,975	7,975
TOTAL STOCKHOLDERS' EQUITY	$ 2,075,006	1,889,365

See accompanying notes to consolidated financial statements.

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

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	$ 46,722	49,284
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	115,432	84,811
Gain on sale of assets	-	(9,910)
Deferred income taxes	(8,123)	3,231
(Income) loss from unconsolidated cellular entities	(5,321)	1,459
Minority interest	2,649	2,292
Changes in current assets and current liabilities:		
Accounts receivable	35,697	(15,928)
Accounts payable	(30,060)	36,414
Other accrued taxes	23,944	30,525
Other current assets and other current liabilities, net	9,010	(8,143)
Increase in other noncurrent assets	(19,201)	(16,222)
Increase (decrease) in other noncurrent liabilities	(6,757)	4,586
Other, net	19,092	(2,310)
Net cash provided by operating activities	183,084	160,089
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(120,585)	(58,165)
Acquisitions, net of cash acquired	(47,131)	(27,980)
Proceeds from sale of assets	-	15,849
Purchase of life insurance investment, net	(70)	(1,627)
Other, net	4,215	(827)
Net cash used in investing activities	(163,571)	(72,750)

FINANCING ACTIVITIES		
Proceeds from issuance of debt	172,173	1,079
Payments of debt	(189,514)	(77,007)
Proceeds from issuance of common stock	1,242	1,054
Cash dividends	(7,132)	(6,742)
Other, net	552	266
Net cash used in financing activities	(22,679)	(81,350)
Net increase (decrease) in cash and cash equivalents	(3,166)	5,989
Cash and cash equivalents at beginning of period	19,039	56,640
Cash and cash equivalents at end of period	$ 15,873	62,629
Supplemental cash flow information:		
Income taxes paid	$ 790	5,146
Interest paid (net of capitalized interest of $1,654 and $741)	$ 56,035	48,593

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001
(UNAUDITED)

(1) Basis of Financial Reporting

The consolidated financial statements of CenturyTel, Inc. and its subsidiaries (the "Company") include the accounts of CenturyTel, Inc. ("CenturyTel") and its majority-owned subsidiaries and partnerships. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, the Company believes the disclosures which are made are adequate to make the information presented not misleading. The consolidated financial statements and footnotes included in this Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000. Certain 2000 amounts have been reclassified to be consistent with the Company's 2001 presentation.

The unaudited financial information for the three months ended March 31, 2001 and 2000 has not been audited by independent certified public accountants; however, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the three-month periods have been included therein. The results of operations for the first three months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

(2) Net Property, Plant and Equipment

Net property, plant and equipment is composed of the following:

	March 31, 2001	Dec. 31, 2000
	(Dollars in thousands)	
Telephone, at original cost	$ 5,067,201	4,999,808
Accumulated depreciation	(2,630,212)	(2,552,648)
	2,436,989	2,447,160
Wireless, at cost	518,901	522,684
Accumulated depreciation	(269,411)	(261,401)
	249,490	261,283
Other, at cost	415,165	392,024
Accumulated depreciation	(146,977)	(141,174)
	268,188	250,850
	$ 2,954,667	2,959,293

(3) Income (Loss) from Unconsolidated Cellular Entities

The following summarizes the unaudited combined results of operations of the cellular entities in which the Company's investments (as of March 31, 2001 and 2000) were accounted for by the equity method.

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
Results of operations		
Revenues	$ 374,406	357,434
Operating income	$ 114,937	99,861
Net income	$ 112,104	99,149

(4) Sale of Assets

In the first quarter of 2000 the Company recorded a pre-tax gain aggregating $9.9 million ($5.2 million after-tax; $.04 per diluted share) due to the sale of the assets of its remaining Alaska cellular operations.

(5) Business Segments

The Company has two separately reportable business segments: telephone and wireless. The Company's reportable segments are strategic business units that offer different products and services. The operating income of these segments is reviewed by the chief operating decision maker to assess performance and make business decisions. Other operations include, but are not limited to, the Company's non-regulated long distance operations, Internet operations, competitive local exchange carrier operations and security monitoring operations.

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Telephone	$ 371,249	276,926
Wireless	104,406	100,404
Other operations	40,353	35,626
Total operating revenues	$ 516,008	412,956
Operating income		
Telephone	$ 103,981	84,497
Wireless	24,920	19,891
Other operations	5,307	7,034
Total operating income	$ 134,208	111,422
Operating income	$ 134,208	111,422
Interest expense	(61,703)	(36,042)
Income (loss) from unconsolidated cellular entities	5,321	(1,459)
Minority interest	(2,649)	(2,292)
Gain on sale of assets	-	9,910
Other income and expense	2,923	4,229
Income before income tax expense	$ 78,100	85,768

	March 31, 2001	Dec. 31, 2000
	(Dollars in thousands)	
Assets		
Telephone	$ 4,795,612	4,779,812
Wireless	1,190,578	1,204,186
Other operations	402,535	409,292
Total assets	$ 6,388,725	6,393,290

CenturyTel, Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in the Company's annual report on Form 10-K for the year ended December 31, 2000. The results of operations for the three months ended March 31, 2001 are not necessarily indicative of the results of operations which might be expected for the entire year.

CenturyTel, Inc. and its subsidiaries (the "Company") is a regional integrated communications company engaged primarily in providing local exchange, wireless, long distance, Internet access and data services to customers in 21 states. On July 31, 2000 and September 29, 2000, affiliates of the Company acquired over 490,000 telephone access lines and related local exchange assets in Arkansas, Missouri and Wisconsin from affiliates of Verizon Communications, Inc. ("Verizon") for an aggregate of approximately $1.5 billion cash. The operations of those acquired properties are included in the Company's results of operations beginning on the respective dates of acquisition. In February 2000, the Company sold the assets of its remaining Alaska cellular operations serving approximately 10,600 cellular subscribers. The operations of this disposed property are included in the Company's results of operations up to the date of disposition.

In addition to historical information, management's discussion and analysis includes certain forward-looking statements regarding events and financial trends that may affect the Company's future operating results and financial position. Such forward-looking statements are subject to uncertainties that could cause the Company's actual results to differ materially from such statements. Such uncertainties include but are not limited to: the Company's ability to effectively manage its growth, including integrating newly-acquired businesses into the Company's operations, hiring adequate numbers of qualified staff and successfully upgrading its billing and other information systems; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the telecommunications industry; the effects of greater than anticipated competition in the Company's markets; 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; and the effects of more general factors such as changes in general market or economic conditions or in legislation, regulation or public policy. These and other uncertainties related to the business are described in greater detail in Item 1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update any of its forward-looking statements for any reason.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2001 Compared
to Three Months Ended March 31, 2000

Net income (and diluted earnings per share) was $46.7 million ($.33) and $49.3 million ($.35) for the first quarter of 2001 and 2000, respectively. Net income (excluding after-tax gain on sale of assets and certain non-recurring charges) was $47.9 million for both the first quarter of 2001 and the first quarter of 2000. Diluted earnings per share (excluding after-tax gain on sale of assets and certain non-recurring charges) was $.34 during both quarters. The non-recurring charge in first quarter 2001 of $2.0 million ($.01 per diluted

share) was related to ice storm damages in certain of the Company's local telephone operations. Substantially all of the non-recurring charges in first quarter 2000 related to the Company's proportionate share ($5.3 million; $.03 per diluted share) of non-cash charges that were recorded by two cellular entities in which the Company owns a minority interest and is reflected in "Income (loss) from unconsolidated cellular entities."

	Three months ended March 31,	
	2001	2000
	(Dollars, except per share amounts, and shares in thousands)	
Operating income		
Telephone	$ 103,981	84,497
Wireless	24,920	19,891
Other	5,307	7,034
	134,208	111,422
Interest expense	(61,703)	(36,042)
Income (loss) from unconsolidated cellular entities	5,321	(1,459)
Minority interest	(2,649)	(2,292)
Gain on sale of assets	-	9,910
Other income and expense	2,923	4,229
Income tax expense	(31,378)	(36,484)
Net income	$ 46,722	49,284
Basic earnings per share	$ .33	.35
Diluted earnings per share	$ .33	.35
Average basic shares outstanding	140,572	139,737
Average diluted shares outstanding	142,482	141,728

Contributions to operating revenues and operating income by the Company's telephone, wireless, and other operations for the three months ended March 31, 2001 and 2000 were as follows:

	Three months ended March 31,	
	2001	2000
Operating revenues		
Telephone operations	72.0%	67.1
Wireless operations	20.2%	24.3
Other operations	7.8%	8.6
Operating income		

Telephone operations	77.5%	75.8
Wireless operations	18.6%	17.9
Other operations	3.9%	6.3

Telephone Operations

	Three months ended March 31,	
	2001	2000
Operating revenues		
Local service	$ 121,161	88,065
Network access	213,867	162,253
Other	36,221	26,608
	371,249	276,926
Operating expenses		
Plant operations	93,885	62,776
Customer operations	29,257	22,761
Corporate and other	46,765	39,532
Depreciation and amortization	97,361	67,360
	267,268	192,429
Operating income	$ 103,981	84,497

The Company conducts its telephone operations in rural, suburban and small urban communities in 21 states. As of March 31, 2001, approximately 87% of the Company's 1.8 million access lines were in Wisconsin, Arkansas, Washington, Missouri, Michigan, Louisiana, Colorado, Ohio and Oregon.

Telephone operating income increased $19.5 million (23.1%) due to an increase in operating revenues of $94.3 million (34.1%) which more than offset an increase in operating expenses of $74.8 million (38.9%).

Of the $94.3 million increase in operating revenues, $88.0 million was attributable to the acquisitions of the Verizon properties. The remaining $6.3 million increase in revenues was partially due to a $2.4 million increase in local network service revenues primarily due to an increase in the number of customer access lines in incumbent markets; a $2.4 million increase in amounts received from the federal Universal Service Fund; a $1.5 million increase related to selling, leasing, installing, maintaining and repairing customer premise telecommunications equipment and wiring and a $1.2 million increase due to the increased provision of custom calling features. Such increases were partially offset by a $2.5 million decrease in the Company's partial recovery of operating costs through revenue sharing arrangements with other telephone companies. Annualized internal access line growth for first quarter of 2001 and 2000 was 0.6% and 2.9%, respectively. The decline in internal access line growth during 2001 is substantially due to disconnecting service to customers for non-payment and the replacement of lines with high-speed data circuits.

Plant operations expenses increased $31.1 million (49.6%), of which $29.9 million (including $2.0 million related to ice storm damages) was attributable to the acquisitions of the Verizon properties. The remaining $1.2 million

increase was primarily due to an $835,000 increase in access expenses.

During the first quarter of 2001 customer operations expenses increased $6.5 million (28.5%), substantially all of which was attributable to the Verizon acquisitions.

Corporate and other expenses increased $7.2 million (18.3%) primarily due to a $2.3 million increase in expenses associated with the Verizon acquisitions; a $1.8 million increase in the provision for doubtful accounts; and a $1.3 million increase associated with the Company's sales, leases, installations, maintenance and repair of customer premise telecommunications equipment and wiring.

Depreciation and amortization increased $30.0 million, of which $26.8 million was attributable to the Verizon properties acquired (of which $5.9 million related to amortization of goodwill). The remaining $3.2 million increase was primarily due to higher levels of plant in service.

Wireless Operations and Income (Loss) From Unconsolidated Cellular Entities

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
Operating income - wireless operations	$ 24,920	19,891
Minority interest	(2,637)	(2,284)
Income (loss) from unconsolidated cellular entities	5,321	(1,459)
	$ 27,604	16,148

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

Wireless Operations

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Service	$ 80,466	76,261
Roaming	20,634	20,362
Equipment sales	3,306	3,781

	104,406	100,404
Operating expenses		
Cost of equipment sold	5,844	8,180
System operations	17,466	15,653
General, administrative and customer service	20,737	18,206
Sales and marketing	18,825	22,125
Depreciation and amortization	16,614	16,349
	79,486	80,513
Operating income	$ 24,920	19,891

Wireless operating income increased $5.0 million (25.3%) to $24.9 million in the first quarter of 2001 from $19.9 million in the first quarter of 2000. Wireless operating revenues increased $4.0 million (4.0%) while operating expenses decreased $1.0 million (1.3%).

The $4.2 million increase in service revenues was primarily due to growth in number of customers and increased minutes of use, both of which were partially offset by reduced rates. The Company's roaming revenues were approximately the same in first quarter 2001 and first quarter 2000 as revenues generated from increased minutes of use were completely offset by a reduction in roaming rates, a downward trend in rates that the Company anticipates will continue in the near future.

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

	Three months ended March 31,	
	2001	2000
Customers at beginning of period	751,200	707,486
Gross units added internally	83,509	93,001
Disconnects	65,894	62,327
Net units added internally	17,615	30,674
Effect of property dispositions	-	(10,653)
Customers at end of period	768,815	727,507

The average monthly revenue per customer declined to $44 during the first quarter of 2001 from $45 during the first quarter of 2000 primarily due to price reductions in service rates charged to the Company's customers, reductions in roaming rates charged to other cellular operators and the continued trend that a higher percentage of new customers tend to be lower usage customers. The average monthly service revenue per customer is expected to further decline (i) as market penetration increases and additional lower usage customers are activated; (ii) as the Company continues to receive pressure from other cellular operators to reduce roaming rates and (iii) as competitive pressures from current and future wireless communications providers intensify. The Company is responding to such competitive pressures by, among other things, modifying certain of its price plans and implementing certain other plans and promotions, some of which may result in lower average revenue per customer.

Cost of equipment sold decreased $2.3 million (28.6%) substantially due

to a decrease in units sold.

System operations expenses increased $1.8 million (11.6%) primarily due to a $1.6 million increase in the net amounts paid to other carriers for cellular service provided to the Company's customers who roam in such other carriers' service areas.

General, administrative and customer service expenses increased $2.5 million (13.9%) primarily due to a $900,000 increase in the provision for doubtful accounts and an $833,000 increase in customer service and retention costs.

The Company's average monthly postpaid churn rate (the percentage of contract cellular customers that terminate service) was 2.4% for the first quarter of 2001 and 2.0% for the first quarter of 2000.

Sales and marketing expenses decreased $3.3 million (14.9%) primarily due to a $3.1 million decrease in advertising expenses associated with the introduction of new rate plans during the first quarter of 2000 and a $948,000 decrease in commissions paid to agents for selling services to new customers.

Other Operations

	Three months ended March 31,	
	2001	2000
	(Dollars in thousands)	
Operating revenues		
Long distance	$ 27,600	24,827
Internet	8,399	5,012
Other	4,354	5,787
	40,353	35,626
Operating expenses		
Cost of sales and operating expenses	33,589	27,490
Depreciation and amortization	1,457	1,102
	35,046	28,592
Operating income	$ 5,307	7,034

Other operations include the results of operations of the Company which are not included in the telephone or wireless segments including, but not limited to, the Company's non-regulated long distance operations, Internet operations, call center operations (which ceased operations in the third quarter of 2000), competitive local exchange carrier operations and security monitoring operations. The $2.8 million increase in long distance revenues was primarily attributable to the growth in the number of customers and increased minutes of use. The number of long distance customers as of March 31, 2001 and 2000 was 392,900 and 319,100, respectively. Internet revenues increased $3.4 million due primarily to a $2.1 million increase due to growth in the number of customers and an $867,000 increase due to Internet operations acquired in mid-2000. The decrease in other revenues is primarily due to the planned phase out of the Company's third party call center operations in the last half of 2000.

Operating expenses increased $6.5 million primarily due to (i) a $7.1 million increase in expenses related to the provision of Internet access primarily due to the expansion of the Company's digital subscriber line ("DSL") product offering; and (ii) a $2.5 million increase due to the expansion of the Company's competitive local exchange carrier and fiber network businesses. Such increases were partially offset by a $3.3 million reduction in expenses due to the planned phase out of the Company's third party call center operations in the last half of 2000.

The Company anticipates that future operating income for its other operations will continue to decline in relation to prior periods as it incurs increasingly larger expenses in connection with expanding its competitive local exchange carrier and fiber network businesses and its DSL product offering.

Interest Expense

Interest expense increased $25.7 million (71.2%) in the first quarter of 2001 compared to the first quarter of 2000 substantially due to an increase in interest expense related to the Verizon acquisition indebtedness.

Income (Loss) from Unconsolidated Cellular Entities

Earnings from unconsolidated cellular entities, net of the amortization of associated goodwill, increased $6.8 million. The first quarter of 2000 included the Company's proportionate share ($5.3 million) of non-cash charges that was recorded by two cellular entities in which the Company owns a minority interest. The remaining increase was primarily due to increased earnings of certain cellular entities in which the Company owns a minority interest.

Minority Interest

Minority interest increased $357,000 in first quarter 2001 compared to first quarter 2000 due to the increased profitability of the Company's majority-owned and operated cellular entities.

Gain on Sale of Assets

In the first quarter of 2000, the Company recorded a pre-tax gain of approximately $9.9 million ($5.2 million after-tax; $.04 per diluted share) due to the sale of the assets of its remaining Alaska cellular operations.

Other Income and Expense

Other income and expense decreased $1.3 million in first quarter 2001 primarily due to a reduction in interest income.

Income Tax Expense

Income tax expense decreased $5.1 million in the first quarter of 2001 compared to the first quarter of 2000 primarily due to a decrease in income before taxes. The effective income tax rate was 40.2% and 42.5% in the three months ended March 31, 2001 and 2000, respectively.

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.

Net cash provided by operating activities was $183.1 million during the first three months of 2001 compared to $160.1 million during the first three months of 2000. The Company's accompanying consolidated statements of cash flows identify major differences between net income and net cash provided by operating activities for each of these periods. For additional information relating to the

telephone operations, wireless operations, and other operations of the Company, see Results of Operations.

Net cash used in investing activities was $163.6 million and $72.8 million for the three months ended March 31, 2001 and 2000, respectively. Payments for property, plant and equipment were $62.4 million more in the first quarter of 2001 than in the comparable period during 2000. Capital expenditures for the three months ended March 31, 2001 were $72.7 million for telephone, $18.3 million for wireless and $29.6 million for other operations. During the first quarter of 2001, the Company acquired an additional 18.6% interest for $47.1 million cash in Spectra Communication Group, LLC, the entity organized to acquire and operate the former Verizon properties in Missouri. During the first quarter of 2000, the Company invested $28.0 million in various other communications entities. Proceeds from the sale of assets were $15.8 million for the three months ended March 31, 2000.

Net cash used in financing activities was $22.7 million during the first three months of 2001 compared to $81.4 million during the first three months of 2000. Net payments of debt were $58.6 million less during the first quarter of 2001 compared to the first quarter of 2000.

Budgeted capital expenditures for 2001 total $400 million for telephone operations, $70 million for wireless operations and $80 million for other operations.

As of March 31, 2001, CenturyTel's subsidiaries had available for use $123.0 million of commitments for long-term financing from the Rural Utilities Service and the Rural Telephone Bank and the Company had $211.1 million of undrawn committed bank lines of credit. The Company has a commercial paper program that authorizes it to have outstanding up to $1.5 billion in commercial paper at any one time. At March 31, 2001, the Company had $30.3 million outstanding under such program.

In April 2001, the Company completed the sale of 29 PCS (Personal Communications Service) operating licenses for an aggregate of $175 million to Leap Wireless International, Inc. ("Leap"). The Company received approximately $89 million of the purchase price in cash at closing. The remaining $86 million is payable in the form of a promissory note bearing interest at 10% per annum. $74 million will be payable within nine months after issuance of the note with the remainder payable in 2002 upon maturity of the note. One additional license was sold to Leap for approximately $30 million in cash in early May 2001. Cash received from these sales will be used to pay down indebtedness.

OTHER MATTERS

Accounting for the Effects of Regulation

The Company currently accounts for its regulated telephone operations in accordance with the provisions of Statement of Financial Accounting Standards No. 71 ("SFAS 71"), "Accounting for the Effects of Certain Types of Regulation." While the ongoing applicability of SFAS 71 to the Company's telephone operations is being monitored due to the changing regulatory, competitive and legislative environments, the Company believes that SFAS 71 still applies. However, it is possible that changes in regulation or legislation or anticipated changes in competition or in the demand for regulated services or products could result in the Company's telephone operations not being subject to SFAS 71 in the near future. In that event, implementation of Statement of Financial Accounting Standards No. 101 ("SFAS 101"), "Regulated Enterprises - Accounting for the Discontinuance of Application of FASB Statement No. 71," would require the write-off of previously established regulatory assets and liabilities, along with an adjustment of certain accumulated depreciation accounts to reflect the difference between recorded depreciation and the amount of depreciation that would have been recorded had the Company's telephone operations not been subject to rate regulation. Such discontinuance of the application of SFAS 71 would result in a material, noncash charge against earnings which would be reported as an extraordinary item. While the effect of implementing SFAS 101 cannot be precisely estimated at this time, management believes that the noncash,

after-tax, extraordinary charge would be between $400 million and $450 million.

Regulatory Issues

On April 19, 2001, the Wisconsin Public Service Commission ("WPSC") approved an interim rate increase of $8.8 million annually for the local exchange properties that the Company acquired from Ameritech in December 1998. Final rates will be determined in a rate case the Company has filed with the WPSC. Separately, the WPSC ordered the Company to refund $14.7 million related to access charges collected from interexchange carriers on the former Ameritech properties from December 1998 through 2000. The Company is challenging the refund order in Wisconsin State Court. If the appeal is unsuccessful, the Company will have to record a one-time charge of $.03 per share.

Accounting Pronouncement

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 established accounting and reporting standards for derivative instruments and for hedging activities by requiring that entities recognize all derivatives as either assets or liabilities at fair value on the balance sheet. The Company had no derivative instruments outstanding at January 1, 2001, and thus no transition adjustment was recorded upon adoption of SFAS 133.

As of March 31, 2001, the Company had outstanding an interest rate swap relating to $237.8 million of floating rate debt designed to eliminate the variability of cash flows in the payment of interest related to such debt. Since the terms of the swap match the terms of the floating rate debt, such swap is expected to have no ineffectiveness. In addition, the Company has from time to time entered into interest rate hedge contracts in anticipation of certain debt issuances to manage interest rate exposure. The Company does not utilize derivative financial instruments for trading or other speculative purposes.

CenturyTel, Inc.
QUANTITATIVE AND QUALITATIVE
DISCLOSURES ABOUT MARKET RISK

Market Risk

The majority of the Company's long-term debt obligations are fixed rate. At March 31, 2001, 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 7.0% and an overall weighted maturity of 12 years compared to terms and rates currently available in long-term financing markets. Market risk is estimated as the potential decrease in fair value of the Company's long-term debt resulting from a hypothetical increase of 70 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 $107.5 million decrease in fair value of the Company's long-term debt. As of March 31, 2001, the Company owed $857.1 million of debt on a floating-rate basis.

At the end of the first quarter of 2001, the Company entered into an interest rate swap relating to $237.8 million of floating rate debt designed to eliminate the variability of cash flows in the payment of interest related to such debt. The swap expires in August 2002. The Company will initially realize a fixed effective rate of 4.845% and will receive or make settlement payments based upon the 3-month London InterBank Offered Rate, with settlement and rate reset dates at three month intervals through the expiration date.

PART II. OTHER INFORMATION

CenturyTel, Inc.

Item 2: Changes in Securities and Use of Proceeds

At various times during the first quarter of 2001, CenturyTel sold at market prices approximately 400 shares of CenturyTel common stock to participants in its Union Group Incentive Plan. All such shares were privately placed under Section 4(2) of the Securities Act of 1933, as amended.

Item 6: Exhibits and Reports on Form 8-K

A. Exhibits

10.1 Amendment to the Registrant's 1983 Restricted Stock Plan, dated April 25, 2001.

10.2 Amendment to the Registrant's Key Employee Incentive Compensation Plan, dated April 25, 2001.

11 Computations of Earnings Per Share.

B. Reports on Form 8-K

The following items were reported in the Form 8-K filed February 7, 2001:

Item 5. Other Events

(i) News release announcing fourth quarter 2000 operating results and

(ii) News release announcing growth initiatives and financial guidance for 2001.

SIGNATURE

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

CenturyTel, Inc.

Date: May 15, 2001

/s/ Neil A. Sweasy

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