CENTURYTEL INC
Form 10-Q
August 14, 2003

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 June 30, 2003

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

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

[X] Yes [ ] No

As of July 31, 2003, there were 143,909,263 shares of common stock outstanding.

CenturyTel, Inc.

TABLE OF CONTENTS

	Page No.
Part I. Financial Information:	
Item 1. Financial Statements	
Consolidated Statements of Income-- Three Months and Six Months Ended June 30, 2003 and 2002	3
Consolidated Statements of Comprehensive Income-- Three Months and Six Months Ended June 30, 2003 and 2002	4
Consolidated Balance Sheets-- June 30, 2003 and December 31, 2002	5
Consolidated Statements of Cash Flows-- Six Months Ended June 30, 2003 and 2002	6
Consolidated Statements of Stockholders' Equity-- Six Months Ended June 30, 2003 and 2002	7
Notes to Consolidated Financial Statements	8-13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14-27
Item 3. Quantitative and Qualitative Disclosures About Market Risk	28-29
Item 4. Controls and Procedures	29
Part II. Other Information:	
Item 1. Legal Proceedings	30
Item 4. Submission of Matters to a Vote of Security Holders	30
Item 6. Exhibits and Reports on Form 8-K	30-31
Signature	31

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
CenturyTel, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	Three months ended June 30,		S end
	2003	2002	2003
	(Dollars, except per share am and shares in thousands)		
OPERATING REVENUES			

Telephone	$	514,972	380,499	1,026,350
Other		75,176	58,203	144,328
Total operating revenues		590,148	438,702	1,170,678
OPERATING EXPENSES				
Cost of sales and operating expenses (exclusive of depreciation and amortization)		284,962	230,033	562,721
Corporate overhead costs allocable to discontinued operations (See Note 4)		-	5,134	-
Depreciation and amortization		116,805	94,004	234,803
Total operating expenses		401,767	329,171	797,524
OPERATING INCOME		188,381	109,531	373,154
OTHER INCOME (EXPENSE)				
Interest expense		(55,957)	(54,157)	(111,549)
Income from unconsolidated cellular entity		1,590	1,960	3,159
Nonrecurring gains and losses		-	3,709	-
Other income and expense		974	2,485	42
Total other income (expense)		(53,393)	(46,003)	(108,348)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX EXPENSE		134,988	63,528	264,806
Income tax expense		47,621	22,046	93,520
INCOME FROM CONTINUING OPERATIONS		87,367	41,482	171,286
DISCONTINUED OPERATIONS (See Note 4)				
Income from discontinued operations, net of $20,888 and $36,418 tax		-	37,281	-
NET INCOME	$	87,367	78,763	171,286
BASIC EARNINGS PER SHARE				
From continuing operations	$	.61	.29	1.20
From discontinued operations	$	-	.26	-
Basic earnings per share	$	.61	.56	1.20
DILUTED EARNINGS PER SHARE				
From continuing operations	$	.60	.29	1.19
From discontinued operations	$	-	.26	-
Diluted earnings per share	$	.60	.55	1.19
DIVIDENDS PER COMMON SHARE	$	.055	.0525	.11
AVERAGE BASIC SHARES OUTSTANDING		143,329	141,243	143,109
AVERAGE DILUTED SHARES OUTSTANDING		144,475	142,705	144,136

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Si ende
	2003	2002	2003
		(Dollars in thousands)	
NET INCOME	$ 87,367	78,763	171,286
OTHER COMPREHENSIVE INCOME, NET OF TAX:			
Minimum pension liability adjustment:			
Minimum pension liability adjustment, net of ($7,946) and ($2,462) tax	14,758	-	4,572
Derivative instruments:			
Net gains (losses) on derivatives hedging the variability of cash flows, net of ($137) and $36 tax	255	-	(67)
Reclassification adjustment for losses included in net income, net of ($314) and ($487) tax	583	-	905
COMPREHENSIVE INCOME	$ 102,963	78,763	176,696

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2003	December 31, 2002
	(Dollars in thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 24,322	3,661
Accounts receivable, less allowance of $22,982 and $33,962	238,089	272,992
Materials and supplies, at average cost	9,417	10,150
Other	10,910	9,099
Total current assets	282,738	295,902
NET PROPERTY, PLANT AND EQUIPMENT	3,473,683	3,531,645
INVESTMENTS AND OTHER ASSETS		
Goodwill	3,428,699	3,427,281
Other	507,928	515,580
Total investments and other assets	3,936,627	3,942,861
TOTAL ASSETS	$ 7,693,048	7,770,408

LIABILITIES AND EQUITY

CURRENT LIABILITIES		
Current maturities of long-term debt	$ 118,941	70,737
Accounts payable	103,640	64,825
Accrued expenses and other liabilities		
Salaries and benefits	71,572	63,937
Income taxes	55,537	40,897
Other taxes	40,687	28,183
Interest	63,816	59,045
Other	21,177	18,596
Advance billings and customer deposits	44,162	41,884
Total current liabilities	519,532	388,104
LONG-TERM DEBT	3,137,772	3,578,132
DEFERRED CREDITS AND OTHER LIABILITIES	765,220	716,168
STOCKHOLDERS' EQUITY		
Common stock, $1.00 par value, authorized 350,000,000 shares, issued and outstanding 143,818,273 and 142,955,839 shares	143,818	142,956
Paid-in capital	558,228	537,804
Accumulated other comprehensive loss, net of tax	(31,293)	(36,703)
Retained earnings	2,592,796	2,437,472
Unearned ESOP shares	(1,000)	(1,500)
Preferred stock - non-redeemable	7,975	7,975
Total stockholders' equity	3,270,524	3,088,004
TOTAL LIABILITIES AND EQUITY	$ 7,693,048	7,770,408

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2003	2
	(Dollars in thousa	
OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	$ 171,286	149
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Income from discontinued operations, net of tax	-	(64
Depreciation and amortization	234,803	186
Income from unconsolidated cellular entity	(3,159)	(2
Deferred income taxes	43,841	29
Nonrecurring gains and losses	-	(3
Changes in current assets and current liabilities:		
Accounts receivable	36,053	34
Accounts payable	38,338	7

Accrued income and other taxes	27,144	10
Other current assets and other current liabilities, net	14,408	19
Increase in other noncurrent assets	(11,501)	(14
Increase in other noncurrent liabilities	8,324	12
Other, net	19,536	14
Net cash provided by operating activities from continuing operations	579,073	378
INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Payments for property, plant and equipment	(154,258)	(179
Acquisitions, net of cash acquired	(35,584)	(43
Distributions from unconsolidated cellular entity	1,104	2
Other, net	(1,536)	3
Net cash used in investing activities from continuing operations	(190,274)	(216
FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of debt	-	503
Payments of debt	(397,916)	(416
Proceeds from settlement of interest rate hedge contract	22,315	
Proceeds from issuance of common stock	20,929	8
Cash dividends	(15,962)	(15
Equity unit issuance costs	-	(15
Other, net	2,496	1
Net cash provided by (used in) financing activities from continuing operations	(368,138)	65
Net cash provided by discontinued operations (See Note 4)	-	71
Net increase in cash and cash equivalents	20,661	298
Cash and cash equivalents at beginning of period	3,661	3
Cash and cash equivalents at end of period	$ 24,322	302
Supplemental cash flow information:		
Income taxes paid	$ 42,322	25
Interest paid (net of capitalized interest of $37 and $840)	$ 106,741	100

See accompanying notes to consolidated financial statements.

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

Six months ended June 30,

	2003	2
	(Dollars in thousa	
COMMON STOCK		
Balance at beginning of period	$ 142,956	141
Issuance of common stock through dividend reinvestment, incentive and benefit plans	862	
Balance at end of period	143,818	141
PAID-IN CAPITAL		
Balance at beginning of period	537,804	524
Equity unit issuance costs and contract adjustment payments	-	(24
Issuance of common stock through dividend reinvestment, incentive and benefit plans	20,067	8
Amortization of unearned compensation and other	357	1
Balance at end of period	558,228	509
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance at beginning of period	(36,703)	
Change in other comprehensive loss, net of tax	5,410	
Balance at end of period	(31,293)	
RETAINED EARNINGS		
Balance at beginning of period	2,437,472	1,666
Net income	171,286	149
Cash dividends declared		
Common stock - $.055 and $.0525 per share, respectively	(15,763)	(14
Preferred stock	(199)	
Balance at end of period	2,592,796	1,800
UNEARNED ESOP SHARES		
Balance at beginning of period	(1,500)	(2
Release of ESOP shares	500	
Balance at end of period	(1,000)	(2
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning and end of period	7,975	7
TOTAL STOCKHOLDERS' EQUITY	$ 3,270,524	2,458

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2003
(UNAUDITED)

(1) Basis of Financial Reporting

The consolidated financial statements of CenturyTel, Inc. and its

subsidiaries (the "Company") include the accounts of CenturyTel, Inc. ("CenturyTel") and its majority-owned subsidiaries. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, in the opinion of management, the disclosures 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, 2002. Certain 2002 amounts have been reclassified to be consistent with the Company's 2003 presentation.

The unaudited financial information for the three months and six months ended June 30, 2003 and 2002 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 and six-month periods have been included therein. The results of operations for the first six months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

As a result of the Company's August 1, 2002 sale of substantially all of its wireless operations (see Note 4), such operations have been reflected as discontinued operations for the three months and six months ended June 30, 2002. In its December 31, 2002 consolidated balance sheet, the Company reflected as "assets held for sale" a minority interest in a cellular partnership that it had previously agreed to sell to ALLTEL Corporation upon the satisfaction of various closing conditions. In light of the failure of the parties to agree upon whether the closing conditions were met, the Company determined during the first quarter of 2003 to retain such investment; therefore, for reporting purposes, this investment (and its related earnings) has been reclassified from discontinued operations to continuing operations on the accompanying financial statements as of and for the three months and six months ended June 30, 2003. Prior periods have been restated to reflect this investment (and its related earnings) as part of continuing operations.

(2) Net Property, Plant and Equipment

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

	June 30, 2003	Dec. 31, 2002
	(Dollars in thousands)	
Telephone, at original cost	$ 6,467,310	6,347,900
Accumulated depreciation	(3,332,200)	(3,136,107)
	3,135,110	3,211,793
Other, at cost	550,938	521,292
Accumulated depreciation	(212,365)	(201,440)
	338,573	319,852
	$ 3,473,683	3,531,645

Approximately $16.5 million of net property, plant and equipment was transferred from other operations to telephone operations during the first

quarter of 2003.

(3) Acquisitions

On July 1, 2002, the Company completed the acquisition of 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 completed the acquisition of approximately 350,000 telephone access lines in the state of Missouri from Verizon for approximately $1.179 billion cash. The assets purchased included (i) telephone access lines and related property and equipment comprising Verizon's local exchange operations in predominantly rural markets throughout Alabama and Missouri, (ii) Verizon's assets used to provide digital subscriber line ("DSL") and other high speed data services within the purchased exchanges and (iii) approximately 2,800 route miles of fiber optic cable 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, or rights under various Verizon contracts, including those relating to customer premise equipment. The Company did not assume any liabilities of Verizon other than (i) those associated with contracts, facilities and certain other assets transferred in connection with the purchase and (ii) certain employee-related liabilities, including liabilities for postretirement health benefits.

The following pro forma information represents the consolidated results of continuing operations of the Company for the six months ended June 30, 2002 as if the Verizon acquisitions had been consummated as of January 1, 2002.

	Six months ended June 30, 2002
	(Dollars in thousands) (unaudited)
Operating revenues from continuing operations	$ 1,127,934
Income from continuing operations	$ 106,029
Basic earnings per share from continuing operations	$ .75
Diluted earnings per share from continuing operations	$ .74

The pro forma information is based on various assumptions and estimates. The pro forma information makes no pro forma adjustments to reflect any assumed consummation of the Company's sale of its wireless operations described in Note 4 (or any use of the sale proceeds therefrom) at a date earlier than the actual closing date of 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 potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of the Verizon properties are included in the consolidated financial statements only from the respective dates of acquisition.

In June 2003, the Company purchased the assets of a fiber transport company for $39.4 million cash (of which $35.6 million was paid at acquisition and the remaining $3.8 million was paid as a deposit in 2002). This acquisition is not expected to have a material effect on the Company's results of operations. The Company agreed in July 2003 to purchase additional fiber transport assets for $20 million, subject to various purchase price adjustments, and hopes to complete this acquisition late in the third quarter of 2003.

(4) Discontinued Operations

On August 1, 2002, the Company sold substantially all of its wireless

operations principally to an affiliate of ALLTEL Corporation for an aggregate of approximately $1.59 billion in cash. As a result, such operations for the three months and six months ended June 30, 2002 have been reflected as discontinued operations in the Company's consolidated financial statements. 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.

The following table represents certain summary income statement information related to the Company's wireless operations reflected as discontinued operations for 2002.

	Three months ended June 30, 2002	Six months ended June 30, 2002
	(Dollars in thousands)	
Operating revenues	$ 106,272	208,693
Operating income (1)	$ 51,409	86,425
Income from unconsolidated cellular entities	10,722	21,836
Minority interest expense	(4,039)	(6,910)
Other income and (expense)	77	(2)
Pre-tax income from discontinued operations	58,169	101,349
Income tax expense	(20,888)	(36,418)
Income from discontinued operations, net of tax	$ 37,281	64,931

(1) Excludes corporate overhead costs of $5.1 million and $9.9 million for the three months and six months ended June 30, 2002, respectively, allocated to the wireless operations.

The following table represents certain summary cash flow statement information related to the Company's wireless operations reflected as discontinued operations for 2002.

	Six months ended June 30, 2002
	(Dollars in thousands)
Cash provided by operating activities	$ 83,904
Cash used in investing activities	(12,762)
Net cash provided by discontinued operations	$ 71,142

(5) Goodwill and Other Intangible Assets

The following information relates to the Company's goodwill as of June 30, 2003 and December 31, 2002:

	June 30,	Dec. 31,

	2003	2002
	(Dollars in thousands)	
Carrying amount of goodwill		
Telephone segment	$ 3,383,441	3,382,113
Other operations	45,258	45,168
Total goodwill	$ 3,428,699	3,427,281

The Company also has certain intangible assets that are subject to amortization in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). These intangible assets relate to certain customer base assets acquired in connection with the acquisitions of properties from Verizon in 2002. The gross carrying amount (and accumulated amortization) of these assets was $22.7 million ($1.5 million) as of June 30, 2003 and $22.7 million ($729,000) as of December 31, 2002. Total amortization expense for the first six months of 2003 was $757,000 and is expected to be $1.5 million annually for each of the next five years.

In connection with its acquisitions of properties from Verizon in 2002, the Company allocated $35.3 million of the purchase price as an intangible asset associated with franchise costs. Such asset has an indefinite life and is not subject to amortization currently.

(6) Stock-based Compensation

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

If compensation cost for CenturyTel's options had been recognized in accordance with SFAS 123, the Company's net income and earnings per share on a pro forma basis for the three months and six months ended June 30, 2003 and 2002 would have been as follows:

	Three months ended June 30,		Six mon ended Jun
	2003	2002	2003
	(Dollars in thousands, except per share amounts)		
Net income, as reported	$ 87,367	78,763	171,286 1
Less: Total stock-based employee compensation expense determined under fair value based method, net of tax	$ (3,346)	(4,141)	(6,880)
Pro forma net income	$ 84,021	74,622	164,406 1
Basic earnings per share			
As reported	$ .61	.56	1.20

Pro forma	$ .59	.53	1.15
Diluted earnings per share			
As reported	$ .60	.55	1.19
Pro forma	$ .58	.52	1.14

(7) Business Segments

The Company's only separately reportable business segment is its telephone operations. The operating income of this segment is reviewed by the Company's chief operating decision maker to assess performance and make business decisions. Due to the August 1, 2002 sale of the Company's wireless operations, such operations (which were previously reported as a separate segment) are classified as discontinued operations (see Note 4). Other operations include, but are not limited to, the Company's non-regulated long distance operations, Internet operations, competitive local exchange carrier operations and fiber transport operations.

	Three months ended June 30,		
	2003	2002	20
		(Dollars in thousands	
Operating revenues			
Telephone	$ 514,972	380,499	1,026,
Other operations	75,176	58,203	144,
Total operating revenues	$ 590,148	438,702	1,170,
Operating income			
Telephone	$ 173,582	103,709	345,
Other operations	14,799	10,956	27,
Corporate overhead costs allocable to discontinued operations (See Note 4)	-	(5,134)	
Total operating income	$ 188,381	109,531	373,
Operating income	$ 188,381	109,531	373,
Interest expense	(55,957)	(54,157)	(111,
Income from unconsolidated cellular entity	1,590	1,960	3,
Nonrecurring gains and losses	-	3,709	
Other income and expense	974	2,485	
Income from continuing operations before income tax expense	$ 134,988	63,528	264,

	June 30, 2003	Dec. 31, 2002
	(Dollars in thousands)	
Assets		
Telephone	$ 6,823,141	6,962,713
Other operations	869,907	807,695
Total assets	$ 7,693,048	7,770,408

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(8) Accounting Pronouncements

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. For the Company's telephone operations acquired from Verizon in 2002 and its other operations (neither of which are subject to SFAS 71), 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 is not expected to have a material impact on the Company's financial condition or results of operations.

(9) Commitments and Contingencies

Certain legal proceedings in which the Company is involved are discussed in Part II, Item 8, of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and Part I, Item 1, of the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003. From time to time, the Company is involved in other litigation incidental to its business, including administrative hearings of state public utility commissions relating primarily to rate making and competition related issues, actions relating to employee claims, occasional grievance hearings before labor regulatory agencies and miscellaneous third party tort actions.

(10) Derivative Instruments

In May 2003, the Company terminated its fair value interest rate hedge associated with $500 million aggregate principal amount of its Series H senior notes, due 2010. 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 will be amortized as a reduction of interest expense through 2010, the maturity date of the Series H notes.

In May 2003, the Company entered into a fair value interest rate hedge associated with $250 million of its $500 million aggregate principal amount of Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. This hedge is a "fixed to variable" interest rate swap that effectively converts

the Company's fixed rate interest payment obligations under these notes into obligations to pay variable rates equal to the six-month London InterBank Offered Rate ("LIBOR") plus 3.50% with settlement and rate reset dates occurring each six months through the expiration of the hedge in August 2012. As of June 30, 2003, the Company realized an interest rate of 4.74% related to such hedge. Interest expense was reduced by $1.1 million during the six months ended June 30, 2003 as a result of this hedge. The fair value of such hedge at June 30, 2003 was $7.6 million and is reflected on the accompanying balance sheet as both as asset (included in "Other assets") and as an increase to the Company's underlying long-term debt.

In July 2003, the Company entered into three separate fair value interest rate hedges associated with the remaining $250 million of its $500 million aggregate principal amount of Series L notes that pay variable rates that range from the six-month LIBOR plus 3.229% to the six-month LIBOR plus 3.67%. All three of these hedges are effective beginning August 15, 2003 and have the same settlement and rate reset provisions that govern the Company's above-described $250 million hedge.

Item 2.
CenturyTel, Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") included herein should be read in conjunction with MD&A and the other information included in the Company's annual report on Form 10-K for the year ended December 31, 2002. The results of operations for the three months and six months ended June 30, 2003 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, long distance, Internet access and data services to customers in 22 states.

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.

On August 1, 2002, the Company sold substantially all of its wireless operations to an affiliate of ALLTEL Corporation ("Alltel") and certain other purchasers in exchange for an aggregate of approximately $1.59 billion in cash. As a result, the Company's wireless operations for the three months and six months ended June 30, 2002 have been reflected as discontinued operations on the Company's consolidated statements of income and cash flows. For further information, see the subsections entitled "Discontinued Operations" below.

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 communications 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; the Company's ability to collect its receivables from financially troubled communications companies; and the effects of more general factors such as changes in interest rates, 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, 2002. 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 June 30, 2003 Compared
to Three Months Ended June 30, 2002

Net income (and diluted earnings per share) was $87.4 million ($.60) and $78.8 million ($.55) for the second quarter of 2003 and 2002, respectively. Income from continuing operations was $87.4 million for the second quarter of 2003 and $41.5 million for the second quarter of 2002. Diluted earnings per share from continuing operations was $.60 during the second quarter of 2003 compared to $.29 during the second quarter of 2002.

	Three months ended June 30,	
	2003	2002
	(Dollars, except per share amounts, and shares in thousands)	
Operating income		
Telephone	$ 173,582	103,709
Other	14,799	10,956
Corporate overhead costs allocable to discontinued operations	-	(5,134
	188,381	109,531
Interest expense	(55,957)	(54,157
Income from unconsolidated cellular entity	1,590	1,960
Nonrecurring gains and losses	-	3,709
Other income and expense	974	2,485
Income tax expense	(47,621)	(22,046
Income from continuing operations	87,367	41,482
Discontinued operations, net of tax	-	37,281
Net income	$ 87,367	78,763
Basic earnings per share		
From continuing operations	$ .61	.29
From discontinued operations	$ -	.26
Basic earnings per share	$ .61	.56
Diluted earnings per share		
From continuing operations	$ .60	.29
From discontinued operations	$ -	.26
Diluted earnings per share	$ .60	.55

Average basic shares outstanding	143,329	141,243
Average diluted shares outstanding	144,475	142,705

Contributions to operating revenues and operating income by the Company's telephone and other operations for the three months ended June 30, 2003 and 2002 were as follows:

	Three months ended June 30,	
	2003	2002
Operating revenues		
Telephone operations	87.3%	86.7
Other operations	12.7%	13.3
Operating income		
Telephone operations	92.1%	94.7
Other operations	7.9%	10.0
Corporate overhead costs allocable to discontinued operations	-%	(4.7)

Telephone Operations

The Company conducts its telephone operations in rural, suburban and small urban communities in 22 states. As of June 30, 2003, approximately 91% of the Company's 2.4 million access lines were in Wisconsin, Missouri, Alabama, Arkansas, Washington, Michigan, Louisiana, Colorado, Ohio and Oregon. The operating revenues, expenses and income of the Company's telephone operations for the three months ended June 30, 2003 and 2002 are summarized below.

	Three months ended June 30,	
	2003	2002
Operating revenues		
Local service	$ 189,264	125,357
Network access	280,827	220,702
Other	44,881	34,440
	514,972	380,499
Operating expenses		
Plant operations	125,951	96,147
Customer operations	42,243	32,385
Corporate and other	60,899	58,099
Depreciation and amortization	112,297	90,159
	341,390	276,790

Operating income	$ 173,582	103,709

Telephone operating income increased $69.9 million (67.4%) due to an increase in operating revenues of $134.5 million (35.3%) which was partially offset by an increase in operating expenses of $64.6 million (23.3%).

Of the $63.9 million increase in local service revenues, $58.7 million was due to the properties acquired from Verizon in the third quarter of 2002. Of the remaining $5.2 million increase, $2.3 million was due to increased provision of custom calling features and $1.5 million was due to increased rates in certain jurisdictions.

Network access revenues increased $60.1 million in the second quarter of 2003, of which $58.1 million was due to the properties acquired from Verizon in the third quarter of 2002. The remaining $2.0 million increase is primarily due to a $3.6 million increase in the partial recovery of higher operating expenses through revenue sharing arrangements in which the Company participates with other telephone companies. Such increase was partially offset by a $1.5 million decrease in revenues from the federal Universal Service Fund due to favorable adjustments recorded in the second quarter of 2002 (retroactive to January 1, 2002) as a result of Federal Communications Commission actions to resize the fund. Decreased intrastate revenues resulting from reduced intrastate minutes were offset by higher intrastate revenues due to revised settlement factors with other carriers effective in the second quarter of 2003.

Other revenues increased $10.4 million during the second quarter of 2003 primarily due to $10.9 million of revenues from the properties acquired from Verizon in the third quarter of 2002.

Access lines declined 3,800 (0.16%) during the three months ended June 30, 2003 compared to 1,160 (0.06%) during the three months ended June 30, 2002. The Company believes the decline in the number of access lines during 2003 is primarily due to soft general economic conditions in the Company's markets and the displacement of traditional wireline telephone services by other competitive services. Based on current conditions, the Company expects to incur a decline in access lines of 1 to 2% on an annualized basis for 2003.

Plant operations expenses increased $29.8 million (31.0%), of which $33.4 million was due to the properties acquired from Verizon in the third quarter of 2002. Such increase was partially offset by a $2.3 million decrease in information technology expenses and a $1.1 million decrease in repairs and maintenance expenses.

During the second quarter of 2003 customer operations expenses increased $9.9 million (30.4%), of which $10.6 million was due to the properties acquired from Verizon in the third quarter of 2002.

Corporate and other expenses increased $2.8 million (4.8%) in the second quarter of 2003 compared to the second quarter of 2002. The properties acquired from Verizon in the third quarter of 2002 contributed $15.9 million of the increase which was substantially offset by a $12.3 million decrease in the provision for uncollectible receivables. The Company recorded a $15.0 million reserve for uncollectible receivables in the second quarter of 2002, primarily related to the bankruptcy of MCI (formerly WorldCom, Inc.).

Depreciation and amortization increased $22.1 million (24.6%), of which $21.8 million was due to the properties acquired from Verizon in the third quarter of 2002. The remaining increase is primarily due to an increase in depreciation expense due to higher levels of plant in service.

Other Operations

Other operations include the results of continuing operations of the

Company which are not included in the telephone segment including, but not limited to, the Company's non-regulated long distance operations, Internet operations, competitive local exchange carrier ("CLEC") operations and fiber transport operations. In June 2003, the Company acquired the assets of a fiber optic transport business for $39.4 million cash (which the Company operates under the name LightCore). The operating revenues, expenses and income of the Company's other operations for the three months ended June 30, 2003 and 2002 are summarized below.

	Three months ended June 30,	
	2003	2002
	(Dollars in thousands)	
Operating revenues		
Long distance	$ 43,201	34,462
Internet	19,850	14,706
Other	12,125	9,035
	75,176	58,203
Operating expenses		
Cost of sales and operating expenses	55,869	43,402
Depreciation and amortization	4,508	3,845
	60,377	47,247
Operating income	$ 14,799	10,956

The $8.7 million increase in long distance revenues was primarily attributable to the growth in the number of customers and increased minutes of use ($9.8 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 ($1.1 million). The number of long distance customers as of June 30, 2003 and 2002 was 720,400 and 536,400, respectively. Internet revenues increased $5.1 million due primarily to growth in the number of customers, principally due to the expansion of the Company's DSL product offering. Other revenues increased $3.1 million primarily due to $2.5 million of revenues associated with the Company's LightCore operations.

Cost of sales and operating expenses increased $12.5 million primarily due to (i) a $5.6 million increase in expenses associated with the Company's long distance operations (of which $3.5 million was due to increased minutes of use); (ii) a $3.1 million increase in expenses associated with the Company's Internet operations due to an increase in the number of customers and (iii) a $1.5 million increase in expenses associated with the Company's LightCore operations.

Depreciation and amortization increased $663,000 (17.2%) primarily due to increased depreciation expense in the Company's Internet and fiber transport businesses.

Interest Expense

Interest expense increased $1.8 million (3.3%) in the second quarter of 2003 compared to the second quarter of 2002 due to increased average debt outstanding, primarily as a result of indebtedness incurred to acquire certain properties from Verizon in the third quarter of 2002.

Income From Unconsolidated Cellular Entity

Income from unconsolidated cellular entity decreased $370,000 in the second quarter of 2003 due to decreased profitability of the cellular partnership in which the Company owns a 49% minority interest.

Nonrecurring Gains and Losses

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

Other Income and Expense

Other income and expense decreased $1.5 million in the second quarter of 2003 compared to the second quarter of 2002 primarily due to a $448,000 reduction in capitalized interest and a $372,000 charge recorded in the second quarter of 2003 related to the ineffective portion of an interest rate hedge.

Income Tax Expense

The effective income tax rate from continuing operations was 35.3% and 34.7% for the three months ended June 30, 2003 and 2002, respectively.

Discontinued Operations

On August 1, 2002, the Company sold substantially all of its wireless operations in exchange for $1.59 billion in cash. As a result, such operations for the three months ended June 30, 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 2002.

	Three months ended June 30, 2002
	(Dollars in thousands)
Operating revenues	$ 106,272
Operating expenses, exclusive of corporate overhead costs	$ (54,863)
Income from unconsolidated cellular entities	$ 10,722
Minority interest expense	$ (4,039)
Other income and (expense)	$ 77
Income tax expense	$ (20,888)
Income from discontinued operations, net of tax	$ 37,281

RESULTS OF OPERATIONS

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

Net income (and diluted earnings per share) was $171.3 million ($1.19) and $149.5 million ($1.05) for the six months ended June 30, 2003 and 2002, respectively. Income from continuing operations was $171.3 million for the first six months of 2003 and $84.6 million for the first six months of 2002. Diluted earnings per share from continuing operations was $1.19 during the six months ended June 30, 2003 compared to $.59 during the six months ended June 30, 2002.

	Si ende
	2003
	(Dollars, except and shares
Operating income	
Telephone	$ 345,957
Other	27,197
Corporate overhead costs allocable to discontinued operations	-
	373,154
Interest expense	(111,549)
Income from unconsolidated cellular entity	3,159
Nonrecurring gains and losses	-
Other income and expense	42
Income tax expense	(93,520)
Income from continuing operations	171,286
Discontinued operations, net of tax	-
Net income	$ 171,286
Basic earnings per share	
From continuing operations	$ 1.20
From discontinued operations	$ -
Basic earnings per share	$ 1.20
Diluted earnings per share	
From continuing operations	$ 1.19
From discontinued operations	$ -
Diluted earnings per share	$ 1.19
Average basic shares outstanding	143,109
Average diluted shares outstanding	144,136

Contributions to operating revenues and operating income by the Company's telephone and other operations for the six months ended June 30, 2003 and 2002 were as follows:

	en
	2003
Operating revenues	
Telephone operations	87.7%
Other operations	12.3%
Operating income	
Telephone operations	92.7%
Other operations	7.3%
Corporate overhead costs allocable to discontinued operations	-%

Telephone Operations

The Company conducts its telephone operations in rural, suburban and small urban communities in 22 states. As of June 30, 2003, approximately 91% of the Company's 2.4 million access lines were in Wisconsin, Missouri, Alabama, Arkansas, Washington, Michigan, Louisiana, Colorado, Ohio and Oregon. The operating revenues, expenses and income of the Company's telephone operations for the six months ended June 30, 2003 and 2002 are summarized below.

	Six months ended June 30,	
	2003	2002
	(Dollars in thousands)	
Operating revenues		
Local service	$ 376,648	249,234
Network access	558,808	437,278
Other	90,894	66,718
	1,026,350	753,230
Operating expenses		
Plant operations	248,489	187,233
Customer operations	82,967	62,323
Corporate and other	123,353	102,495
Depreciation and amortization	225,584	179,502
	680,393	531,553
Operating income	$ 345,957	221,677

Telephone operating income increased $124.3 million (56.1%) due to an increase in operating revenues of $273.1 million (36.3%) which was partially offset by an increase in operating expenses of $148.8 million (28.0%).

Of the $127.4 million increase in local service revenues, $117.1 million was due to the properties acquired from Verizon in the third quarter of 2002. Of the remaining $10.3 million increase, $4.3 million was due to increased provision of custom calling features and $3.2 million was due to increased rates in certain jurisdictions.

Network access revenues increased $121.5 million in the first six months of 2003, of which $114.5 million was due to the properties acquired from Verizon in the third quarter of 2002. The remaining $7.0 million increase is primarily due to an $8.2 million increase in the partial recovery of higher operating expenses through revenue sharing arrangements in which the Company participates with other telephone companies; a $3.7 million increase in revenues from the federal Universal Service Fund; and a $2.7 million increase due to an increase in the number of circuits provided to other carriers. Such increases were substantially offset by a $6.5 million decrease in intrastate revenues due to (i) a reduction in intrastate minutes (partially due to the displacement of minutes by wireless and instant messaging services) and (ii) decreased access rates in certain jurisdictions.

Other revenues increased $24.2 million during the first six months of 2003 primarily due to $22.7 million of revenues from the properties acquired from Verizon in the third quarter of 2002.

Access lines declined 11,200 (0.5%) during the six months ended June 30, 2003 compared to a decline of 2,500 (0.14%) during the six months ended June 30, 2002. The Company believes the decline in the number of access lines during 2003 and 2002 is primarily due to soft general economic conditions in the Company's markets and the displacement of traditional wireline telephone services by other competitive services. Based on current conditions, the Company expects to incur a decline in access lines of 1 to 2% on an annualized basis for 2003.

Plant operations expenses increased $61.3 million (32.7%), of which $66.0 million was due to the properties acquired from Verizon in the third quarter of 2002 and $2.7 million was due to increased salaries and benefits. Such increases were partially offset by a $4.3 million decrease in information technology expenses and a $1.7 million decrease in repairs and maintenance expenses.

During the six months ended June 30, 2003 customer operations expenses increased $20.6 million (33.1%), of which $21.2 million was due to the properties acquired from Verizon in the third quarter of 2002.

Corporate and other expenses increased $20.9 million (20.4%) primarily due to a $36.4 million increase associated with the properties acquired from Verizon in the third quarter of 2002 and a $3.0 million increase in information technology expenses. Such increases were partially offset by a $17.7 million decrease in the provision for uncollectible receivables. The first six months of 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.). The first six months of 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 increased $46.1 million (25.7%), of which $43.5 million was due to the properties acquired from Verizon in the third quarter of 2002. The remaining increase is primarily due to an increase in depreciation expense due to higher levels of plant in service.

Other Operations

Other operations include the results of continuing operations of the Company which are not included in the telephone segment including, but not limited to, the Company's non-regulated long distance operations, Internet operations, competitive local exchange carrier ("CLEC") operations and fiber transport operations. In June 2003, the Company acquired the assets of a fiber optic transport business for $39.4 million cash (which the Company operates under the name LightCore). The operating revenues, expenses and income of the Company's other operations for the six months ended June 30, 2003 and 2002 are summarized below.

	Six months ended June 30,	
	2003	2002
	(Dollars in thousands)	
Operating revenues		
Long distance	$ 85,761	66,279
Internet	37,876	27,267
Other	20,691	14,844
	144,328	108,390

Operating expenses		
Cost of sales and operating expenses	107,912	84,826
Depreciation and amortization	9,219	6,729
	117,131	91,555
Operating income	$ 27,197	16,835

The $19.5 million increase in long distance revenues was primarily attributable to the growth in the number of customers and increased minutes of use ($21.7 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 ($2.2 million). The number of long distance customers as of June 30, 2003 and 2002 was 720,400 and 536,400, respectively. Internet revenues increased $10.6 million due primarily to growth in the number of customers, principally due to the expansion of the Company's DSL product offering. Other revenues increased $5.8 million primarily due to (i) a $2.7 million increase in revenues in the Company's CLEC business primarily due to an increased number of customers, including those acquired in connection with certain CLEC operations purchased on February 28, 2002, and (ii) $2.5 million of revenues associated with the Company's LightCore operations.

Cost of sales and operating expenses increased $23.1 million primarily due to (i) a $12.3 million increase in expenses associated with the Company's long distance operations (of which $7.7 million was due to increased minutes of use and $1.5 million was due to an increase in marketing expenses); (ii) a $6.4 million increase in expenses associated with the Company's Internet operations due to an increase in the number of customers and (iii) a $2.0 million increase in expenses associated with the Company's CLEC operations primarily due to the expansion of the business and costs associated with operating properties acquired in the first quarter of 2002.

Depreciation and amortization increased $2.5 million (37.0%) primarily due to increased depreciation expense in the Company's Internet, fiber transport and CLEC businesses.

Interest Expense

Interest expense increased $6.7 million (6.4%) in the first six months of 2003 compared to the first six months of 2002 due to increased average debt outstanding, primarily as a result of indebtedness incurred to acquire certain properties from Verizon in the third quarter of 2002.

Income From Unconsolidated Cellular Entity

Income from unconsolidated cellular entity increased $799,000 in the first six months of 2003 due to improved profitability of the cellular partnership in which the Company owns a 49% minority interest.

Nonrecurring Gains and Losses

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

Income Tax Expense

The effective income tax rate from continuing operations was 35.3% and 35.0% for the six months ended June 30, 2003 and 2002, respectively.

Discontinued Operations

On August 1, 2002, the Company sold substantially all of its wireless operations in exchange for $1.59 billion in cash. As a result, such operations for the six months ended June 30, 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 2002.

	Six months ended June 30, 2002
	(Dollars in thousands)
Operating revenues	$ 208,693
Operating expenses, exclusive of corporate overhead costs	$ (122,268)
Income from unconsolidated cellular entities	$ 21,836
Minority interest expense	$ (6,910)
Other income and (expense)	$ (2)
Income tax expense	$ (36,418)
Income from discontinued operations, net of tax	$ 64,931

ACCOUNTING PRONOUNCEMENTS

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. For the Company's telephone operations acquired from Verizon in 2002 and its other operations (neither of which are subject to SFAS 71), 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 is not expected to have a material impact on the Company's financial condition or results of operations.

LIQUIDITY AND CAPITAL RESOURCES

Excluding cash used for acquisitions, the Company relies on cash provided by operations to fund its operating and capital expenditures. The Company's

operations have historically provided a stable source of cash flow which has helped the Company continue its long-term program of capital improvements.

Net cash provided by operating activities from continuing operations was $579.1 million during the first six months of 2003 compared to $378.3 million during the first six months of 2002. 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 continuing operations of the Company, see Results of Operations.

Net cash used in investing activities from continuing operations was $190.3 million and $216.5 million for the six months ended June 30, 2003 and 2002, respectively. Payments for property, plant and equipment were $24.8 million less in the first six months of 2003 than in the comparable period during 2002. Capital expenditures for the six months ended June 30, 2003 were $131.4 million for telephone operations and $22.9 million for other operations. In June 2003, the Company acquired the assets of a fiber transport business for $39.4 million cash (of which $35.6 million was paid at acquisition and the remaining $3.8 million was paid as a deposit in 2002). During the first quarter of 2002, the Company acquired the assets of certain CLEC operations for $43.8 million cash.

Net cash used in financing activities from continuing operations was $368.1 million during the first six months of 2003. Net cash provided by financing activities was $65.7 million during the first six months of 2002. In May 2002, the Company issued $500 million of Equity Units. Proceeds from the Equity Units, along with proceeds from borrowings under the Company's credit facilities, commercial paper facilities and available cash, were used to fund the $1.0 billion cash purchase of local exchange telephone assets in Alabama from Verizon on July 1, 2002.

Budgeted capital expenditures for 2003 total $370 million for telephone operations and $30 million for other operations. See Other Matters for additional expenditures related to the Company's billing system currently under development.

The following table contains certain information concerning the Company's material contractual obligations as of June 30, 2003.

	Payments due by period				
Total contractual obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(Dollars in thousands)				
Long-term debt, including current maturities and capital lease obligations	$3,256,713	118,941	266,464	1,039,477 (1)	1,831,831

(1) Includes $500 million aggregate principal amount of the Company's senior notes, Series J, due 2007, which the Company is committed to remarket in 2005, and $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.

As of August 1, 2003, the Company had $533.0 million of undrawn committed bank lines of credit and the Company telephone subsidiaries had available for use $123.0 million of commitments for long-term financing from the Rural Utilities Service and the Rural Telephone Bank. The Company did not renew its

$267 million 364-day facility which expired in July 2003. 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 August 1, 2003, the Company had no commercial paper outstanding under such program.

OTHER MATTERS

Accounting for the Effects of Regulation

The Company currently accounts for its regulated telephone operations (except for the properties acquired from Verizon in 2002) in accordance with the provisions of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation" ("SFAS 71"). While the ongoing applicability of SFAS 71 to the Company's regulated 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. 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.

When the Company's regulated operations no longer qualify for the application of SFAS 71, the Company does not expect to record an impairment charge related to the carrying value of the property, plant and equipment of its regulated telephone operations. Additionally, upon the discontinuance of SFAS 71, the Company would be required to revise the lives of its property, plant and equipment to reflect the estimated useful lives of the assets. The Company does not expect such revisions in asset lives, or the elimination of other regulatory assets and liabilities, to have a material impact on the Company's results of operations.

Development of Billing System

The Company is in the process of developing an integrated billing and customer care system to replace its current system. The costs to develop this new system have been capitalized in accordance with Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), and aggregated $151.0 million (before accumulated amortization) at June 30, 2003. The Company's aggregate billing system costs are expected to be amortized over a 20-year period. The Company began amortizing its billing system costs in early 2003 based on the total number of customers that the Company has migrated to the new system. The Company expects to incur duplicative system costs until such time as it migrates all customers to the new system. Such amortization and duplicative system costs are expected to increase operating expenses by approximately $8-12 million for 2003.

The system remains in the development stage and has required substantially more time and money to develop than originally anticipated. In light of these delays and cost over-runs, the Company recently retained an independent consultant to review the status of the project and evaluate other alternatives. Based on preliminary discussions with its consultant to date, the Company expects to complete all phases of the new system no later than mid-2005 at a cost in excess of the previously disclosed estimate of $180 million. The actual time and cost required to complete the system will depend upon various factors, including the Company's success in reaching an acceptable arrangement with its primary project vendor. The Company currently believes completion of the project may require it to revise its previously disclosed cost estimate by between $50 and $60 million (of which approximately $35 to $45 million is expected to be capitalized in accordance with SOP 98-1). The Company is in discussions with its vendor and will update the time and cost estimates in

subsequent filings. There is no assurance, however, that the system will be completed in accordance with this schedule or budget, or that the system will function as anticipated. If the system does not function as anticipated, the Company may have to write-off part or all of its remaining costs and further explore its other billing and customer care system alternatives.

Pension and Medical Costs

The decline in equity markets in recent years, coupled with record low interest rates and rising medical costs, have increased the Company's employee benefits expenses, including defined benefit pension expenses and pre- and post-retirement medical expenses. The Company expects these conditions will result in higher pension and pre- and post-retirement medical expenses in 2003. Based on the Company's current estimates, such costs are expected to increase between $20 and 25 million annually in 2003 compared to 2002 amounts. As a result of continued increases in medical costs, the Company discontinued its practice of subsidizing post-retirement medical benefits for persons hired on or after January 1, 2003. The Company also lowered its expected long-term return on plan assets for its pension and post-retirement plans to range between 8 and 8.25% for 2003 compared to 8 to 10% for 2002.

Minority Interest in Cellular Partnership

In its balance sheet as of December 31, 2002 the Company reflected its minority interest in a cellular partnership as "assets held for sale" in light of a July 2002 agreement to sell such interest for $68 million cash, subject to several closing conditions. In light of the failure of the parties to this agreement to agree upon whether the closing conditions had been met, the Company determined to retain this investment. See Note 1 to the Company's consolidated financial statements appearing elsewhere in this report.

Item 3.
CenturyTel, Inc.
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 June 30, 2003, the fair value of the Company's long-term debt was estimated to be $3.6 billion based on the overall weighted average rate of the Company's long-term debt of 6.6% and an overall weighted maturity of 11 years compared to terms and rates currently available in long-term financing markets. Market risk is estimated as the potential decrease in fair value of the Company's long-term debt resulting from a hypothetical increase of 66 basis points in interest rates (ten percent of the Company's overall weighted average borrowing rate). Such an increase in interest rates would result in approximately a $154.4 million decrease in the fair value of the Company's long-term debt. As of June 30, 2003, after giving effect to interest rate swaps currently in place, approximately 92% 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 June 30, 2003, the Company had outstanding a fair value interest rate hedge (which was entered into in May 2003) associated with $250 million of its $500 million aggregate principal amount of its Series L senior notes, due 2012, that pay interest at a fixed rate of 7.875%. This hedge is a "fixed to variable" interest rate swap that effectively converts the Company's fixed rate interest payment obligations with respect to this $250 million of principal into obligations to pay variable rates equal to the six-month London InterBank Offered Rate ("LIBOR") plus 3.50% with settlement and rate reset dates occurring each six months through the expiration of the hedge in August 2012. At June 30, 2003, the Company realized a rate under this hedge of 4.74%. Interest expense was reduced by $1.1 million in the second quarter of 2003 as a result of this hedge. The fair market value of this hedge was $7.6 million at June 30, 2003 and is reflected both as an asset and as an increase in the Company's underlying long-term debt on the June 30, 2003 balance sheet. With respect to this hedge, 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 an $8.0 million decrease in the fair value of this hedge.

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 will be amortized as a reduction of interest expense through 2010, the maturity date of the Series H notes.

At June 30, 2003, the Company also had outstanding a cash flow hedge associated with $400 million of borrowings incurred in the fourth quarter of 2002 under its $800 million credit facilities. Such hedge expires in October 2003. This hedge was designed to swap the Company's future obligation to pay variable rate interest based on LIBOR into obligations that lock-in a fixed rate of 2.49%. 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 as of June 30, 2003 and resulted in a $722,000 unfavorable pre-tax charge to the Company's income for the six months ended June 30, 2003.

For information on interest rate hedges entered into by the Company after June 30, 2003, see footnote 10 to the Company's financial statements appearing elsewhere in this report.

Item 4.
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 June 30, 2003. Based on the evaluation, Messrs. Post and Ewing have concluded that the Company's disclosure controls and procedures are effective in providing reasonable assurance that they are timely alerted of all material information required to be filed in this quarterly report. Since the date of Messrs. Post's and Ewing's most recent evaluation, there have been no significant changes in the Company's internal controls or in other factors that could significantly affect these controls. The design of any system of controls

is based in part upon certain assumptions about the likelihood of future events and contingencies, and there can be no assurance that any design will succeed in achieving its stated goals.

PART II. OTHER INFORMATION

CenturyTel, Inc.

Item 1. Legal Proceedings

Certain legal proceedings in which the Company is involved are discussed in Part I, Item 3, of the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and Part II, Item 1, of the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003. From time to time, the Company is involved in other litigation incidental to its business, including administrative hearings of state public utility commissions relating primarily to rate making and competition related issues, actions relating to employee claims, occasional grievance hearings before labor regulatory agencies and miscellaneous third party tort actions.

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

At the Company's annual meeting of shareholders on May 8, 2003, the shareholders elected four Class III directors to serve until the 2006 annual meeting of shareholders and until their successors are duly elected and qualified.

The following number of votes were cast for or were withheld from the following nominees:

Class III Nominees	For	Withheld
Fred R. Nichols	206,487,975	9,379,007
Harvey P. Perry	205,536,644	10,330,338
Jim D. Reppond	180,001,437	35,865,545
Joseph R. Zimmel	204,114,694	11,752,288

The Class I and Class II directors whose terms continued after the meeting are:

Class I	Class II
William R. Boles, Jr.	Virginia Boulet
W. Bruce Hanks	Calvin Czeschin
C.G. Melville, Jr.	James B. Gardner
Glen F. Post, III	R.L. Hargrove, Jr.
Johnny Hebert	

Item 6: Exhibits and Reports on Form 8-K

A. Exhibits

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3 Charter of the Compensation Committee of the Board of Directors, as amended through May 29, 2003.

10.1 Amendment No. 2 to the Company's Amended and Restated 1995 Incentive Compensation Plan.

10.2 Amendment No. 1 to the Company's Amended and Restated 2000 Incentive Compensation Plan.

10.3 Amendment No. 1 to the Company's 2002 Management Incentive Compensation Plan.

10.4 Amendment No. 1 to the Company's 2002 Directors Stock Option Plan.

11 Computations of Earnings Per Share.

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

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

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

B. Reports on Form 8-K

The following item was reported in the Form 8-K filed May 1, 2003:

Item 9. Other Events - News release announcing first quarter 2003 operating results.

SIGNATURE

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

CenturyTel, Inc.

Date: August 14, 2003

/s/ Neil A. Sweasy

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