

CENTURYTEL INC  
Form 10-K  
March 16, 2006

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2005

or

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

Commission file number 1-7784

**CENTURYTEL, INC.**

*(Exact name of Registrant as specified in its charter)*

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

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

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

71203  
*(Zip Code)*

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

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

Title of each class

Name of each exchange on which  
registered

Common Stock, par value  
\$1.00

New York Stock Exchange  
  
Berlin Stock Exchange  
New York Stock Exchange

Preference Share Purchase  
Rights

Berlin Stock Exchange

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

Stock Options  
(Title of class)

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of voting stock held by non-affiliates (affiliates being for these purposes only directors, executive officers and holders of more than five percent of our outstanding voting securities) was \$3.9 billion as of June 30, 2005. As of February 28, 2006, there were 115,206,141 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2006 annual meeting of shareholders are incorporated by reference in Part III of this Report.

**PART I**

**Item 1. Business**

*General.* CenturyTel, Inc., together with its subsidiaries, is an integrated communications company engaged primarily in providing local exchange, long distance, Internet access and broadband services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide our customers with a complete offering of integrated communications services. We conduct all of our operations in 26 states located within the continental United States.

At December 31, 2005, our local exchange telephone subsidiaries operated approximately 2.2 million telephone access lines, primarily in rural areas and small to mid-size cities in 22 states, with over 70% of these lines located in Wisconsin, Missouri, Alabama, Arkansas and Washington. According to published sources, we are the eighth largest local exchange telephone company in the United States based on the number of access lines served.

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

We have entered into agreements to provide co-branded satellite television service and to resell wireless service as part of our bundled product and service offerings, but these arrangements are not expected to contribute material revenues in the near term. In addition, we recently began offering our facilities-based digital video service to certain areas of a limited number of markets in Wisconsin. We anticipate such offerings will dilute our earnings for 2006 by approximately \$.06 to \$.08 per share.

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

*Recent acquisitions.* In June 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. ("KMC") for approximately \$75.5 million, which allows us to offer broadband and competitive local exchange services to customers in these markets.

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

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

On February 28, 2002, we purchased from KMC its fiber network and customer base operations in Monroe and Shreveport, Louisiana, which allowed us to offer broadband and competitive local exchange services to customers in these markets.

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

- On July 31, 2000, we purchased approximately 231,000 telephone access lines and related assets in Arkansas for approximately \$842 million in cash.
- On July 31, 2000, Spectra Communications Group, LLC ("Spectra") purchased approximately 127,000 telephone access lines and related assets in Missouri for approximately \$297 million cash. At closing, we made a preferred equity investment in Spectra of approximately \$55 million (which represented a 57.1% interest) and financed

substantially all of the remainder of the purchase price. In the first quarter of 2001, we purchased an additional 18.6% interest in Spectra for \$47.1 million. In the fourth quarter of 2003 and the first quarter of 2004, we purchased the remaining 24.3% interest in Spectra for an aggregate of \$34.0 million in cash.

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

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

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

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

In the second quarter of 2001, we sold to Leap Wireless International, Inc. 30 PCS operating licenses for an aggregate of \$205 million.

*Where to find additional information.* We make available our filings with the Securities and Exchange Commission ("SEC") on Forms 10-K, 10-Q and 8-K on our website ([www.centurytel.com](http://www.centurytel.com)) as soon as reasonably practicable after we complete such filings with the SEC.

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

In connection with filing this annual report, our chief executive officer and chief financial officer made the certifications regarding our financial disclosures required under the Sarbanes-Oxley Act of 2002, and the Act's related regulations. In addition, during 2005 our chief executive officer certified to the New York Stock Exchange that he was unaware of any violation by us of the New York Stock Exchange's corporate governance listing standards.

*Industry information.* Unless otherwise indicated, information contained in this annual report and other documents filed by us under the federal securities laws concerning our views and expectations regarding the telecommunications industry are based on assumptions and estimates prepared by us using data from industry sources, and on assumptions

made by us based on our management's knowledge and experience in the markets in which we operate and the telecommunications industry generally. We believe these estimates and assumptions are accurate as of the date made. However, this information may prove to be inaccurate because it cannot always be verified with certainty. You should be aware that we have not independently verified data from industry or other third-party sources and cannot guarantee its accuracy or completeness. Our estimates and assumptions involve risks and uncertainties and are subject to change based on various factors, including those discussed in Item 1A of this annual report.

*Other.* As of December 31, 2005, we had approximately 6,900 employees, of which approximately 1,800 were members of 12 different bargaining units represented by the International Brotherhood of Electrical Workers and the Communications Workers of America. We believe that relations with our employees continue to be generally good. On March 1, 2006, we reduced our workforce by approximately 275 jobs, or 4% of our workforce, due to increased competitive pressures and the loss of access lines over the last several years.

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

## OPERATIONS

According to published sources, we are the eighth largest local exchange telephone company in the United States, based on the approximately 2.2 million access lines we served at December 31, 2005. An "access line" is a telephone line that connects a home or business to the public switched telephone network. All of our access lines are digitally switched. Through our operating telephone subsidiaries, we provide local exchange services to predominantly rural areas and small to mid-sized cities in 22 states. Our local exchange companies serve an average of approximately 13 access lines per square mile versus a nationwide average of approximately 51 access lines per square mile.

The following table lists additional information regarding our access lines as of December 31, 2005 and 2004.

State	December 31, 2005		December 31, 2004	
	Number of access lines	Percent of access lines	Number of access lines	Percent of access lines
Wisconsin (1)	444,089	20%	466,021	20%
Missouri	442,138	20	458,724	20
Alabama	261,862	12	275,093	12
Arkansas	240,841	11	256,130	11
Washington	176,997	8	182,990	8
Michigan	102,249	5	108,030	5
Louisiana	96,329	4	101,353	4
Colorado	92,046	4	94,139	4
Ohio	76,529	3	80,287	3
Oregon	71,968	3	74,020	3
Montana	62,170	3	64,145	3
Texas	40,976	2	43,697	2
Minnesota	29,013	1	30,046	1
Tennessee	25,847	1	26,728	1
Mississippi	23,621	1	24,137	1
New Mexico	6,176	*	6,428	*
Wyoming	5,992	*	5,905	*
Idaho	5,667	*	5,807	*

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Indiana	5,163	*	5,346	*
Iowa	2,019	*	2,053	*
Arizona	1,904	*	1,995	*
Nevada	553	*	552	*
	2,214,149	100%	2,313,626	100%

\* Represents less than 1%.

(1) As of December 31, 2005 and 2004, approximately 55,600 and 57,700, respectively, of these lines were owned and operated by our 89%-owned affiliate.

As indicated in the following table, we have experienced growth in our operating revenues over the past five years, a substantial portion of which was attributable to the third quarter 2002 acquisition of telephone properties from Verizon and the internal growth of our long distance and Internet access businesses.

	Year ended or as of December 31,				
	2005	2004	2003	2002	2001