

CENTURYTEL INC
Form 10-Q
August 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2006

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.

Yes No

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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 31, 2006, there were 116,409,896 shares of common stock outstanding.

TABLE OF CONTENTS

	<u>Page</u> <u>No.</u>
Part I. Financial Information:	
Item 1. Financial Statements	
Consolidated Statements of Income--Three Months and Six Months Ended June 30, 2006 and 2005	3
Consolidated Statements of Comprehensive Income--Three Months and Six Months Ended June 30, 2006 and 2005	4
Consolidated Balance Sheets--June 30, 2006 and December 31, 2005	5
Consolidated Statements of Cash Flows-- Six Months Ended June 30, 2006 and 2005	6
Consolidated Statements of Stockholders' Equity--Six Months Ended June 30, 2006 and 2005	7
Notes to Consolidated Financial Statements*	8-13
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	14-22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	23
Item 4. Controls and Procedures	24
Part II. Other Information:	
Item 1. Legal Proceedings	25
Item 1A. Risk Factors	25
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	25
Item 4. Submission of Matters to a Vote of Security Holders	25-26

Item 6. Exhibits and Reports on Form 8-K 26

Signature 26

* All references to “Notes” in this quarterly report refer to these Notes to Consolidated Financial Statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(Dollars, except per share amounts, and shares in thousands)			
OPERATING REVENUES	\$ 609,131	606,413	1,220,780	1,201,695
OPERATING EXPENSES				
Cost of services and products (exclusive of depreciation and amortization)	216,466	194,873	439,418	386,866
Selling, general and administrative	95,596	95,206	191,536	189,460
Depreciation and amortization	131,820	130,452	266,385	262,627
Total operating expenses	443,882	420,531	897,339	838,953
OPERATING INCOME	165,249	185,882	323,441	362,742
OTHER INCOME (EXPENSE)				
Interest expense	(50,639)	(49,647)	(100,725)	(102,272)
Income from unconsolidated cellular entity	2,076	724	4,149	2,037
Nonrecurring gains	118,649	-	118,649	-
Other income (expense)	2,734	1,220	5,258	2,755
Total other income (expense)	72,820	(47,703)	27,331	(97,480)
INCOME BEFORE INCOME TAX				
EXPENSE	238,069	138,179	350,772	265,262
Income tax expense	85,701	53,061	128,979	100,528
NET INCOME	\$ 152,368	85,118	221,793	164,734
BASIC EARNINGS PER SHARE	\$ 1.32	.65	1.86	1.25
DILUTED EARNINGS PER SHARE	\$ 1.26	.64	1.80	1.23
DIVIDENDS PER COMMON SHARE	\$.0625	.06	.125	.12
AVERAGE BASIC SHARES OUTSTANDING	115,441	130,299	118,917	131,241
AVERAGE DILUTED SHARES OUTSTANDING	121,636	135,345	124,798	136,257

See accompanying notes to consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(Dollars in thousands)			
NET INCOME	\$ 152,368	85,118	221,793	164,734
OTHER COMPREHENSIVE INCOME, NET OF TAX:				
Minimum pension liability adjustment, net of \$799, \$194, (\$25) and (\$76) tax	1,282	310	(41)	(122)
Unrealized gain (loss) on investments, net of (\$133), \$198, (\$92) and \$122 tax	(213)	316	(148)	196
Derivative instruments:				
Net loss on derivatives hedging the variability of cash flows, net of (\$2,606) tax	-	-	-	(4,181)
Reclassification adjustment for losses included in net income, net of \$59, \$66, \$117 and \$85 tax	94	106	188	137
COMPREHENSIVE INCOME	\$ 153,531	85,850	221,792	160,764

See accompanying notes to consolidated financial statements.

CenturyTel, Inc.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2006	December 31, 2005
(Dollars in thousands)		
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,769	158,846
Accounts receivable, less allowance of \$20,441 and \$21,721	214,989	236,714
Materials and supplies, at average cost	6,389	6,998
Other	17,105	20,458
Total current assets	240,252	423,016
NET PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment	7,844,529	7,801,377
Accumulated depreciation	(4,672,522)	(4,496,891)
Net property, plant and equipment	3,172,007	3,304,486
GOODWILL AND OTHER ASSETS		
Goodwill	3,431,136	3,432,649
Other	590,589	602,556
Total goodwill and other assets	4,021,725	4,035,205
TOTAL ASSETS	\$ 7,433,984	7,762,707
<u>LIABILITIES AND EQUITY</u>		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 381,455	276,736
Accounts payable	101,891	104,444
Accrued expenses and other liabilities		
Salaries and benefits	59,057	60,521
Income taxes	79,625	110,521
Other taxes	56,496	58,660
Interest	74,738	71,580
Other	15,547	14,851
Advance billings and customer deposits	51,287	48,917
Total current liabilities	820,096	746,230
LONG-TERM DEBT	2,239,263	2,376,070
DEFERRED CREDITS AND OTHER LIABILITIES	1,073,065	1,023,134
STOCKHOLDERS' EQUITY		
Common stock, \$1.00 par value, authorized 350,000,000 shares,		

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issued and outstanding 116,300,908 and 131,074,399 shares	116,301	131,074
Paid-in capital	107,927	129,806
Accumulated other comprehensive loss, net of tax	(9,620)	(9,619)
Retained earnings	3,079,291	3,358,162
Preferred stock - non-redeemable	7,661	7,850
Total stockholders' equity	3,301,560	3,617,273
TOTAL LIABILITIES AND EQUITY	\$ 7,433,984	7,762,707

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2006	2005
	(Dollars in thousands)	
OPERATING ACTIVITIES		
Net income	\$ 221,793	164,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	266,385	262,627
Nonrecurring gains	(118,649)	-
Income from unconsolidated cellular entity	(4,149)	(2,037)
Deferred income taxes	22,352	25,947
Changes in current assets and current liabilities:		
Accounts receivable	21,641	7,860
Accounts payable	(2,553)	(236)
Accrued income and other taxes	(28,113)	12,184
Other current assets and other current liabilities, net	8,719	(854)
Retirement benefits	14,926	12,517
Excess tax benefits from share-based compensation	(4,947)	-
(Increase) decrease in other noncurrent assets	969	(1,477)
Increase (decrease) in other noncurrent liabilities	1,550	(584)
Other, net	6,393	(1,768)
Net cash provided by operating activities	406,317	478,913
INVESTING ACTIVITIES		
Payments for property, plant and equipment	(130,455)	(176,914)
Proceeds from redemption of Rural Telephone Bank stock	122,819	-
Proceeds from sale of assets	5,865	-
Acquisitions, net of cash acquired	-	(73,152)
Distributions from unconsolidated cellular entity	-	2,339
Investment in unconsolidated cellular entity	(5,222)	-
Other, net	(1,296)	(2,955)
Net cash used in investing activities	(8,289)	(250,682)
FINANCING ACTIVITIES		
Payments of debt	(12,559)	(511,625)
Net proceeds from issuance of long-term debt	-	344,173
Proceeds from issuance of common stock	41,206	20,457
Repurchase of common stock	(573,888)	(530,700)
Settlement of equity units	-	398,164
Cash dividends	(14,661)	(15,956)
Excess tax benefits from share-based compensation	4,947	-
Other, net	(150)	503
Net cash used in financing activities	(555,105)	(294,984)
Net decrease in cash and cash equivalents	(157,077)	(66,753)
Cash and cash equivalents at beginning of period	158,846	167,215

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Cash and cash equivalents at end of period	\$	1,769	100,462
Supplemental cash flow information:			
Income taxes paid	\$	132,666	87,013
Interest paid (net of capitalized interest of \$1,005 and \$1,281)	\$	96,562	96,347

See accompanying notes to consolidated financial statements.

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

	Six months ended June 30,	
	2006	2005
	(Dollars in thousands)	
COMMON STOCK		
Balance at beginning of period	\$ 131,074	132,374
Issuance of common stock through dividend reinvestment, incentive and benefit plans and other	1,740	1,061
Issuance of common stock upon settlement of equity units	-	12,881
Repurchase of common stock	(16,523)	(16,409)
Conversion of preferred stock into common stock	10	-
Balance at end of period	116,301	129,907
PAID-IN CAPITAL		
Balance at beginning of period	129,806	222,205
Issuance of common stock through dividend reinvestment, incentive and benefit plans	39,466	19,396
Issuance of common stock upon settlement of equity units	-	385,283
Repurchase of common stock	(71,362)	(514,291)
Conversion of preferred stock into common stock	179	-
Excess tax benefits from share-based compensation	4,947	-
Amortization of unearned compensation and other	4,891	613
Balance at end of period	107,927	113,206
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX		
Balance at beginning of period	(9,619)	(8,334)
Change in other comprehensive loss, net of tax	(1)	(3,970)
Balance at end of period	(9,620)	(12,304)
RETAINED EARNINGS		
Balance at beginning of period	3,358,162	3,055,545
Net income	221,793	164,734
Repurchase of common stock (through 2006 accelerated share repurchase program)	(486,003)	-
Cash dividends declared		
Common stock - \$.125 and \$.12 per share, respectively	(14,467)	(15,757)
Preferred stock	(194)	(199)
Balance at end of period	3,079,291	3,204,323
PREFERRED STOCK - NON-REDEEMABLE		
Balance at beginning of period	7,850	7,975
Conversion of preferred stock into common stock		