CENTURYTEL INC
Form 10-K
February 27, 2009

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

FORM 10-K

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

For the fiscal year ended December 31, 2008

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	72-0651161
(State or other jurisdiction of incorporation or organization)	(IRS 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

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

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 [X] 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 [X]

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 [X] No [ ]

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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 [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

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

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 $3.2 billion as of June 30, 2008. As of February 20, 2009, there were 100,319,319 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant's Proxy Statement to be furnished in connection with the 2009 annual meeting of shareholders are incorporated by reference in Part III of this Report.

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PART I

Item 1. Business

On October 26, 2008, we agreed to acquire Embarq Corporation (“EMBARQ”) in a stock-for-stock transaction that we expect to complete in the second quarter of 2009, subject to the satisfaction of various closing conditions. The information contained in this annual report does not reflect the impact of us acquiring EMBARQ. For additional information, see “Pending Acquisition” below.

General. CenturyTel, Inc., together with its subsidiaries, is an integrated communications company engaged primarily in providing an array of communications services, including local and long distance voice, Internet access and broadband services. We strive to maintain our customer relationships by, among other things, bundling our service offerings to provide a complete offering of integrated communications services. We conduct all of our operations in 25 states located within the continental United States.

At December 31, 2008, our incumbent local exchange telephone subsidiaries operated approximately 2.0 million telephone access lines, primarily in rural areas and small to mid-size cities in 23 states, with over 68% of these lines located in Missouri, Wisconsin, Alabama, Arkansas and Washington. According to published sources, we are currently the seventh 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.

In recent years, we have expanded our product offerings to include satellite television services and wireless broadband services. For additional information, see “Operations - Recent Product Developments” below.

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.

Pending acquisition. On October 26, 2008, we entered into a definitive merger agreement to acquire Embarq Corporation (“EMBARQ”) in a stock-for-stock transaction. Under the terms of the agreement, EMBARQ shareholders will receive 1.37 CenturyTel shares for each share of EMBARQ common stock they own at closing. On December 31, 2008, EMBARQ had outstanding approximately 142.4 million shares of common stock and $5.7 billion of long-term debt. The two companies have a combined operating presence in 33 states with approximately 7.7 million access lines and two million broadband customers.

Completion of the transaction is subject to the receipt of regulatory approvals, including approvals from the Federal Communications Commission and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction in the second quarter of 2009.

See Item 1A, Risk Factors, for additional information concerning the pending acquisition of EMBARQ. Additional information about EMBARQ is included in documents that it has filed with the U.S. Securities and Exchange Commission (the "SEC"). See "Where to find additional information" below.

The foregoing description of the pending EMBARQ merger is not complete, and is qualified in its entirety by reference to our Current Reports on Form 8-K filed with the SEC on October 27 and October 30, 2008, including the exhibits thereto.

Recently completed acquisitions. On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. ("Madison River") for approximately $322 million cash (including the effect of post-closing adjustments). In connection with the acquisition, we also paid all of Madison River's existing indebtedness (including accrued interest), which approximated $522 million. At the time of this acquisition, Madison River operated approximately 164,000 predominantly rural access lines in four states with more than 30% high-speed Internet penetration and its network included ownership in a 2,100 route mile fiber network.

In June 2005, we acquired fiber assets in 16 metropolitan markets from KMC Telecom Holdings, Inc. ("KMC") for approximately $75.5 million cash, which has enabled us to offer broadband and competitive local exchange services to customers in these markets. During 2008, we sold the assets in six of these markets in two separate transactions.

In June 2003, we purchased for $39.4 million cash 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."

We also acquired approximately 660,000, 490,000 and 650,000 telephone access lines in transactions completed in 1997, 2000 and 2002, respectively, each of which substantially expanded our operations. The 2002 acquisition of telephone access lines was funded primarily from proceeds received from the sale of substantially all of our wireless operations in August 2002.

We continually evaluate the possibility of acquiring additional communications assets in exchange for cash, securities or other properties, 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, we may also acquire other communications interests and these acquisitions could have a material impact upon us.

Where to find additional information. We make available all of our filings with the SEC (including Forms 10-K, 10-Q and 8-K) on our website (www.centurytel.com) as soon as reasonably practicable after we complete such filings with the SEC. These documents may also be obtained from the SEC's website at www.sec.gov. You may obtain copies of EMBARQ's filings with the SEC at the same website, or at EMBARQ's website (www.EMBARQ.com).

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. If a provision of our Corporate Compliance Program is amended, other than by a technical, administrative or other non-substantive amendment, or a waiver under this program is granted to a director or executive officer, notice of such amendment or waiver will be posted on our website. Also, we may elect to disclose the amendment or waiver in a report on Form 8-K filed with the SEC. Only our board of directors may consider a waiver of our Corporate Compliance Program for a director or executive officer.

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 2008 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 communications industry are based on estimates made 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 communications 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, 2008, we had approximately 6,500 employees, of which approximately 1,600 were members of 15 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. During 2006, 2007 and 2008, we announced reductions of our workforce which aggregated approximately 700 jobs, primarily due to (i) increased competitive pressures and the loss of access lines over the last several years, (ii) completion of our Madison River integration and (iii) the elimination of certain customer service personnel due to reduced call volumes.

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 seventh largest local exchange telephone company in the United States, based on the approximately 2.0 million access lines we served at December 31, 2008. 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-size cities in 23 states.

The following table lists additional information regarding our access lines as of December 31, 2008 and 2007 (rounded to the nearest thousand lines).

December 31, 2008	December 31, 2008		December 31, 2007	
State	Number of access lines	Percent of access lines	Number of access lines	Percent of access lines
Missouri	387,000	19%	408,000	19%
Wisconsin (1)	362,000	18	387,000	18
Alabama (2)	268,000	13	290,000	14
Arkansas	197,000	10	211,000	10
Washington	147,000	7	157,000	7
Michigan	86,000	4	91,000	4
Colorado	82,000	4	86,000	4
Louisiana	80,000	4	84,000	4
Oregon	62,000	3	66,000	3
Ohio	57,000	3	64,000	3
Illinois (2)	53,000	3	57,000	3
Montana	53,000	3	57,000	3
Texas	31,000	2	33,000	2
Georgia (2)	30,000	2	34,000	2
Minnesota	25,000	1	27,000	1
Tennessee	22,000	1	23,000	1
Mississippi	21,000	1	22,000	1
North Carolina (2)	13,000	*	14,000	*
Wyoming	6,000	*	6,000	*
New Mexico	5,000	*	6,000	*
Idaho	5,000	*	5,000	*
Indiana	4,000	*	5,000	*
Iowa	2,000	*	2,000	*
	1,998,000	100%	2,135,000	100%

* Represents less than 1% of access lines.

(1) As of December 31, 2008 and 2007, approximately ––48,000 and 51,000, respectively, of these lines were owned and operated by our 89%-owned affiliate.

(2)

In connection with our acquisition of Madison River in April 2007, we acquired an aggregate of approximately 164,000 access lines in Illinois, Alabama, Georgia and North Carolina.

The following table summarizes certain information related to our customer base, operating revenues and capital expenditures for the past five years. The 2008 and 2007 information includes the Madison River properties we acquired on April 30, 2007.

	Year ended or as of December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Access lines	1,998,000	2,135,000	2,094,000	2,214,000	2,314,000
% Residential	73%	73	74	75	75
% Business	27%	27	26	25	25
Internet customers	683,000	623,000	459,000	357,000	271,000
% High-speed Internet service	94%	89	80	70	53
% Dial-up service	6%	11	20	30	47
Operating revenues	$ 2,599,747	2,656,241	2,447,730	2,479,252	2,407,372
Capital expenditures	$ 286,817	326,045	314,071	414,872	385,316

As discussed further below, our access lines (exclusive of acquisitions) have declined in recent years, and are expected to continue to decline. To mitigate these declines, we hope to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission or improvements in our infrastructure, (iii) provide our broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products to new customers. See “Services” and “Regulation and Competition.”

Services

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

	2008	2007	2006
Voice	33.6%	33.5	35.6
Network access	31.6	35.4	35.9
Data	20.2	17.4	14.4
Fiber transport and CLEC	6.2	6.0	6.1
Other	8.4	7.7	8.0
	100.0%	100.0	100.0

Voice. We offer local calling service to residential and business customers within our local service areas, generally for a fixed monthly charge. We also offer a number of enhanced voice services (such as call forwarding, caller identification, conference calling, voicemail, selective call ringing and call waiting) to our local exchange customers for an additional monthly fee. At December 31, 2008, nearly 60% of both our business and residential customers subscribed to one or more enhanced services. We also offer long distance services to our customers based on either usage or pursuant to flat-rate calling plans. We anticipate that most of our long distance service will be provided as part of an integrated bundle with our other service offerings, including our local exchange telephone service offering.

Normalized for acquisitions, dispositions and other adjustments, access lines declined 6.4% in 2008, 5.7% in 2007 and 4.8% in 2006. We believe these declines in the number of access lines were primarily due to the displacement of traditional wireline telephone services by other competitive services and recent economic conditions. Based on our current retention initiatives, we estimate that our access line loss will be between 5.7% and 6.7% in 2009.

Network access. We derive our network access revenues primarily from (i) providing services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms (see “Regulation and Competition Relating to Incumbent Local Exchange Operations” below). Our revenues for switched access services depend primarily on the level of call volume.

Certain of our interstate network access revenues are based on tariffed access charges prescribed by the Federal Communications Commission (“FCC”); the remainder of such revenues are derived under revenue sharing arrangements with other local exchange carriers (“LECs”) administered by the National Exchange Carrier Association (“NECA”), a quasi-governmental non-profit organization formed by the FCC in 1983 for such purposes.

Certain of our intrastate network access revenues are derived through access charges that we bill to intrastate long distance carriers and other LEC customers. Such intrastate network access charges are based on tariffed access charges, which are subject to state regulatory commission approval. Additionally, certain of our intrastate network access revenues, along with intrastate and intra-LATA (Local Access and Transport Areas) long distance revenues, are derived through revenue sharing arrangements with other LECs.

Data. We derive our data revenues primarily from monthly recurring charges for providing Internet access services (both high-speed and dial-up services) and data transmission services over special circuits and private lines. We began offering traditional dial-up Internet access services to our telephone customers in 1995. In late 1999, we began offering high-speed Internet access services, a premium-priced broadband data service. As of December 31, 2008, approximately 88% of our access lines were broadband-enabled. At December 31, 2008, we provided high-speed Internet access services to over 641,000 customers and dial-up services to over 42,000 customers. During 2008, we added over 85,000 high-speed Internet customers.

Our data revenue also includes amounts billed to our business customers for dedicated circuits used for various purposes, including connecting the customer's offices or networks to our networks.

Fiber transport and CLEC. Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier ("CLEC") and security monitoring businesses.

In late 2000, we began offering competitive local exchange telephone services as part of a bundled service offering to small to medium-sized businesses in Monroe and Shreveport, Louisiana. In February 2002, we purchased the fiber network and customer base of KMC's operations in Monroe and Shreveport, Louisiana and in June 2005, we purchased the fiber assets in 16 metropolitan markets from KMC which allowed us to offer broadband and competitive local exchange services to customers in these markets. As part of our plan to focus our efforts on the CLEC markets with the most promise, in mid-2008 we sold the assets in six of our CLEC markets to other communications companies in two separate transactions. As of December 31, 2008, our competitive local exchange markets provided service over 800 miles of fiber.

Under the name "LightCore", we sell fiber capacity to other carriers and businesses over a network that encompassed, at December 31, 2008, over 9,900 miles of fiber in the central United States. We began our fiber transport business during 2001, when we began selling capacity over a 700-mile fiber optic ring that we constructed in southern and central Michigan. In June 2003, we acquired the assets of Digital Teleport, Inc., a regional communications company providing wholesale data transport services to other communications carriers over its fiber optic network located in Missouri, Arkansas, Oklahoma and Kansas. We have used the network to sell services to new and existing customers and to reduce our reliance on third party transport providers. In addition, in December 2003, we acquired additional fiber transport assets in Arkansas, Missouri and Illinois from Level 3 Communications, Inc. to provide services similar to those described above.

In addition to the above-described fiber network, in connection with our 2007 acquisition of Madison River, we acquired ownership in a 2,100 route mile fiber network located in six states which has enabled us to expand our fiber network business and further reduce our reliance on third-party transport providers.

We offer 24-hour burglary and fire monitoring services to over 10,700 customers in select markets in Louisiana, Arkansas, Mississippi, Texas and Ohio.

Other. We derive our "other revenues" principally by (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services to third parties, (iii) participating in the publication of local telephone directories, which allows us to share in revenues generated by the sale of yellow page and related advertising to businesses, and (iv) offering our new services described below under the heading "-Recent Product Developments". We also provide printing, database management and direct mail services and cable television services.

During 2008, we paid an aggregate of approximately $149 million for 69 licenses in the FCC's auction of 700 megahertz ("MHz") wireless spectrum. The 700 MHz spectrum is not expected to be cleared for usage until mid-2009. We are still in the planning stages regarding the use of this spectrum. However, based on our preliminary analysis, we are considering developing wireless voice and data service capabilities based on equipment using LTE (Long-Term Evolution) technology. Given that this equipment is not expected to be commercially available until 2010, we do not expect our deployment to result in any material impact on our capital and operating budgets in 2009.

From time to time, we also make investments in other communications companies.

For further information on regulatory, technological and competitive changes that could impact our revenues, see "Regulation and Competition" under this Item 1 below and "Risk Factors and Cautionary Statements" under Item 1A below. For more information on the financial contributions of our various services, see Item 7 of this annual report.

Recent Product Developments

Since 2005, we, in conjunction with DISH Network Corporation ("DISH"), have offered satellite television service to households in substantially all of our local exchange service areas. Effective January 1, 2007, we changed our relationship with DISH from a revenue sharing arrangement to an agency relationship. In late 2005, we initiated our switched digital television service to the LaCrosse, Wisconsin market and, in October 2007, we commenced a second switched digital video service offering to our Columbia, Missouri market.

We also offer wireless broadband Internet services in select locations in certain markets in 13 states.

Federal Financing Programs

Certain of our telephone subsidiaries receive long-term financing from the Rural Utilities Service ("RUS"), a federal agency that has historically provided long-term financing to telephone companies at relatively attractive interest rates. Approximately 13% of our plant is pledged to secure obligations of our telephone subsidiaries to the RUS. For additional information regarding our financing, see our consolidated financial statements included in Item 8 herein.

Sales and Marketing

We maintain local offices in most of the larger population centers within our service territories. These offices provide sales and customer support services in the community. We also rely on our call center personnel to promote sales of services that meet the needs of our customers. In addition, our strategy is to enhance our communications services by offering comprehensive bundling of services and deploying new technologies to build upon the strong reputation we enjoy in our markets and to further promote customer loyalty.

Most of our services are currently offered under our “CenturyTel” brand name. However, we currently sell fiber capacity on our networks under the brand name “LightCore.” In addition, our satellite television service is offered on a co-branded basis under the “DISH Network” name. We have agreed to determine, in consultation with EMBARQ, whether it is in the best interests of our shareholders to change our corporate or brand names in connection with our pending EMBARQ merger.

Network Architecture

Our local exchange carrier networks consist of central office hosts and remote sites, all with advanced digital switches (primarily manufactured by Nortel and Siemens) and operating with licensed software. Our outside plant consists of transport and distribution delivery networks connecting each of our host central offices to our remote central offices, and ultimately to our customers. As of December 31, 2008, we maintained over 253,000 miles of copper plant and approximately 21,000 miles of fiber optic plant in our local exchange networks. Our fiber optic cable is the primary transport technology between our host and remote central offices and interconnection points with other incumbent carriers. Most of our long distance service is provided directly through our own switches and network equipment, with the balance being provided through reselling arrangements with other long distance carriers. We also maintain networks in connection with providing fiber transport and CLEC services. For additional information on these networks, see “Services - Fiber Transport and CLEC.”

Regulation and Competition Relating to Incumbent Local Exchange Operations

Traditionally, LECs operated as regulated monopolies having the exclusive right and responsibility to provide local telephone services in their franchised service territories. (These LECs are sometimes referred to below as “incumbent LECs” or “ILECs”). Consequently, most of our intrastate telephone operations have traditionally been regulated extensively by various state regulatory agencies (generally called public service commissions or public utility commissions) and our interstate operations have been regulated by the FCC under the Communications Act of 1934. As we discuss in greater detail below, passage of the 1996 Act, coupled with state legislative and regulatory initiatives and technological changes, fundamentally altered the telephone industry by generally reducing the regulation of LECs and attracting a substantial increase in the number of competitors and capital invested in existing and new services. We anticipate that these trends toward reduced regulation and increased competition will continue.

The following description discusses some of the major industry regulations that affect our traditional telephone operations, but numerous other regulations not discussed below could also impact us. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could substantially change the manner in which the communications industry operates. Neither the outcome of any of these developments, nor their potential impact on us, can be predicted at this time. The impact of regulatory changes in the communications industry could have a substantial impact on our operations. See Item 1A of this annual report below.

State regulation. The local service rates and intrastate access charges of substantially all of our telephone subsidiaries are regulated by state regulatory commissions which typically have the power to grant and revoke certifications authorizing companies to provide communications services. Most commissions have traditionally regulated pricing through "rate of return" regulation that focuses on authorized levels of earnings by LECs. Historically, most of these commissions also (i) regulated the purchase and sale of LECs, (ii) prescribed depreciation rates and certain accounting procedures, (iii) enforced laws requiring LECs to provide universal service under publicly filed tariffs setting forth the terms, conditions and prices of their LEC services, (iv) oversaw implementation of several federal telecommunications laws including interconnection obligations and (v) regulated service standards, operating procedures and various other matters.

In recent years, state legislatures and regulatory commissions in most of the 23 states in which our telephone subsidiaries operate have either reduced the regulation of LECs or have announced their intention to do so, and we expect this trend will continue. Essentially, such relief comes in two forms: (i) full or partial deregulation through legislation or (ii) the ability of LECs to elect into or renew existing state alternative regulation through a regulatory proceeding. Several states have implemented laws or rulings which require or permit LECs to opt out of pricing or "rate of return" regulation in exchange for agreeing to alternative forms of regulation. Such alternatives permit the LEC greater freedom to establish local service rates in exchange for agreeing not to charge rates in excess of specified caps. As discussed further below, subsidiaries operating over 72% of our access lines in various states have agreed to be governed by alternative regulation plans, and we continue to explore our options for similar treatment in other states. We believe that reduced regulatory oversight of certain of our telephone operations may allow us to offer new and competitive services faster than under the traditional regulatory process. For a discussion of legislative, regulatory and technological changes that have introduced competition into the local exchange industry, see "Developments Affecting Competition."

The following summary describes the alternative regulation plans applicable to us in Missouri, Wisconsin, Alabama and Arkansas, our four largest telephone markets.

· All of our Missouri LECs are regulated under a price-cap regulation plan whereby basic service rates are adjusted annually based on an inflation-based factor and non-basic services may be increased without restriction up to 5% annually. If the inflation-based factor were to decline as it has done in recent years, our revenues would be negatively impacted.

· Our Wisconsin access lines, except for those acquired from Verizon in 2000 (which continue to be regulated under "rate of return" regulation), are regulated under various alternative regulation plans developed jointly between the Wisconsin Public Service Commission and us. Each of these alternative regulation plans permits us to adjust local rates within specified parameters if we meet certain quality-of-service and infrastructure-development commitments. These plans also include initiatives designed to promote competition.

· In 2005, the state of Alabama passed legislation that essentially allowed telephone companies the option to phase in deregulation of certain LEC services. In February 2007, our Alabama LECs opted to provide all local services (including bundled services but excluding certain basic telephone and optional calling services) on a deregulated and detariffed basis. Certain basic telephone and optional calling services continue to be regulated and subject to a price cap. Our Alabama properties acquired from Madison River operate under a separate alternative regulation plan under which local rates are still governed by the Alabama Public Service Commission.

· Our Arkansas LECs acquired from Verizon Communications, Inc. are regulated under an alternative regulation plan under which rates can be adjusted based on an inflation-based factor. Other local rates can be adjusted without commission approval; however, such rates are subject to commission review under certain conditions. Our remaining Arkansas LECs have the option to increase rates up to certain specified amounts.

Notwithstanding the movement toward alternative regulation, LECs operating approximately 28% of our total access lines continue to be subject to "rate of return" regulation for intrastate purposes. These LECs remain subject to the powers of state regulatory commissions to conduct earnings reviews and adjust service rates, either of which could lead to revenue reductions.

Federal regulation. Our telephone subsidiaries are required to comply with the Communications Act of 1934, which requires us to offer services at just and reasonable rates and on non-discriminatory terms, as well as the 1996 Act, which amended the Communications Act to promote competition and reform the Universal Service Program.

The FCC regulates interstate services provided by our telephone subsidiaries primarily by regulating the interstate access charges that we bill to long distance companies and other communications companies for use of our network in connection with the origination and termination of interstate voice and data transmissions. Additionally, the FCC has prescribed certain rules and regulations for telephone companies, including a uniform system of accounts and rules regarding the separation of costs between jurisdictions and, ultimately, between interstate services. In addition, the FCC has responsibility for maintaining and administering the Universal Service Fund. LECs must obtain FCC approval to use certain radio frequencies, or to transfer control of any such licenses. The FCC retains the right to revoke these licenses if a carrier materially violates relevant legal requirements.

The FCC requires price-cap regulation of interstate access rates for the Regional Bell Operating Companies, and permits it for all other LECs. Under price-cap regulation, limits imposed on a company's interstate rates are adjusted periodically to reflect inflation, productivity improvement and changes in certain non-controllable costs. Our properties acquired from Verizon in 2002 have continued to operate under price-cap regulation, as permitted under FCC rules for acquired properties, while the remainder of our properties operate under traditional rate-of-return regulation (which permits us to set rates based on forecasted investment and expenses plus a return on investment, which is currently 11.25%). In September 2008, we filed a petition with the FCC to convert our remaining rate-of-return study areas to price cap regulation effective January 1, 2009 and, to the extent necessary, requested limited waivers of certain pricing and universal service high-cost support rules related to our election. Such petition was not addressed by the FCC in 2008 and remains pending.

In 2003, the FCC opened a broad intercarrier compensation proceeding with the ultimate goal of creating a uniform mechanism to be used by the entire telecommunications industry for payments between carriers originating, terminating, or carrying telecommunications traffic. The FCC has received intercarrier compensation proposals from several industry groups, and in early 2005 solicited comments on all proposals previously submitted to it. Broad industry negotiations have taken place with the goal of developing a consensus plan that addresses the concerns of carriers from all industry segments. On November 5, 2008 the FCC issued a document that, among other things, requested public comment on (i) the chairman's draft proposal which would require carriers to reduce access charges in three phases to as low as $.0007 per minute of use (which is substantially lower than our current intrastate and interstate access rates and local reciprocal compensation rates), (ii) an alternative proposal, and (iii) some universal service reforms. Such document also included an order that declined to implement a universal service reform proposal issued in November 2007 by the Federal-State Joint Board. It is currently unclear what action the FCC may take with respect to the new set of draft proposals. Adoption of the chairman's original proposal, which is included in the latest draft order, could result in a material adverse impact on our results of operations. The ultimate outcome of this proceeding could change the way we receive compensation from, and remit compensation to, other carriers, our end user customers and the federal Universal Service Fund (the "USF"). Until the FCC's proceeding concludes and the changes, if any, to the existing rules are established, we cannot estimate the impact it will have on our results of operations.

In December 2005, a group of six mid-size carriers, including us, filed proposed rules with the FCC regarding "phantom traffic". "Phantom traffic" generally refers to telecommunications calls that cannot be billed properly to responsible carriers by other carriers in the call path because the traffic is mislabeled, unlabeled or improperly routed. The proposal requests that the FCC implement and enforce updated rules that require carriers to accurately identify, label and route network traffic so that appropriate bills can be created. In late 2006, the FCC opened a separate phantom traffic proceeding with the intent of formalizing potential phantom traffic rules for the industry. Overall, the comments received to date on the phantom traffic issue have been favorable to us; however, until the FCC concludes its phantom traffic proceeding and adopts changes, if any, to existing rules, we cannot estimate the impact any changes will have on our results of operations.

As discussed further below, certain providers of competitive communications services are currently not required to compensate ILECs for the use of their networks. Additionally, certain deregulated providers seek and receive high cost universal support funding based on the incumbent's costs rather than their own.

Our operations and those of all communications carriers also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business, including the Communications Assistance for Law Enforcement Act, and laws governing local number portability and customer proprietary network information requirements. These laws and regulations may cause us to incur additional costs.

Universal service support funds, revenue sharing arrangements and related matters. A significant number of our telephone subsidiaries recover a portion of their costs from the federal USF and from similar state "universal support" mechanisms, which receive their funding from fees charged to interexchange carriers and LECs. Disbursements from these programs traditionally have focused principally on allowing LECs serving small communities and rural areas to provide communications services on terms and at prices reasonably comparable to those available in urban areas. Other USF programs address other social goals, such as supporting schools and libraries through the USF's E-rate program.

The table below sets forth the amounts received by our telephone subsidiaries in 2008 and 2007 from federal and state universal support programs.

	Year ended December 31,			
	2008		2007	
Support Program	Amount Received	% of Total 2008 Operating Revenues	Amount Received	% of Total 2007 Operating Revenues
	(amounts in millions)			
USF High Cost Loop Support	$ 151.7	5.8%	$ 166.5	6.3%
Other Federal Support Programs	128.5	5.0%	133.9	5.0%
Total Federal Support Receipts	280.2	10.8%	300.4	11.3%
State Support Programs	39.7	1.5%	35.6	1.3%
TOTAL	$ 319.9	12.3%	$ 336.0	12.6%

Federal USF programs have undergone substantial changes since 1997, and are expected to experience more changes in the coming years. As mandated by the 1996 Act, in May 2001 the FCC modified its existing universal service support mechanism for rural telephone companies by adopting an interim mechanism for a five-year period based on embedded, or historical, costs that provide relatively predictable levels of support to many LECs, including substantially all of our LECs. In May 2006, the FCC extended this interim mechanism until such time that new high-cost support rules are adopted for rural telephone companies.

Universal support funds available to ILECs are currently available to local competitors that (i) certify they will serve all customers in a study area, (ii) offer nine core services, and (iii) qualify as an “eligible telecommunications carrier.” Wireless and other competitive service providers continue to seek to qualify to receive USF support. This trend, coupled with changes in usage of telecommunications services, have placed stress on the funding mechanism of the USF, which is subject to annual caps on disbursements. These developments have placed additional financial pressure on the amount of money that is necessary and available to provide support to all eligible service providers, including support payments we receive from the USF High Cost Loop support program.

Over the past few years, each of the FCC, Universal Service Administrative Company and certain Congressional committees has initiated wide-ranging reviews of the administration of the federal USF. As part of this process, we, along with a number of other USF recipients, have undergone a number of USF audits and have also received requests for information from the FCC’s Office of Inspector General (“OIG”) and Congressional committees. In addition, in July 2008 we received a subpoena from the OIG requesting a broad range of information regarding our depreciation rates and methodologies since 2000. The OIG has not identified to us any specific issues with respect to our participation in the USF program and none of the audits completed to date has identified any material issues regarding our participation in the USF program. While we believe our participation is in compliance with FCC rules and in accordance with accepted industry practices, we cannot predict with certainty the timing or outcome of these various reviews. We have complied with and are continuing to respond to all requests for information.

A significant portion of our support payments have varied over time based on our average cost to serve customers compared to national cost averages. Under the USF High Cost Loop support program, which is the USF's principal support program, our payments from the USF will decrease if national average costs per loop increase at a rate greater than our average cost per loop. Increases in the nationwide average cost per loop factor used to allocate funds among all USF recipients caused our revenues from the USF High Cost Loop support program to decrease in 2008 when compared to 2007. Similarly, we anticipate that our 2009 revenues from the USF High Cost Loop support program will be lower than 2008. See Item 7 of Part II of this annual report for more information.

In late 2002, the FCC requested that the Federal-State Joint Board ("FSJB") on Universal Service review various FCC rules governing high cost universal service support, including rules regarding eligibility to receive support payments in markets served by LECs and competitive carriers. Since then, the FSJB recommended a comprehensive general review of the high-cost support mechanisms for rural and non-rural carriers and requested comments on the FCC's current rules for the provision of high-cost support for rural companies, including comments on whether eligibility requirements should be amended in a manner that would adversely affect larger rural LECs such as us. The FCC Chairman's November 2008 proposal regarding USF reform would (i) require that all high-cost USF recipients have broadband service capabilities deployed in 100% of their markets within five years; (ii) freeze ILEC support at December 2008 levels; and (iii) expand the current Lifeline and Link-up programs.

Over the past few years, the FSJB has proposed that the FCC consider several changes to USF programs, including an interim cap on the amount of high cost support that competitive eligible telecommunications carriers ("CETCs") may receive. The FSJB also recommended elimination of the identical support rule which now enables wireless CETCs to draw identical support based on the ILEC's cost. In addition, the FSJB is recommending certain other reforms, including (i) caps on the present high cost funding mechanism, (ii) certification of only one wireline, one wireless and one broadband carrier in each market and (iii) further consideration of competitive bidding as a distribution mechanism. Until the FCC acts on these recommendations, we cannot estimate the impact that such proposals would have on our operations. In addition, there are a number of judicial appeals challenging several aspects of the FCC's universal service rules and various Congressional proposals seeking to substantially modify USF programs, none of which have been resolved at this time. We will continue to be active in monitoring and participating in these developments.

In 2004, the FCC mandated changes in the administration of the universal service support programs that temporarily suspended the disbursement of funds under the USF's E-rate program (for service to Schools and Libraries), and, more significantly, created questions that these administrative changes could similarly delay the disbursement of funds to LECs from the Universal Service High Cost Loop support program. Congress has passed bills in recent years granting successive one-year exemptions from the federal law that impacted the E-rate program, including a bill extending the exemption through December 31, 2008. An additional exemption is currently pending before Congress. Although we expect funding from this program to continue, we cannot assure you that the lack of a definitive resolution of this issue will not delay or impede the disbursement of funds in the future.

A substantial portion of our state support payments are payable by Louisiana under a state universal service fund program. An order was approved by the Louisiana Public Service Commission (“LPSC”) in December 2008 which restructures the program to determine our state support based on embedded cost. We expect the payments to be received under this fund to approximate those received by us under the predecessor program. The costs are subject to an annual adjustment by the LPSC. As such, there can be no assurance that the funding levels will remain at current levels.

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

All of our interstate network access revenues are based on access charges, cost separation studies or special settlement arrangements, many of which are administered by the FCC or NECA, and all of which are subject to change. See “Services.”

Certain long distance carriers continue to request that certain of our LECs reduce intrastate access tariffed rates. Long distance carriers have also aggressively pursued regulatory or legislative changes that would reduce access rates. In light of pending intercarrier compensation reform that is expected to address intrastate access charges, most states are deferring action until they receive direction from the FCC. However, some carriers are continuing to pursue lower intrastate access rates in some states.

Developments affecting competition. Over the past decade, fundamental technological, regulatory and legislative changes have significantly impacted the communications industry, and we expect these changes will continue. Primarily as a result of regulatory and technological changes, competition has been introduced and encouraged in each sector of the communications industry in recent years. As a result, we increasingly face competition from other communication service providers, as further described below.

Wireless telephone services increasingly constitute a significant source of competition with LEC services, especially since wireless carriers have begun to compete effectively on the basis of price with more traditional telephone services. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless service for voice services. This trend is more pronounced among residential customers, which comprise 73% of our access line customers. We anticipate this trend will continue, particularly if wireless service providers continue to expand their coverage areas, reduce their rates, improve the quality of their services, and offer enhanced new services. Substantially all of our access line customers are currently capable of receiving wireless services from at least one competitive service provider. Technological and regulatory developments in wireless services, personal communications services, digital microwave, satellite, coaxial cable, fiber optics, local multipoint distribution services and other wired and wireless technologies are expected to further permit the development of alternatives to traditional landline services.

The 1996 Act, which obligates LECs to permit competitors to interconnect their facilities to the LEC's network and to take various other steps that are designed to promote competition, imposes several duties on a LEC if it receives a specific request from another entity which seeks to connect with or provide services using the LEC's network. In addition, each incumbent LEC is obligated to (i) negotiate interconnection agreements in good faith, (ii) provide nondiscriminatory "unbundled" access to all aspects of the LEC's network, (iii) offer resale of its telecommunications services at wholesale rates and (iv) permit competitors, on terms and conditions (including rates) that are just, reasonable and nondiscriminatory, to collocate their physical plant on the LEC's property, or provide virtual collocation if physical collocation is not practicable. During 2003, the FCC released new rules outlining the obligations of incumbent LECs to lease to competitors elements of their circuit-switched networks on an unbundled basis at prices that substantially limited the profitability of these arrangements to incumbent LECs. In response to successful judicial challenges to these rules, in 2005 the FCC released rules that required incumbent LECs to lease a network element only in those situations where competing carriers genuinely would be impaired without access to such network element, and where the unbundling would not interfere with the development of facilities-based competition. These rules are further designed to remove LECs' unbundling obligations over time as competing carriers deploy their own networks and local exchange competition increases.

Under the 1996 Act's rural telephone company exemption, approximately half of our telephone access lines are exempt from certain of the 1996 Act's interconnection requirements unless and until the appropriate state regulatory commission overrides the exemption upon receipt from a competitor of a bona fide request meeting certain criteria. States are permitted to adopt laws or regulations that provide for greater competition than is mandated under the 1996 Act.

As a result of these regulatory, consumer and technological developments, ILECs increasingly face competition from CLECs, particularly in densely populated areas. CLECs provide competing services through reselling the ILECs' local services, through use of the ILECs' unbundled network elements or through their own facilities. The number of companies which have requested authorization to provide local exchange service in our service areas has increased in recent years, especially in our markets acquired from Verizon in 2002 and 2000. We anticipate that similar action may be taken by other competitors in the future, especially if all forms of federal support available to ILECs continue to remain available to these competitors.

As noted above, wireless and other competitive services providers have been increasingly aggressive in seeking and obtaining USF support funds. This support is likely to encourage additional competitors to enter our high-cost service areas.

Technological developments have led to the development of new services that compete with traditional LEC services. Technological improvements have enabled cable television companies to provide traditional circuit-switched telephone service over their cable networks, and several national cable companies have aggressively pursued this opportunity. As of December 31, 2008, we believe that approximately 43-48% of our access lines faced competition from cable voice offerings. Additionally, several large electric utilities have announced plans to offer communications services that compete with some LECs.

Improvements in the quality of Voice over Internet Protocol ("VoIP") service have led several cable, Internet, data and other communications companies, as well as start-up companies, to substantially increase their offerings of VoIP service to business and residential customers. VoIP providers route calls partially or wholly over the Internet, without use of ILEC's circuit switches and, in certain cases, without use of ILEC's networks to carry their communications traffic. VoIP providers frequently use existing broadband networks to deliver flat-rate, all distance calling plans that may offer features that cannot readily be provided by traditional LECs. These plans may also be priced competitively or below those currently charged for traditional local and long distance telephone services for several reasons, including lower operating costs. In December 2003, the FCC initiated rulemaking that is expected to address the effect of VoIP on intercarrier compensation, universal service and emergency services. Although the FCC's rulemaking regarding VoIP-enabled services remains pending, the FCC has adopted orders establishing broad guidelines for the regulation of such services, including (i) an April 2004 order that found an IP-telephony service using the public switched telephone network to be a regulated telecommunications service subject to interstate access charges, (ii) a November 2004 order that Internet-based services provided by Vonage Holdings Corporation should be subject to federal rather than state regulation and (iii) a June 2005 order requiring all VoIP service providers whose services are interconnected to the public switched telephone network to provide E-911 services to their customers. There can be no assurance that future rulemaking will be on terms favorable to ILECs, or that VoIP providers will not successfully compete for our customers.

Similar to us, many cable, technology or other communications companies that previously offered a limited range of services are now offering diversified bundles of services, either through their own networks, reselling arrangements or joint ventures. As such, a growing number of companies are competing to serve the communications needs of the same customer base. Several of these companies started offering full service bundles before us, which could give them an advantage in building customer loyalty. Such activities will continue to place downward pressure on the demand for our access lines.

In addition to facing direct competition from those providers described above, ILECs increasingly face competition from alternate communication systems constructed by long distance carriers, large customers or alternative access vendors. These systems, which have become more prevalent as a result of the 1996 Act, are capable of originating or terminating calls without use of the ILECs' networks or switching services. Other potential sources of competition include non-carrier systems that are capable of bypassing ILECs' local networks, either partially or completely, through various means, including the provision of special access or independent switching services and the concentration of telecommunications traffic on a few of the ILECs' access lines. We anticipate that all these trends will continue and lead to decreased use of our networks.

Significant competitive factors in the local telephone industry include pricing, packaging of services and features, quality and convenience of service and meeting customer needs such as simplified billing and timely response to service calls.

As the telephone industry increasingly experiences competition, the size and resources of each respective competitor may increasingly influence its prospects. Many companies currently providing or planning to provide competitive communication services have substantially greater financial and marketing resources than we do or own larger or more diverse networks than ours. In addition, many of them are not subject to the same regulatory constraints we are.

Competition can harm us by causing us to lose customers, or by causing us to lower prices or increase our capital or operating expenses to retain customers. Competing communications services, such as wireless, VoIP, electronic mail and optional calling services, can also reduce usage of our network and thereby decrease our network access revenues. Competition can also cause customers to reduce either usage of our services or switch to less profitable services, and could impede our ability to diversify into new lines of business dominated by incumbent providers.

We anticipate that the traditional operations of LECs will continue to be impacted by changes in regulation, technology, and consumer preferences affecting the ability of LECs to attract and retain customers and the capability of wireless companies, CLECs, cable television companies, VoIP providers, electric utilities and others to provide competitive LEC services. Competition relating to traditional LEC services has thus far affected large urban areas to a greater extent than the less dense areas in which we operate.

Exclusive of acquisitions, we expect our operating revenues in 2009 to decline as we continue to experience downward pressure primarily due to continued access line losses, reduced universal service funding and lower network access revenues. We expect such declines to be partially offset primarily due to increased demand for our high-speed Internet service offering.

Regulation and Competition Relating to Other Operations

Long Distance Operations. We offer intra-LATA, intrastate and interstate long distance services. State public service commissions generally regulate intra-LATA toll calls within the same LATA and inter-LATA toll calls between different LATAs located in the same state. Federal regulators have jurisdiction over interstate toll calls. Recent state regulatory changes have increased competition to provide intra-LATA toll services in our local exchange markets. Competition for intrastate and interstate long distance services has been intense for several years, and focuses primarily on price and pricing plans, and secondarily on customer service, reliability and communications quality. Traditionally, our principal competitors for providing long distance services were large national carriers, regional phone companies and dial-around resellers. Increasingly, however, we have experienced competition from newer sources, including wireless companies offering attractively-priced calling plans. Technological substitutions, including VoIP and electronic mail, have further reduced demand for traditional long distance services. To counter such competition, we now offer unlimited long distance calling plans.

Data Operations. In connection with our data business, we face competition from Internet service providers, satellite companies and cable companies which use wired or wireless technologies to offer dial-up Internet access services or high-speed broadband services. As of December 31, 2008, we believe approximately 60% of our local exchange markets are overlapped by cable systems offering data services competitive with ours. Many of these competitors offer content or other features that we cannot match. Moreover, many of these providers have traditionally been subject to less rigorous regulatory scrutiny than our subsidiaries, although recent FCC rule changes classifying our high-speed offering as an “information service” has helped reduce regulatory disparities. These recent rule changes further provided companies the option to deregulate (for price cap companies) or detariff (for rate of return companies) high-speed Internet services. During 2006, all of our operating companies elected to either deregulate or detariff their high-speed Internet services, which decreased regulatory oversight and increased our retail pricing flexibility.

Fiber Transport Operations. When our fiber transport networks are used to provide intrastate telecommunications services, we must comply with state requirements for telecommunications utilities, including state tariffing requirements. To the extent our facilities are used to provide interstate communications, we are subject to federal regulation as a non-dominant common carrier. Due largely to excess capacity, the fiber transport industry is highly competitive. Our primary competitors are from other communications companies, many of whom operate networks and have resources much larger than ours. Over the last few years, several large communications companies have merged and have implemented strategies to transfer a significant portion of their voice and data traffic from our fiber network to their networks. We expect this trend to continue as companies seek opportunities to reduce their transport-related costs. In addition, new IP-based services may enable new entrants to transport data at prices lower than we currently offer.

CLEC Operations. Competitive local exchange carriers are subject to certain reporting and other regulatory requirements by the FCC and state public service commissions, although the degree of regulation is much less substantial than that imposed on ILECs operating in the same markets. Local governments also frequently require competitive local exchange carriers to obtain licenses or franchises regulating the use of rights-of-way necessary to install and operate their networks. In each of our CLEC markets, we face competition from the ILEC, which traditionally has long-standing relationships with its customers. Over time, we may also face competition from one or more other CLECs, or from other communications providers who can provide comparable services.

Other Operations. Similar to our CLEC business, we may be required to obtain licenses or franchises to enter new markets for our switched digital television and wireless broadband services, which could delay our rollout of these offerings. The television and wireless communications markets we have recently entered are highly competitive, which could limit our ability to compete effectively.

OTHER DEVELOPMENTS OR MATTERS

In August 2007, our board of directors approved a $750 million stock repurchase program which expires in September 2009, unless extended by the board. Through December 31, 2008, we had repurchased approximately 13.2 million shares for $503.9 million under this program. We have suspended our current share repurchase program pending completion of our acquisition of EMBARQ. We previously repurchased approximately $401.0 million, $186.7 million, $437.5 million and $1.028 billion of our shares under separate repurchase programs approved in February 2004, February 2005, May 2005 and February 2006, respectively. For additional information, see Liquidity and Capital Resources included in Item 7 of this annual report.

In June 2008, our board of directors increased our quarterly cash dividend rate from $.0675 to $.70 per share, and declared a one-time dividend of $.6325 per share, which was paid in July 2008, which, when coupled with the previously-paid second quarter 2008 dividend, equaled the newly-established $.70 per share quarterly rate. See “Risk Factors” below for additional information regarding our current dividend practice.

In February 2009, the American Recovery and Reinvestment Act of 2009 was signed into law. Such Act includes programs for loans and grants for broadband investment that total $7.2 billion. Our utilization of these programs will depend in part on how the agencies charged with maintaining the programs interpret the new law. If these programs are implemented in a fashion that affords us opportunities to expand or enhance our broadband offerings, we will likely apply for grant funding to deploy broadband in some of our higher cost rural areas.

We have certain obligations based on federal, state and local laws relating to the protection of the environment. Costs of compliance through 2008 have not been material and we currently have no reason to believe that such costs will become material.

For additional information concerning our business and properties, see Items 2 and 7 elsewhere herein, and the Consolidated Financial Statements and notes 2, 4, 5, and 16 thereto set forth in Item 8 elsewhere herein.

Item 1A. Risk Factors

RISK FACTORS AND CAUTIONARY STATEMENTS

Risk Factors

Any of the following risks could materially and adversely affect our business, financial condition, results of operations, liquidity or prospects. The risks described below are not the only risks facing us. Please be aware that additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also materially and adversely affect our business operations.

Risks Related to Our Business

If we continue to experience access line losses similar to the past several years, our revenues, earnings and cash flows may be adversely impacted.

Our business generates a substantial portion of its revenues by delivering voice and data services over access lines. We have experienced access line losses over the past several years, including a 6.4% decline during the year ended December 31, 2008, due to a number of factors, including increased competition and wireless and broadband substitution. We expect to continue to experience access line losses in our markets for an unforeseen period of time. Our inability to retain access lines could adversely impact our revenues, earnings and cash flow from operations.

Recent deterioration in the economy and credit markets may adversely affect our future results of operations.

To date, our operations and liquidity has not been materially impacted by the current credit environment; however, the recent tightening of the credit markets may negatively impact our operations in the future if overall borrowing rates increase. In addition, if the economy and credit markets continue to deteriorate, it may impact our ability to collect receivables from our customers and other communications companies. This deterioration may also cause our customers to reduce or terminate their receipt of service offerings from us due to their inability to pay for such services or to completely forego our service offerings for other competitive services. Such events would negatively impact our results of operations. We cannot predict with certainty the impact to us of any further deterioration in the overall economy and credit markets.

We are also exposed to market risk from changes in the fair value of our pension plan assets. Should our actual return on plan assets continue to be significantly lower than our 8.25% expected return assumption, our net periodic pension expense and our required cash contribution to our pension plan will increase in future periods. Such events would negatively impact our results of operations and cash flow.

We face competition, which we expect to intensify and which may reduce market share and lower profits.

As a result of various technological, regulatory and other changes, the telecommunications industry has become increasingly competitive. We face competition from (i) wireless telephone services, which we expect to increase if wireless providers continue to expand and improve their network coverage, offer fixed-rate calling plans, lower their prices and offer enhanced services and (ii) cable television operators, competitive local exchange carriers and voice-over-Internet protocol, or VoIP, providers. Over time, we expect to face additional local exchange competition from electric utility and satellite communications providers and alternative networks or non-carrier systems designed to reduce demand for our switching or access services. The recent proliferation of companies offering integrated service offerings has intensified competition in Internet, long distance and data services markets, and we expect that competition will further intensify in these markets.

Our competitive position could be weakened in the future by strategic alliances or consolidation within the communications industry or the development of new technologies. Our ability to compete successfully will depend on how well we market our products and services and on our ability to anticipate and respond to various competitive and technological factors affecting the industry, including changes in regulation (which may affect us differently from our competitors), changes in consumer preferences or demographics, and changes in the product offerings or pricing strategies of our competitors.

Many of our current and potential competitors (i) have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources substantially greater than ours, (ii) own larger and more diverse networks, (iii) conduct operations or raise capital at a lower cost than us, (iv) are subject to less regulation, (v) offer greater online content services or (vi) have substantially stronger brand names. Consequently, these competitors may be better equipped to charge lower prices for their products and services, to provide more attractive offerings, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, and to devote greater resources to the marketing and sale of their products and services.

Competition could adversely impact us in several ways, including (i) the loss of customers and market share, (ii) the possibility of customers reducing their usage of our services or shifting to less profitable services, (iii) reduced traffic on our networks, (iv) our need to expend substantial time or money on new capital improvement projects, (v) our need to lower prices or increase marketing expenses to remain competitive and (vi) our inability to diversify by successfully offering new products or services.

We could be harmed by rapid changes in technology.

The communications industry is experiencing significant technological changes, particularly in the areas of VoIP, data transmission and wireless communications. Several large electric utilities have announced plans to offer communications services that will compete with LECs. Some of our competitors may enjoy network advantages that will enable them to provide services more efficiently or at lower cost. Rapid changes in technology could result in the development of additional products or services that compete with or displace those offered by traditional LECs, or that enable current customers to reduce or bypass use of our networks. We cannot predict with certainty which technological changes will provide the greatest threat to our competitive position. We may not be able to obtain timely access to new technology on satisfactory terms or incorporate new technology into our systems in a cost effective manner, or at all. If we cannot develop new products to keep pace with technological advances, or if such products are not widely embraced by our customers, we could be adversely impacted.

We cannot assure you that our diversification efforts will be successful.

The telephone industry has recently experienced a decline in access lines and intrastate minutes of use, which, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely affect our core business and future prospects. As explained in greater detail elsewhere in this annual report, our access lines (excluding the effect of acquisitions) have decreased over the last several years, and we expect this trend to continue. We also earned less intrastate revenues in 2008 due to reductions in intrastate minutes of use (partially due to the displacement of minutes of use by wireless, electronic mail and other optional calling services). We believe that our intrastate minutes of use will continue to decline, although the magnitude of such decrease is uncertain.

We have traditionally sought growth largely through acquisitions of properties similar to those currently operated by us. However, we cannot assure you that properties will be available for purchase on terms attractive to us, particularly if they are burdened by regulations, pricing plans or competitive pressures that are new or different from those historically applicable to our incumbent properties. Moreover, we cannot assure you that we will be able to arrange additional financing on terms acceptable to us or to obtain timely federal and state governmental approvals on terms acceptable to us, or at all.

Recently, we broadened our services and products by offering satellite television services and reselling wireless services as part of our bundled product and service offerings. Our reliance on other companies and their networks to provide these services could constrain our flexibility and limit the profitability of these new offerings. We provide facilities-based digital video services to select markets and may initiate other new service or product offerings in the future, including new offerings exploiting the 700 MHz spectrum that we purchased in 2008. We anticipate that these new offerings will generate lower profit margins than many of our traditional services. We cannot assure you that our recent or future diversification efforts will be successful.

Future deterioration in our financial performance could adversely impact our credit ratings, our cost of capital and our access to the capital markets.

Our future results will suffer if we do not effectively adjust to changes in our industry.

The above-described changes in our industry have placed a higher premium on marketing, technological, engineering and provisioning skills. Our future success depends, in part, on our ability to retrain our staff to acquire or strengthen these skills, and, where necessary, to attract and retain new personnel that possess these skills.

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

Following the EMBARQ merger, we may continue to expand our operations through additional acquisitions and new product and service offerings, some of which involve complex technical, engineering, and operational challenges. Our future success depends, in part, upon our ability to manage our expansion opportunities, which pose substantial challenges for us to integrate new operations into our existing business in an efficient and timely manner, to successfully monitor our operations, costs, regulatory compliance and service quality, and to maintain other necessary internal controls. We cannot assure you that our expansion or acquisition opportunities will be successful, or that we will realize our expected operating efficiencies, cost savings, revenue enhancements, synergies or other benefits.

Network disruptions could adversely affect our operating results.

To be successful, we will need to continue providing our customers with a high capacity, reliable and secure network. Some of the risks to our network and infrastructure include:

- power losses or physical damage to our access lines, whether caused by fire, adverse weather conditions, terrorism or otherwise
- capacity limitations
- software and hardware defects or malfunctions
- breaches of security, including sabotage, tampering, computer viruses and break-ins, and
- other disruptions that are beyond our control.

Disruptions or system failures may cause interruptions in service or reduced capacity for customers. If service is not restored in a timely manner, agreements with our customers or service standards set by state regulatory commissions could obligate us to provide credits or other remedies, and this would reduce our revenues or increase our costs. Service disruptions could also damage our reputation with customers, causing us to lose existing customers or have difficulty attracting new ones.

Any failure or inadequacy of our information technology infrastructure could harm our business.

The capacity, reliability and security of our information technology hardware and software infrastructure (including our billing systems) is important to the operation of our current business, which would suffer in the event of system failures. Likewise, our ability to expand and update our information technology infrastructure in response to our growth and changing needs is important to the continued implementation of our new service offering initiatives. Our inability to expand or upgrade our technology infrastructure could have adverse consequences, which could include the delayed implementation of new service offerings, service or billing interruptions, and the diversion of development resources.

We rely on a limited number of key suppliers and vendors to operate our business.

We depend on a limited number of suppliers and vendors for equipment and services relating to our network infrastructure. Our local exchange carrier networks consist of central office and remote sites, all with advanced digital switches. Some of the digital switches were manufactured by Nortel, which recently declared bankruptcy. If any of these suppliers experience interruptions or other problems delivering or servicing these network components on a timely basis, our operations could suffer significantly. To the extent that proprietary technology of a supplier is an integral component of our network, we may have limited flexibility to purchase key network components from alternative suppliers. We also rely on a limited number of other communications companies in connection with reselling long distance, wireless and satellite entertainment services to our customers. In addition, we rely on a limited number of software vendors to support our business management systems. In the event it becomes necessary to seek alternative suppliers and vendors, we may be unable to obtain satisfactory replacement supplies or services on economically attractive terms, on a timely basis, or at all, which could increase costs or cause disruptions in our services.

Portions of our property, plant and equipment are located on property owned by third parties.

Over the past few years, certain utilities, cooperatives and municipalities in certain of the states in which we operate have requested significant rate increases for attaching our plant to their facilities. To the extent that these entities are successful in increasing the amount we pay for these attachments, our future operating costs will increase.

In addition, we rely on rights-of-way, co-location agreements and other authorizations granted by governmental bodies and other third parties to locate our cable, conduit and other network equipment on their respective properties. If any of these authorizations terminate or lapse, our operations could be adversely affected.

Our relationships with other communications companies are material to our operations and their financial difficulties may adversely affect us.

We originate and terminate calls for long distance carriers and other interexchange carriers over our network in exchange for access charges that represent a significant portion of our revenues. Should these carriers go bankrupt or experience substantial financial difficulties, our inability to timely collect access charges from them could have a negative effect on our business and results of operations.

In addition, certain of our operations carry a significant amount of voice and data traffic for larger communications companies. As these larger communications companies consolidate or expand their networks, it is possible that they could transfer a significant portion of this traffic from our network to their networks, which could negatively impact our business and results of operations.

We depend on key members of our senior management team.

Our success depends largely on the skills, experience and performance of a limited number of senior officers, none of whom are parties to employment agreements. Competition for senior management in our industry is intense and we may have difficulty retaining our current senior managers or attracting new ones in the event of terminations or resignations. For a discussion of similar concerns relating to the EMBARQ merger, see "Risks Related to the Pending Acquisition of EMBARQ – We and EMBARQ may be unable to retain key employees" below.

We could be affected by certain changes in labor matters.

At December 31, 2008, approximately 25% of our employees were members of 15 separate bargaining units represented by two different unions. From time to time, our labor agreements with these unions lapse, and we typically negotiate the terms of new agreements. We cannot predict the outcome of these negotiations. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services. In addition, new labor agreements may impose significant new costs on us, which could impair our financial condition or results of operations in the future. Moreover, our post-employment benefit offerings cause us to incur costs not faced by many of our competitors, which could ultimately hinder our competitive position.

Risks Related to the Pending Acquisition of EMBARQ

Our ability to complete the EMBARQ merger is subject to the receipt of consents and approvals from government entities which may impose conditions that could adversely effect us or cause us to abandon the merger.

We are unable to complete the merger until after we receive approvals from the FCC and various state governmental entities. In deciding whether to grant some of these approvals, the relevant governmental entity will make a determination of whether, among other things, the merger is in the public interest. Regulatory entities may impose certain requirements or obligations as conditions for their approval.

The merger agreement may require us to accept conditions from these regulators that could adversely impact the combined company without us having the right to refuse to close the merger on the basis of those regulatory conditions. We can provide no assurance that we will obtain the necessary approvals or that any required conditions will not materially adversely effect us following the merger. In addition, we can provide no assurance that these conditions will not result in the abandonment of the merger.

Failure to complete the merger could negatively impact us.

If the merger is not completed, our ongoing businesses may be adversely affected and we will be subject to several risks, including the following:

- being required, under certain circumstances, to pay a termination fee of $140 million;

- having to pay certain costs relating to the proposed merger, such as legal, accounting, financial advisor, filing, printing and mailing fees; and

- diverting the focus of management from pursuing other opportunities that could be beneficial to us,

in each case, without realizing any of the benefits of having the merger completed.

The pendency of the merger could adversely affect us.

In connection with the pending merger, some of our customers may delay or defer decisions, which could negatively impact our revenues, earnings and cash flows regardless of whether the merger is completed. Similarly, our current and prospective employees may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect our ability to attract and retain key personnel during the pendency of the merger. For a discussion of similar concerns following the merger, see " – We and EMBARQ may be unable to retain key employees."

We expect to incur substantial expenses related to the integration of EMBARQ.

We expect to incur substantial expenses in connection with integrating the business, policies, procedures, operations, technologies and systems of EMBARQ with ours. There are a large number of systems that must be integrated, including management information, purchasing, accounting and finance, sales, billing, payroll and benefits, fixed asset and lease administration systems and regulatory compliance. While we have assumed that a certain level of expenses would be incurred, there are a number of factors beyond our control that could affect the total amount or the timing of all of the expected integration expenses. Moreover, many of the expenses that will be incurred, by their nature, are difficult to estimate accurately at the present time. These expenses could, particularly in the near term, exceed the savings that we expect to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings and revenue enhancements related to the integration of the businesses following the completion of the merger. These integration expenses likely will result in our taking significant charges against earnings following the completion of the merger, but the amount and timing of such charges are uncertain at present.

Following the merger, the combined company may be unable to successfully integrate our business and EMBARQ's business and realize the anticipated benefits of the merger.

The merger involves the combination of two companies which currently operate as independent public companies. The combined company will be required to devote significant management attention and resources to integrating its business practices and operations. Potential difficulties the combined company may encounter in the integration process include the following:

- the inability to successfully combine our business and EMBARQ's business in a manner that permits the combined company to achieve the cost savings and operating synergies anticipated to result from the merger, which would result in the anticipated benefits of the merger not being realized partly or wholly in the time frame currently anticipated or at all;

- lost sales and customers as a result of certain customers of either of the two companies deciding not to do business with the combined company;

- complexities associated with managing the combined businesses;

- integrating personnel from the two companies while maintaining focus on providing consistent, high quality products and customer service;

- potential unknown liabilities and unforeseen increased expenses, delays or regulatory conditions associated with the merger; and

- performance shortfalls at one or both of the two companies as a result of the diversion of management's attention caused by completing the merger and integrating the companies' operations.

In addition, we and EMBARQ have operated and, until the completion of the merger, will continue to operate, independently. It is possible that the integration process could result in the diversion of each company's management's attention, the disruption or interruption of, or the loss of momentum in, each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies, any of which could adversely affect our ability to maintain relationships with customers and employees or our ability to achieve the anticipated benefits of the merger, or could reduce the earnings or otherwise adversely affect the business and financial results of the combined company.

We and EMBARQ may be unable to retain key employees.

Our success after the merger will depend in part upon our ability to retain key EMBARQ and CenturyTel employees. Key employees may depart either before or after the merger because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with us following the merger. Accordingly, no assurance can be given that we will be able to retain key employees to the same extent that we or EMBARQ have been able to in the past.

Following the merger, we may need to launch branding or rebranding initiatives that are likely to involve substantial costs and may not be favorably received by customers.

We plan to consult with EMBARQ about whether to change our name and primary brand in connection with the merger. Prior to the merger, we and EMBARQ will each continue to market our respective products and services using the "CenturyTel" and "EMBARQ" brand names and logos. Following the merger, we plan to market our products and services under "CenturyTel," "EMBARQ" or some other name. As a result, we will discontinue use of either or both of the "CenturyTel" or "EMBARQ" brand names and logos in some or all of the markets of the combined company. If we retain either our name or EMBARQ's, we will nonetheless incur substantial capital and other costs in rebranding our products and services in those markets that previously used a different name. If we choose an entirely new brand, these costs will be even greater, and we may not be able to achieve or maintain name recognition or status under our new brand that is comparable to the recognition and status previously enjoyed. The failure of any of these initiatives could adversely affect our ability to attract and retain customers after the merger, resulting in reduced revenues.

Risks Related to Our Regulatory Environment

Our revenues could be materially reduced or our expenses materially increased by changes in regulations, including those recently proposed by the chairman of the FCC.

The majority of our revenues are substantially dependent upon regulations which, if changed, could result in material revenue reductions. Laws and regulations applicable to us and our competitors have been and are likely to continue to be subject to ongoing changes and court challenges, which could also affect our revenues.

Risk of loss or reduction of network access charge revenues or support fund payments. A significant portion of our revenues are derived from access charge revenues that are paid to us by long distance carriers based largely on rates set by federal and state regulatory bodies. In particular, the FCC regulates tariffs for interstate access and subscriber line charges, both of which are components of our revenues. The FCC has been considering comprehensive reform of its intercarrier compensation rules for several years. Any reform eventually adopted by the FCC will likely involve significant changes in the access charge system and could potentially result in a significant decrease or elimination of access charges altogether. In addition, our financial results could be harmed if carriers that use our access services become financially distressed or bypass our networks, either due to changes in regulation or other factors. Furthermore, access charges currently paid to us could be diverted to competitors who enter our markets or expand their operations, either due to changes in regulation or otherwise.

We receive a substantial portion of our revenues from the federal Universal Service Fund (“USF”), and, to a lesser extent, intrastate support funds. These governmental programs are reviewed and amended from time to time, and we cannot assure you that they will not be changed or impacted in a manner adverse to us. For several years, the FCC and a federal-state joint board established by Congress have considered comprehensive reforms of the federal USF contribution and distribution rules. During this period, various parties have objected to the size of the USF or questioned the continued need to maintain the program in its current form. Over the past few years, our high cost support fund revenues have decreased due to increases in the nationwide average cost per loop factor used to determine payments to program participants, as well as declines in the overall size of the high cost support fund. Pending judicial appeals and congressional proposals create additional uncertainty regarding our future receipt of support payments. In addition, the number of eligible telecommunications carriers receiving support payments from this program has increased substantially in recent years, which, coupled with other factors, has placed additional financial pressure on the amount of money that is available to provide support payments to all eligible recipients, including us.

On November 5, 2008, the FCC issued a document that, among other things, requested public comment on the reform proposal, including a draft proposal of the FCC chairman designed to comprehensively redefine and reform the FCC’s intercarrier compensation rules and the federal USF rules. The draft proposes to reduce intrastate and interstate access rates and local reciprocal compensation rates to levels substantially below those currently charged by us. The draft also proposes changes to USF rules that would mandate broadband deployment, freeze the level of certain USF support payments, and expand various USF programs, the combined effect of which would adversely impact local exchange carriers by limiting the amount of USF revenues available to them and increasing their operating costs. It is currently unclear what action the FCC may take with respect to the draft proposals. Adoption of the chairman’s original proposal could result in a material adverse impact on the results of our operations.

Risks posed by state regulations. We are also subject to the authority of state regulatory commissions which have the power to regulate intrastate rates and services, including local, in-state long-distance and network access services. Notwithstanding the movement toward alternative state regulation, LECs operating approximately 28% of our total access lines continue to be subject to “rate of return” regulation for intrastate purposes. These LECs remain subject to the powers of state regulatory commissions to conduct earnings reviews and adjust service rates, which could lead to revenue reductions. LECs governed by alternative regulatory plans could also under certain circumstances be ordered to reduce rates or could experience rate reductions following the lapse of plans currently in effect. Our business could also be materially adversely affected by the adoption of new laws, policies and regulations or changes to existing state regulations. In particular, we cannot assure you that we will succeed in obtaining or maintaining all requisite state regulatory approvals for our operations without the imposition of restrictions on our business, which could have the effect of imposing material additional costs on us or limiting our revenues.

Risks posed by costs of regulatory compliance. Regulations continue to create significant compliance costs for us. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses, and, if successful, such challenges could adversely affect the rates that we are able to charge our customers. Our business also may be impacted by legislation and regulation imposing new or greater obligations related to assisting law enforcement, bolstering homeland security, minimizing environmental impacts, or addressing other issues that impact our business (including local number portability and customer proprietary network information requirements). For example, existing provisions of the Communications Assistance for Law Enforcement Act require communications carriers to ensure that their equipment, facilities, and services are able to facilitate authorized electronic surveillance. We expect our compliance costs to increase if future laws or regulations continue to increase our obligations to assist other governmental agencies.

Risk of loss of statutory exemption from burdensome interconnection rules imposed on incumbent local exchange carriers. Affiliates of ours operating approximately half of our telephone access lines are exempt from the 1996 Act’s more burdensome requirements governing the rights of competitors to interconnect to incumbent local exchange carrier networks and to utilize discrete network elements of the incumbent’s network at favorable rates. If state regulators decide that it is in the public’s interest to impose these more burdensome interconnection requirements on us, these affiliates would be required to provide unbundled network elements to competitors. As a result, more competitors could enter our traditional telephone markets than we currently expect, resulting in lower revenues and higher additional administrative and regulatory expenses.

Regulatory changes in the communications industry could adversely affect our business by facilitating greater competition against us.

The 1996 Act provides for significant changes and increased competition in the communications industry, including the local communications and long distance industries. This Act and the FCC's implementing regulations remain subject to judicial review and additional rulemakings, thus making it difficult to predict what effect the legislation will ultimately have on us and our competitors. Several regulatory and judicial proceedings have recently concluded, are underway or may soon be commenced, which address issues affecting our operations and those of our competitors. Moreover, certain communities nationwide have expressed an interest in establishing municipal telephone utilities that would compete for customers. We cannot predict the outcome of these developments, nor can we assure that these changes will not have a material adverse effect on us or our industry.

We are subject to significant regulations that limit our flexibility.

As a diversified full service incumbent local exchange carrier, or ILEC, we have traditionally been subject to significant regulation that does not apply to many of our competitors. For instance, unlike many of our competitors, we are subject to federal mandates to share facilities, file and justify tariffs, maintain certain accounts and file reports, and state requirements that obligate us to maintain service standards and limit our ability to change tariffs in a timely manner. This regulation imposes substantial compliance costs on us and restricts our ability to change rates, to compete and to respond rapidly to changing industry conditions. Although newer alternative forms of regulation permit us greater freedoms in several states in which we operate, they nonetheless typically impose caps on the rates that we can charge our customers. As our business becomes increasingly competitive, regulatory disparities between us and our competitors could impede our ability to compete. Litigation and different objectives among federal and state regulators could create uncertainty and impede our ability to respond to new regulations. Moreover, changes in tax laws, regulations or policies could increase our tax rate, particularly if state regulators continue to search for additional revenue sources to address budget shortfalls. We are unable to predict the future actions of the various regulatory bodies that govern us, but such actions could materially affect our business.

We are subject to franchising requirements that could impede our expansion opportunities.

We may be required to obtain from municipal authorities operating franchises to install or expand facilities. Some of these franchises may require us to pay franchise fees. These franchising requirements generally apply to our fiber transport and CLEC operations, and to our emerging switched digital television and wireless broadband businesses. These requirements could delay us in expanding our operations or increase the costs of providing these services.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC, the New York Stock Exchange and the Public Company Accounting Oversight Board, are increasing legal and financial compliance costs and making some activities more time consuming. The annual evaluation of our internal controls required by Section 404 of the Sarbanes-Oxley Act may result in identifying material weaknesses in our internal controls. Any future failure to successfully or timely complete these annual assessments could subject us to sanctions or investigation by regulatory authorities. Any such action could adversely affect our financial results or investors' confidence in us, and could cause our stock price to fall. If we fail to maintain effective controls and procedures, we may be unable to provide financial information in a timely and reliable manner, which could in certain instances limit our ability to borrow or raise capital.

For a more thorough discussion of the regulatory issues that may affect our business, see "Operations" above.

Other Risks

We have a substantial amount of indebtedness and may need to incur more in the future.

We have a substantial amount of indebtedness, which could have material adverse consequences for us, including (i) hindering our ability to adjust to changing market, industry or economic conditions, (ii) limiting our ability to access the capital markets to refinance maturing debt or to fund acquisitions or emerging businesses, (iii) limiting the amount of free cash flow available for future operations, acquisitions, dividends, stock repurchases or other uses, (iv) making us more vulnerable to economic or industry downturns, including interest rate increases, and (v) placing us at a competitive disadvantage to those of our competitors that have less indebtedness.

In connection with executing our business strategies, following the EMBARQ merger we expect to continue to evaluate the possibility of acquiring additional communications assets, and we may elect to finance future acquisitions by incurring additional indebtedness. Moreover, to respond to competitive challenges, we may be required to raise substantial additional capital to finance new product or service offerings, including capital necessary to finance any new offerings exploiting the 700MHz spectrum that we purchased in 2008. Our ability to arrange additional financing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that we will be able to obtain additional financing on terms acceptable to us or at all. If we are able to obtain additional financing, our credit ratings could be adversely affected. As a result, our borrowing costs would likely increase, our access to capital may be adversely affected and our ability to satisfy our obligations under our indebtedness could be adversely affected.

We cannot assure you that we will be able to continue paying dividends at the current rate.

As noted elsewhere in this annual report, we plan to continue our current dividend practices. However, you should be aware that our shareholders may not receive the same dividends for reasons that may include any of the following factors:

- we may not have enough cash to pay such dividends due to changes in our cash requirements, capital spending plans, cash flow or financial position;
- while our dividend practices involve the distribution of a substantial portion of our cash available to pay dividends, our board of directors could change its practices at any time;
- the actual amounts of dividends distributed and the decision to make any distribution will remain at all times entirely at the discretion of our board of directors;
- the effects of regulatory reform, including any changes to intercarrier compensation and the Universal Service Fund rules;
- our ability to maintain investment grade credit ratings on our senior debt;
- the amount of dividends that we may distribute is limited by restricted payment and leverage covenants in our credit facilities and, potentially, the terms of any future indebtedness that we may incur; and
- the amount of dividends that we may distribute is subject to restrictions under Louisiana law.

Our board is free to change or suspend our dividend practices at any time. Our common shareholders should be aware that they have no contractual or other legal right to dividends.

Our current dividend practices could limit our ability to pursue growth opportunities.

The current practice of our board of directors to pay an annual $2.80 per common share dividend reflects an intention to distribute to our shareholders a substantial portion of our free cash flow. As a result, we may not retain a sufficient amount of cash to finance a material expansion of our business in the future. In addition, our ability to pursue any material expansion of our business, through acquisitions or increased capital spending, will depend more than it otherwise would on our ability to obtain third party financing. We cannot assure you that such financing will be available to us at all, or at an acceptable cost.

As a holding company, we rely on payments from our operating companies to meet our obligations.

As a holding company, substantially all of our income and operating cash flow is dependent upon the earnings of our subsidiaries and the distribution of those earnings to, or upon loans or other payments of funds by those subsidiaries to, us. As a result, we rely upon our subsidiaries to generate the funds necessary to meet our obligations, including the payment of amounts owed under our long-term debt. Our subsidiaries are separate and distinct legal entities and have no obligation to pay any amounts owed by us or, subject to limited exceptions for tax-sharing purposes, to make any funds available to us to repay our obligations, whether by dividends, loans or other payments. Certain of our subsidiaries may be restricted under loan agreements or regulatory orders from transferring funds to us, including certain loan provisions that restrict the amount of dividends that may be paid to us. Moreover, our rights to receive assets of any subsidiary upon its liquidation or reorganization will be effectively subordinated to the claims of creditors of that subsidiary, including trade creditors. The footnotes to our consolidated financial statements included elsewhere herein describe these matters in additional detail.

Our agreements and organizational documents and applicable law could limit another party’s ability to acquire us.

Our articles of incorporation provide for a classified board of directors, which limits the ability of an insurgent to rapidly replace the board. In addition, a number of other provisions in our agreements and organizational documents and various provisions of applicable law may delay, defer or prevent a future takeover of CenturyTel unless the takeover is approved by our board of directors. This could deprive our shareholders of any related takeover premium.

We face other risks.

The list of risks above is not exhaustive, and you should be aware that we face various other risks. For a description of additional risks, please see “Operations” above, “Forward-Looking Statements” below, and the other items of this annual report, particularly Items 3, 7 and 8.

Cautionary Statements Regarding Forward-Looking Statements

This report on Form 10-K and other documents filed by us under the federal securities laws include, and future oral or written statements or press releases by us and our management may include, certain forward-looking statements relating to CenturyTel or EMBARQ, the operations of either such company or our pending merger with EMBARQ, including without limitation statements with respect to CenturyTel's or EMBARQ's anticipated future operating and financial performance, financial position and liquidity, growth opportunities and growth rates, acquisition and divestiture opportunities, business prospects, regulatory and competitive outlook, investment and expenditure plans, investment results, financing opportunities and sources (including the impact of financings on our financial position, financial performance or credit ratings), pricing plans, strategic alternatives, business strategies, and other similar statements of expectations or objectives or accompanying statements of assumptions that are highlighted by words such as "expects," "anticipates," "intends," "plans," "believes," "projects," "seeks," "estimates," "hopes," "should," "could," a variations thereof and similar expressions. Such forward-looking statements are based upon our judgment and assumptions as of the date such statements are made concerning future developments and events, many of which are outside of our control. These forward-looking statements, and the assumptions upon which such statements are based, are inherently speculative and are subject to uncertainties that could cause our actual results to differ materially from such statements. Actual results or performance by CenturyTel or EMBARQ, and issues relating to our pending merger with EMBARQ, may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could impact actual results of CenturyTel or EMBARQ, the combined company or the pending merger include but are not limited to:

- the extent, timing, success and overall effects of competition from wireless carriers, VoIP providers, CLECs, cable television companies, electric utilities and others, including without limitation the risks that these competitors may offer less expensive or more innovative products and services

- the risks inherent in rapid technological change, including without limitation the risk that new technologies will displace our products and services

- the effects of ongoing changes in the regulation of the communications industry, including without limitation (i) increased competition resulting from regulatory changes, (ii) the final outcome of various federal, state and local regulatory initiatives and proceedings that could impact our competitive position, revenues, compliance costs, capital expenditures or prospects, including regulatory changes recently proposed by the chairman of the FCC, and (iii) reductions in revenues received from the federal Universal Service Fund or other current or future federal and state support programs designed to compensate LECs operating in high-cost markets

- our ability to effectively adjust to changes in the communications industry

- our ability to successfully complete our pending merger with EMBARQ, including timely receiving all regulatory approvals

- the possibility that the anticipated benefits from the merger cannot be fully realized in a timely manner or at all, or that integrating EMBARQ's operations into our will be more difficult, disruptive or costly than anticipated

- our ability to effectively manage our expansion opportunities, including without limitation our ability to (i) effectively integrate newly-acquired or newly-developed businesses into our operations, (ii) attract and retain technological, managerial and other key personnel, (iii) achieve projected growth, revenue and cost savings targets from the EMBARQ merger within the anticipated timeframe, and (iv) otherwise monitor our operations, costs, regulatory compliance, and service quality and maintain other necessary internal controls

- possible changes in the demand for, or pricing of, our products and services, including without limitation reduced demand for our traditional telephone or access services caused by greater use of wireless, electronic mail or Internet communications or other factors

- our ability to successfully introduce new product or service offerings on a timely and cost-effective basis, including without limitation our ability to (i) successfully roll out our new video, voice and broadband services, (ii) successfully exploiting the 700 MHz spectrum that we purchased in 2008, (iii) expand successfully our full array of service offerings to new or acquired markets and (iv) offer bundled service packages on terms attractive to our customers

- our continued access to credit markets on favorable terms, including our continued access to financing in amounts, and on terms and conditions, necessary to support our operations and refinance existing indebtedness when it becomes due

- our ability to collect receivables from financially troubled communications companies

- our ability to pay a $2.80 per common share dividend annually, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position;

- our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages

- regulatory limits on our ability to change the prices for telephone services in response to industry changes

- impediments to our ability to expand through attractively priced acquisitions, whether caused by regulatory limits, financing constraints, a decrease in the pool of attractive target companies, or competition for acquisitions from other interested buyers

- the possible need to make abrupt and potentially disruptive changes in our business strategies due to changes in competition, regulation, technology, product acceptance or other factors

· the lack of assurance that we can compete effectively against better-capitalized competitors

· the impact of potential network disruptions on our business

· general worldwide economic conditions and related uncertainties, including continued access to credit markets on favorable terms

· the effects of adverse weather on our customers or properties

· other risks referenced in this report and from time to time in our other filings with the Securities and Exchange Commission

· the effects of more general factors, including without limitation:

ϖ changes in general industry and market conditions and growth rates

ϖ changes in labor conditions, including workforce levels and labor costs

ϖ changes in interest rates or other general national, regional or local economic conditions

ϖ changes in legislation, regulation or public policy, including changes in federal rural financing programs or changes that increase our tax rate

ϖ increases in capital, operating, medical or administrative costs, or the impact of new business opportunities requiring significant up-front investments

ϖ changes in our relationships with vendors, or the failure of these vendors to provide competitive products on a timely basis

ϖ failures in our internal controls that could result in inaccurate public disclosures or fraud

v changes in our debt ratings

ϖ unfavorable outcomes of regulatory or legal proceedings and investigations, including rate proceedings and tax audits

ϖ losses or unfavorable returns on our investments in other communications companies

ϖ delays in the construction of our networks

ϖ changes in accounting policies, assumptions, estimates or practices adopted voluntarily or as required by generally accepted accounting principles, including the possible future
discontinuance of Statement of Financial Accounting Standards No. 71 to our wireline subsidiaries.

For additional information, see the description of our business included above, as well as Item 7 of this annual report. Due to these uncertainties, there can be no assurance that our anticipated results will occur, that our judgments or assumptions will prove correct, or that unforeseen developments will not occur. Accordingly, you are cautioned not to place undue reliance upon any of our forward-looking statements, which speak only as of the date made. Additional risks that we currently deem immaterial or that are not presently known to us could also cause our

actual results to differ materially from those expected in our forward-looking statements. We undertake no obligation to update or revise any of our forward-looking statements for any reason, whether as a result of new information, future events or developments, changed circumstances, or otherwise.

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Investors should also be aware that while we do, at various times, communicate with securities analysts, it is against our policy to disclose to them selectively any material non-public information or other confidential information. Accordingly, investors should not assume that we agree with any statement or report issued by an analyst irrespective of the content of the statement or report. To the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties.

Our properties consist principally of telephone lines, central office equipment, and land and buildings related to telephone operations. As of December 31, 2008 and 2007, our gross property, plant and equipment of approximately $8.9 billion and $8.7 billion, respectively, consisted of the following:

	December 31,	
	2008	2007
Cable and wire	52.5%	52.8
Central office	32.3	32.0
General support	9.2	9.4
Fiber transport	3.7	3.3
Construction in progress	.8	1.1
Other	1.5	1.4
	100.0%	100.0

“Cable and wire” facilities consist primarily of buried cable and aerial cable, poles, wire, conduit and drops used in providing local and long distance services. “Central office” consists primarily of switching equipment, circuit equipment and related facilities. “General support” consists primarily of land, buildings, tools, furnishings, fixtures, motor vehicles and work equipment. “Fiber transport” consists of network assets and equipment to provide fiber transport services. “Construction in progress” includes property of the foregoing categories that has not been placed in service because it is still under construction.

The properties of certain of our telephone subsidiaries are subject to mortgages securing the debt of such companies. We own substantially all of the central office buildings, local administrative buildings, warehouses, and storage facilities used in our telephone operations.

For further information on the location and type of our properties, see the descriptions of our operations in Item 1.

ItemLegal Proceedings.
3.

In Barbrasue Beattie and James Sovis, on behalf of themselves and all others similarly situated, v. CenturyTel, Inc., filed on October 28, 2002, in the United States District Court for the Eastern District of Michigan (Case No. 02-10277), the plaintiffs allege that we unjustly and unreasonably billed customers for inside wire maintenance services, and seek unspecified monetary damages and injunctive relief under various legal theories on behalf of a purported class of over two million customers in our telephone markets. On March 10, 2006, the Court certified a class of plaintiffs and issued a ruling that the billing descriptions we used for these services during an approximately 18-month period between October 2000 and May 2002 were legally insufficient. Our appeal of this class certification decision was denied. Our preliminary analysis indicates that we billed less than $10 million for inside wire maintenance services under the billing descriptions and time periods specified in the District Court ruling described above. Should other billing descriptions be determined to be inadequate or if claims are allowed for additional time periods, the amount of our potential exposure could increase significantly above amounts previously accrued. The Court’s order does not specify the award of damages, the scope and amounts of which, if any, remain subject to additional fact-finding and resolution of what we believe are valid defenses to plaintiff’s claims. Accordingly, we currently cannot reasonably estimate the maximum amount of possible loss if this matter proceeds to litigation. However, we do not believe that the ultimate outcome of this matter will have a material adverse effect on our financial position or on-going results of operations.

We received an aggregate of approximately $128 million during 2006 and 2007 from the redemption of our Rural Telephone Bank stock. Some portion of those proceeds, while not estimable at this time, may under certain circumstances be subject to review, reduction or refund by regulatory authorities or judicial process, which in each case could have an adverse effect on our financial results.

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

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

Not applicable.

Executive Officers of the Registrant - Information concerning our Executive Officers, set forth at Item 10 in Part III hereof, is incorporated in Part I of this Report by reference.

PART II

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

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

	Sales prices		Dividend per
	High	Low	common share
2008:			
First quarter	$ 42.00	32.00	.0675
Second quarter	$ 37.25	30.55	.0675
Third quarter	$ 40.35	34.13	1.3325
Fourth quarter	$ 40.00	20.45	.70
2007:			
First quarter	$ 46.80	42.66	.065
Second quarter	$ 49.94	45.14	.065
Third quarter	$ 49.91	41.10	.065
Fourth quarter	$ 46.90	39.91	.065

Common stock dividends during 2008 and 2007 were paid each quarter.

In June 2008, our board of directors increased our quarterly cash dividend rate from $.0675 to $.70 per share, and declared a one-time dividend of $.6325 per share, payable in July 2008, which, when coupled with the previously-paid second quarter 2008 dividend, equaled the newly-established $.70 per share quarterly rate.

As of February 20, 2009, there were approximately 3,900 stockholders of record of our common stock. As of February 20, 2009, the closing stock price of our common stock was $26.17.

In February 2006, our Board of Directors authorized a $1.0 billion share repurchase program under which, in February 2006, we repurchased $500 million (or approximately 14.36 million shares) of our common stock under accelerated share repurchase agreements with certain investment banks at an initial average price of $34.83. The investment banks completed their repurchases in mid-July 2006 and in connection therewith we paid an aggregate of approximately $28.4 million cash to the investment banks to compensate them for the difference between their weighted average purchase price during the repurchase period and the initial average price. We repurchased the remaining $500 million of common stock of this program in open-market transactions through June 2007.

In August 2007, our board of directors authorized a $750 million share repurchase program which expires on September 30, 2009, unless extended by the board. Through December 31, 2008, we had repurchased approximately 13.2 million shares for $503.9 million under this program. We suspended repurchases in September 2008 pending completion of our acquisition of EMBARQ.

During the fourth quarter of 2008, we withheld 128 shares of stock at an average price of $26.54 per share to pay taxes due upon the vesting of restricted stock for certain of our employees in October 2008.

For information regarding shares of our common stock authorized for issuance under our equity compensation plans, see Item 12.

Item 6. Selected Financial Data.

The following table presents certain selected consolidated financial data as of and for each of the years ended in the five-year period ended December 31, 2008:

Selected Income Statement Data

	Year ended December 31,				
	2008	2007	2006	2005	2004
	(Dollars, except per share amounts, and shares expressed in thousands)				
Operating revenues	$ 2,599,747	2,656,241	2,447,730	2,479,252	2,407,372
Operating income	$ 721,352	793,078	665,538	736,403	753,953
Net income	$ 365,732	418,370	370,027	334,479	337,244
Basic earnings per share	$ 3.57	3.82	3.17	2.55	2.45
Diluted earnings per share	$ 3.56	3.72	3.07	2.49	2.41
Dividends per common share	$ 2.1675	.26	.25	.24	.23
Average basic shares outstanding	102,268	109,360	116,671	130,841	137,215
Average diluted shares outstanding	102,871	113,094	122,229	136,087	142,144

Selected Balance Sheet Data

	December 31,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Net property, plant and equipment	$ 2,895,892	3,108,376	3,109,277	3,304,486	3,341,401
Goodwill	$ 4,015,674	4,010,916	3,431,136	3,432,649	3,433,864
Total assets	$ 8,254,195	8,184,553	7,441,007	7,762,707	7,796,953
Long-term debt	$ 3,294,119	2,734,357	2,412,852	2,376,070	2,762,019
Stockholders' equity	$ 3,163,240	3,409,205	3,190,951	3,617,273	3,409,765

The following table presents certain selected consolidated operating data as of the following dates:

	December 31,				
	2008	2007	2006	2005	2004
Telephone access lines (1) (2)	1,998,000	2,135,000	2,094,000	2,214,000	2,314,000
High-speed Internet customers (1)	641,000	555,000	369,000	249,000	143,000

(1) In connection with our Madison River acquisition in April 2007, we acquired approximately 164,000 telephone access lines and 57,000 high-speed Internet customers.
(2) Excluding adjustments during 2006 to reflect (i) the removal of test lines, (ii) database conversion and clean-up and (iii) the sale of our Arizona properties, access line losses for 2006 were approximately 107,000.

See Items 1 and 2 in Part I and Items 7 and 8 elsewhere herein for additional information.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

OVERVIEW

CenturyTel, Inc., together with its subsidiaries, is an integrated communications company engaged primarily in providing an array of communications services to customers in 25 states. We currently derive our revenues from providing (i) local exchange and long distance voice services, (ii) network access services, (iii) data services, which include both high-speed ("DSL") and dial-up Internet services, as well as special access and private line services, (iv) fiber transport, competitive local exchange and security monitoring services and (v) other related services.

On October 26, 2008, we entered into a definitive merger agreement to acquire Embarq Corporation ("EMBARQ") in a stock-for-stock transaction. Under the terms of the agreement, EMBARQ shareholders will receive 1.37 CenturyTel shares for each share of EMBARQ common stock they own at closing. On December 31, 2008, EMBARQ had outstanding approximately 142.4 million shares of common stock and $5.7 billion of long-term debt. The two companies have a combined operating presence in 33 states with approximately 7.7 million access lines and two million broadband customers. Completion of the transaction is subject to the receipt of regulatory approvals, including approvals from the Federal Communications Commission and certain state public service commissions, as well as other customary closing conditions. Subject to these conditions, we anticipate closing this transaction in the second quarter of 2009. For additional information, see Item 1 of Part I of this annual report and Note 1.

As further discussed in Note 11, during the second quarter of 2008, we recognized an $8.2 million curtailment loss (reflected in selling, general and administrative expense) in connection with amending our Supplemental Executive Retirement Plan ("SERP"). We also recognized a $4.5 million pre-tax gain (reflected in other income (expense)) upon liquidation of our investments in marketable securities in the SERP trust in the second quarter of 2008. We will record a one-time settlement charge in the first quarter of 2009 of approximately $7.7 million in connection with the lump sum distributions made in early 2009.

In 2008 and 2007, we recognized net after tax benefits of approximately $12.8 million and $32.7 million, respectively, related to the recognition of previously unrecognized tax benefits. See Note 12 for additional information.

On April 30, 2007, we acquired all of the outstanding stock of Madison River Communications Corp. ("Madison River"). See Note 2 for additional information. We have reflected the results of operations of the Madison River properties in our consolidated results of operations beginning May 1, 2007.

In the fourth quarter of 2007, we recorded a $16.6 million pre-tax impairment charge in order to write-down the value of certain long-lived assets in six of our northern competitive local exchange carrier markets to their estimated realizable value. We determined the estimated realizable value based on proposals received during our sales process of such properties commenced in 2007. We sold such properties in separate transactions in May and July 2008. Results of operations for these markets are included in our consolidated results of operations up to the respective sales dates.

During 2007, we recognized approximately $49.0 million of network access revenues in connection with the settlement of a dispute with a carrier and approximately $42.2 million of revenues in connection with the lapse of a regulatory monitoring period (of which approximately $25.4 million is reflected in network access revenues and $16.8 million is reflected in data revenues). We do not expect this level of favorable revenue settlements to reoccur in the future.

Effective January 1, 2007, we changed our relationship with our provider of satellite television service from a revenue sharing arrangement to an agency relationship and, in connection therewith, we received in the second quarter of 2007 a non-recurring reimbursement of $5.9 million, of which $4.1 million was reflected as a reduction of cost of services (which we previously incurred as subscriber acquisition costs) and the remainder was reflected as revenues. This change has also resulted in us recognizing higher levels of operating income compared to our prior arrangement.

Over each of the past few years, we announced reductions of our workforce of an aggregate of approximately 700 jobs and, in connection therewith, incurred net pre-tax charges of approximately $1.7 million in 2008, $2.2 million in 2007 and $7.5 million in 2006 for severance and related costs. See Note 8 for additional information.

In the second quarter of 2006, we recorded a one-time pre-tax gain of approximately $117.8 million upon redemption of our investment in the stock of the Rural Telephone Bank (“RTB”). Subsequently, in the fourth quarter of 2007, upon final distribution of the remaining proceeds from the RTB dissolution, we recorded a pre-tax gain of approximately $5.2 million. See Note 15 for additional information.

During the last several years (exclusive of acquisitions and certain non-recurring favorable adjustments), we have experienced revenue declines in our voice and network access revenues primarily due to the loss of access lines and minutes of use. To mitigate these declines, we hope to, among other things, (i) promote long-term relationships with our customers through bundling of integrated services, (ii) provide new services, such as video and wireless broadband, and other additional services that may become available in the future due to advances in technology, wireless spectrum sales by the Federal Communications Commission or improvements in our infrastructure, (iii) provide our broadband and premium services to a higher percentage of our customers, (iv) pursue acquisitions of additional communications properties if available at attractive prices, (v) increase usage of our networks and (vi) market our products to new customers.

Our net income for 2008 was $365.7 million, compared to $418.4 million during 2007 and $370.0 million during 2006. Diluted earnings per share for 2008 was $3.56 compared to $3.72 in 2007 and $3.07 in 2006. The number of average diluted shares outstanding declined 9.0% in 2008 and 7.5% in 2007 primarily due to our share repurchases during the past three years.

Year ended December 31,		2008	2007	2006
	(Dollars, except per share amounts, and shares in thousands)			
Operating income	$	721,352	793,078	665,538
Interest expense		(202,217)	(212,906)	(195,957)
Other income (expense)		40,954	38,770	121,568
Income tax expense		(194,357)	(200,572)	(221,122)
Net income	$	365,732	418,370	370,027
Basic earnings per share	$	3.57	3.82	3.17
Diluted earnings per share	$	3.56	3.72	3.07
Average basic shares outstanding		102,268	109,360	116,671
Average diluted shares outstanding		102,871	113,094	122,229

Operating income decreased $71.7 million in 2008 due to a $56.5 million decrease in operating revenues and a $15.2 million increase in operating expenses. Operating income increased $127.5 million in 2007 as a $208.5 million increase in operating revenues was partially offset by an $81.0 million increase in operating expenses.

In addition to historical information, this management's discussion and analysis includes certain forward-looking statements that are based on current expectations only, and are subject to a number of risks, uncertainties and assumptions, many of which are beyond our control. Actual events and results may differ materially from those anticipated, estimated or projected if one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect. Factors that could affect actual results include but are not limited to: the timing, success and overall effects of competition from a wide variety of competitive providers; the risks inherent in rapid technological change; the effects of ongoing changes in the regulation of the communications industry (including the FCC's proposed rules regarding intercarrier compensation and the Universal Service Fund described elsewhere herein); our ability to effectively adjust to changes in the communications industry; our ability to successfully complete our pending merger with EMBARQ, including timely receiving all regulatory approvals and realizing the anticipated benefits of the transaction; our ability to effectively manage our expansion opportunities, including successfully integrating newly-acquired businesses into our operations and retaining and hiring key personnel; possible changes in the demand for, or pricing of, our products and services; our ability to successfully introduce new product or service offerings on a timely and cost-effective basis; our continued access to credit markets on favorable terms; our ability to collect our receivables from financially troubled communications companies; our ability to pay a $2.80 per common share dividend annually, which may be affected by changes in our cash requirements, capital spending plans, cash flows or financial position; our ability to successfully negotiate collective bargaining agreements on reasonable terms without work stoppages; the effects of adverse weather; other risks referenced from time to time in this report or other of our filings with the Securities and Exchange Commission; and the effects of more general factors such as changes in interest rates, in tax rates, in accounting policies or practices, in operating, medical or administrative costs, in general market, labor or economic conditions, or in legislation, regulation or public policy. These and other uncertainties related to our business and our pending acquisition of EMBARQ are described in greater detail in Item 1A included herein. You should be aware that new factors may emerge from time to time and it is not possible for us to identify all such factors nor can we predict the impact of each such factor on the business or the extent to which any one or more factors may cause actual results to differ from those reflected in any forward-looking statements. You are further cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this annual report. We undertake no obligation to update any of our forward-looking statements for any reason.

All references to "Notes" in this Item 7 refer to the Notes to Consolidated Financial Statements included in Item 8 of this annual report.

OPERATING REVENUES

Year ended December 31,		2008	2007	2006
			(Dollars in thousands)	
Voice	$	874,041	889,960	871,767
Network access		820,383	941,506	878,702
Data		524,194	460,755	351,495
Fiber transport and CLEC		162,050	159,317	149,088
Other		219,079	204,703	196,678
Operating revenues	$	2,599,747	2,656,241	2,447,730

During 2007, we recognized revenues of approximately $42.2 million related to the expiration of a regulatory monitoring period, of which approximately $25.4 million is reflected in network access revenues and $16.8 million is reflected in data revenues. In addition, in 2007 we recognized approximately $49.0 million of network access revenues related to the settlement of a dispute with a carrier. We do not expect this level of favorable revenue settlements to reoccur in the future.

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Voice revenues. We derive voice revenues by providing local exchange telephone services and retail long distance services to customers in our service areas. The $15.9 million (1.8%) decrease in voice revenues in 2008 is primarily due to (i) a $22.5 million decrease due to a 5.9% decline in the average number of access lines (exclusive of our acquisition of Madison River properties); (ii) a $10.8 million decrease in custom calling feature revenues primarily due to the continued migration to bundled service offerings at a lower effective rate; and (iii) a $7.7 million decline as a result of a decrease in revenues associated with extended area calling plans. These decreases were partially offset by $17.0 million of additional revenues attributable to the Madison River properties acquired April 30, 2007 and a $9.9 million increase in long distance revenues attributable to an increase in the percentage of our customer base on fixed rate unlimited calling plans and the implementation of rate increases applicable to several rate plans in late 2007 and early 2008.

The $18.2 million (2.1%) increase in voice revenues in 2007 is primarily due to $43.3 million of revenues attributable to the Madison River properties acquired April 30, 2007. Such increase was partially offset by (i) a $20.7 million decrease due to a 5.2% decline in the average number of access lines (normalized for acquisitions, dispositions and previously-disclosed adjustments made during 2006) and (ii) a $6.0 million decline as a result of a decrease in revenues associated with extended area calling plans.

Total access lines declined 136,800 (6.4%) during 2008 compared to a normalized decline of 119,700 (5.7%) during 2007. We believe the decline in the number of access lines during 2008 and 2007 is primarily due to the displacement of traditional wireline telephone services by other competitive services and recent economic conditions. Based on our current retention initiatives, we estimate that our access line loss will be between 5.7% and 6.7% in 2009.

Network access revenues. We derive our network access revenues primarily from (i) providing services to various carriers and customers in connection with the use of our facilities to originate and terminate their interstate and intrastate voice transmissions and (ii) receiving universal support funds which allows us to recover a portion of our costs under federal and state cost recovery mechanisms. Certain of our interstate network access revenues are based on tariffed access charges filed directly with the Federal Communications Commission (“FCC”); the remainder of such revenues are derived under revenue sharing arrangements with other local exchange carriers (“LECs”) administered by the National Exchange Carrier Association. Intrastate network access revenues are based on tariffed access charges filed with state regulatory agencies or are derived under revenue sharing arrangements with other LECs.

Network access revenues decreased $121.1 million (12.9%) in 2008 and increased $62.8 million (7.1%) in 2007 due to the following factors:

	2008 increase (decrease)	2007 increase (decrease)
	(Dollars in thousands)	
Favorable settlement of a dispute with a carrier in 2007	$ (48,987)	48,987
Intrastate revenues due to decreased minutes of use, decreased access rates in certain states and recovery from state support funds	(29,022)	(20,912)
Revenue recognition upon expiration of regulatory monitoring periods in 2007	(25,402)	25,402
Partial recovery of operating costs through revenue sharing arrangements with other telephone companies, interstate access revenues and return on rate base	(15,857)	(21,311)
Recovery from the federal Universal Service High Cost Loop support program	(14,596)	2,231
Acquisition of Madison River	12,345	33,923
Prior year revenue settlement agreements	1,922	(2,346)
Other, net	(1,526)	(3,170)
	$ (121,123)	62,804

In March 2006, we filed a complaint against a carrier for recovery of unpaid and underpaid access charges for calls made using the carrier's prepaid calling cards and calls that used Internet Protocol for a portion of their transmission. The carrier filed a counterclaim against us, asserting that we improperly billed them terminating intrastate access charges on certain wireless roaming traffic. In April 2007, we entered into a settlement agreement with the carrier and received approximately $49 million cash from them related to the issues described above.

In 2008 and 2007, we experienced reductions in our intrastate revenues of approximately $29.0 million and $20.9 million, respectively, primarily due to a reduction in intrastate minutes (partially due to the displacement of minutes by wireless, electronic mail and other optional calling services). We believe that intrastate minutes will continue to decline in 2009, although we cannot estimate the magnitude of such decrease.

In third quarter 2007, upon the lapse of the applicable 2003/2004 monitoring period for certain of our tariffed billings, we recognized approximately $42.2 million of revenues (of which approximately $25.4 million is reflected in network access revenues and $16.8 million is reflected in data revenues). Such amount represented billings from tariffs prior to July 2004 in excess of the authorized rate of return that we initially recorded as a deferred credit pending completion of such 2003/2004 monitoring period.

Our revenues from the Universal Service High Cost Loop Fund decreased approximately $14.6 million in 2008 and increased $2.2 million in 2007. Such decrease in 2008 was primarily due to an increase in the nationwide average cost per loop factor used by the FCC to allocate funds among all recipients. We anticipate our 2009 revenues from the federal Universal Service High Cost Loop support program will decrease between $12 and $14 million compared to 2008.

Data revenues. We derive our data revenues primarily by providing Internet access services (both DSL and dial-up services) and data transmission services over special circuits and private lines. Data revenues increased $63.4 million (13.8%) in 2008 substantially due to (i) a $57.8 million increase in DSL-related revenues primarily due to growth in the number of DSL customers and (ii) $16.3 million of additional revenues contributed by Madison River. Such increases were partially offset by $16.8 million of one-time revenues recorded in third quarter 2007 upon expiration of the previously described regulatory monitoring period. While we expect our data revenues to increase in 2009 as compared to 2008, we do not expect to recognize the same level of increase as we experienced in 2008 primarily due to the fact that our customer base is more highly penetrated with DSL services.

Data revenues increased $109.3 million (31.1%) in 2007 substantially due to (i) a $66.4 million increase in DSL-related revenues due primarily to growth in the number of DSL customers; (ii) $34.5 million of revenues contributed by Madison River and (iii) $16.8 million of one-time revenues recorded in third quarter 2007 upon expiration of the previously described regulatory monitoring period. Such increases were partially offset by a $5.4 million decrease in special access revenues primarily due to certain customers disconnecting circuits and a $5.1 million decrease in dial-up Internet revenues due to a decline in the number of dial-up customers.

Fiber transport and CLEC. Our fiber transport and CLEC revenues include revenues from our fiber transport, competitive local exchange carrier (“CLEC”) and security monitoring businesses. Fiber transport and CLEC revenues increased $2.7 million (1.7%) in 2008, of which $6.4 million was due to growth in our incumbent fiber transport business and $2.5 million was due to additional revenue contributed by Madison River. Such increases were partially offset by a $2.6 million decrease due to the sales of six CLEC markets that were consummated in the second and third quarters of 2008 and a $3.5 million decrease in CLEC revenues primarily due to customer disconnects.

Fiber transport and CLEC revenues increased $10.2 million (6.9%) in 2007, of which $8.7 million was due to growth in our incumbent fiber transport business and $4.8 million was contributed by Madison River. Such increases were partially offset by a $3.5 million decrease in CLEC revenues primarily due to customer disconnects.

Other revenues. We derive other revenues primarily by (i) leasing, selling, installing and maintaining customer premise telecommunications equipment and wiring, (ii) providing billing and collection services for third parties, (iii) participating in the publication of local directories and (iv) providing new service offerings, principally consisting of our new video and wireless reseller services. Other revenues increased $14.4 million (7.0%) in 2008 primarily due to (i) $7.7 million of additional revenues contributed by Madison River and (ii) a $2.8 million increase in directory revenues.

Other revenues increased $8.0 million (4.1%) in 2007 primarily due to $13.9 million of revenues contributed by Madison River. In connection with receiving a one-time reimbursement as a result of our above-described change in our contractual relationship with our satellite television service provider, we recorded a $1.9 million one-time increase to revenues in 2007. The impact of the change in the arrangement from a gross to a net revenue presentation resulted in an $8.2 million decrease in recurring revenues for the twelve months ended December 31, 2007 compared to 2006.

OPERATING EXPENSES

Year ended December 31,	2008	2007	2006
		(Dollars in thousands)	
Cost of services and products (exclusive of depreciation and amortization)	$ 955,473	937,375	888,414
Selling, general and administrative	399,136	389,533	