

ALLTEL CORP
Form DEF 14A
March 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

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Alltel Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

ALLTEL CORPORATION

One Allied Drive Little Rock, Arkansas 72202

Telephone (501) 905-8000

www.alltel.com

March 16, 2006

Dear Stockholder:

The 2006 Annual Meeting of Stockholders of Alltel Corporation will be held on Thursday, April 20, 2006, for the purposes set forth in the accompanying notice. The matters to be voted upon are explained in the proxy statement included with the notice.

Please complete and return your proxy as promptly as possible or vote on the Internet or by telephone in accordance with the instructions set forth on the proxy card. Thank you for your assistance.

Sincerely,

Scott T. Ford

President and Chief Executive Officer

ALLTEL CORPORATION

Notice of Annual Meeting of Stockholders

April 20, 2006

To the Stockholders of

Alltel Corporation:

Notice Is Hereby Given That the 2006 Annual Meeting of Stockholders of Alltel Corporation (Alltel) will be held in the Alltel Arena, One Alltel Arena Way (Washington Street Box Office Entrance), North Little Rock, Arkansas 72114, on Thursday, April 20, at 11:00 a.m. (local time), for the following purposes:

1. To elect directors to the class whose term will expire in 2009.
2. To consider and vote upon a proposal to approve the amended and restated Alltel Performance Incentive Compensation Plan.
3. To consider and vote upon a proposal to approve the amended and restated Alltel Long-Term Performance Incentive Compensation Plan.
4. To ratify the appointment of PricewaterhouseCoopers LLP as Alltel s independent auditors for 2006.
5. To transact such other business as may properly come before the meeting or any adjournment thereof.

Appendix A to this proxy statement contains audited financial statements and certain other financial information required by the rules and regulations of the Securities and Exchange Commission (SEC). In addition, a copy of the Annual Report for the calendar year 2005 accompanies this proxy statement.

Only holders of Common Stock of record at the close of business on February 24, 2006, are entitled to notice of and to vote at the meeting or at any adjournment thereof; holders of unexchanged shares of companies previously acquired by Alltel are entitled to notice of the meeting and will be entitled to vote if they have exchanged those shares for Alltel shares by April 20, 2006.

By Order of the Board of Directors,

RICHARD N. MASSEY

Secretary

Little Rock, Arkansas

March 16, 2006

WHETHER OR NOT YOU PLAN TO ATTEND THIS MEETING, PLEASE FILL IN, SIGN, DATE, AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD.

Alltel Corporation

One Allied Drive

Little Rock, Arkansas 72202

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Alltel Corporation (Alltel) to be used at its 2006 Annual Meeting of Stockholders to be held on Thursday, April 20, 2006, and at any adjournment or adjournments thereof. Shares represented by properly executed proxies will be voted at the meeting. If a choice is specified by a stockholder, the proxy will be voted in accordance with that choice. Any proxy may be revoked at any time if it has not already been exercised.

This proxy statement is being mailed to stockholders beginning on March 16, 2006.

The close of business on February 24, 2006, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the meeting or any adjournment thereof. On the record date, there were outstanding and entitled to vote 387,911,722 shares of Common Stock; up to 11,572 additional shares of Common Stock would be entitled to vote in the event unexchanged shares of companies previously acquired by Alltel were exchanged for Alltel shares by April 20, 2006.

On all matters to be acted upon at the meeting, each share of Common Stock is entitled to one vote per share. Under Delaware law and Alltel's Restated Certificate of Incorporation, if a quorum is present at the meeting, the four nominees for election as directors for the term ending in 2009 who receive the greatest number of votes cast for the election of directors at the meeting by the shares present in person or by proxy and entitled to vote shall be elected directors for the term ending in 2009, and any other matters submitted to a vote of the stockholders, must be approved by the affirmative vote of the majority of shares present in person or by proxy and entitled to vote on the matter. In the election of directors, any action other than a vote for a nominee will have the practical effect of voting against the nominee. With respect to any other matters submitted to a vote of the stockholders, abstention from voting will have the practical effect of voting against the matter because the abstention results in one less vote for approval. Broker nonvotes on one or more matters will have no impact because they are not considered shares present for voting purposes (although broker nonvotes are counted for purposes of establishing a quorum).

ELECTION OF DIRECTORS

The Alltel Board of Directors presently consists of twelve members divided into three classes, one of which consists of three members, one of which consists of four members, and one of which consists of five members. Messrs. William H. Crown, Joe T. Ford, John P. McConnell and Ms. Josie C. Natori, currently members of the class whose term expires in 2006, are nominees for election at the 2006 Annual Meeting for the term ending in 2009. Mr. Dennis E. Foster, who is also a member of the class whose term expires in 2006, is not standing for re-election and will not serve past the 2006 Annual Meeting. Following the election of directors at the 2006 Annual Meeting, the Board of Directors will consist of eleven members divided into three classes, two of which will consist of four members and one of which will consist of three members.

Unless otherwise directed, the persons named in the accompanying form of proxy will vote that proxy for the election of the four persons named below, with each to hold office for a term of three years until the 2009 Annual Meeting or until his or her successor is elected and qualified. In case any nominee is unable to serve (which is not anticipated), the persons named in the proxy may vote for another nominee of their choice. For

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each nominee and each director who will continue to serve after the Annual Meeting, there follows a brief listing of principal occupations for at least the past five years, other major affiliations, Alltel Board Committees, and age. The year in which each such person was initially elected as an Alltel director also is set forth below (which, in the case of each of Messrs. Joe T. Ford and Emon A. Mahony, is the year in which his directorship commenced with Alltel's predecessor company, Allied Telephone Company). Mr. Scott T. Ford is the son of Mr. Joe T. Ford.

NOMINEES TERM ENDING 2009

William H. Crown, President and Chief Executive Officer of CC Industries, Inc., Chicago, Illinois (diversified investment company); Vice President of Henry Crown and Company, Chicago, Illinois (diversified investment company); Vice President of Dane Acquisition Corp., Chicago, Illinois (semi-truck trailers and accessories manufacturer). Director of Alltel since 2004. Member of Audit, Governance, and Pension Trust Investment Committees. Age 42.

Joe T. Ford, Chairman of the Board of Alltel; prior to July 1, 2002, Chairman and Chief Executive Officer of Alltel. Director of Textron Inc. and EnPro Industries, Inc. Director of Alltel since 1960. Age 68.

John P. McConnell, Chairman and Chief Executive Officer and Director of Worthington Industries, Inc., Columbus, Ohio (metal processor and manufacturer). Director of Alltel since 1994. Member of Audit and Compensation Committees. Age 52.

Josie C. Natori, President and Chief Executive Officer of The Natori Company, New York, New York (upscale fashion house). Director of The Philippine American Foundation. Trustee of Asian Cultural Council. Director of Alltel since 1995. Member of Compensation and Governance Committees. Age 58.

DIRECTORS TERM ENDING 2007

Scott T. Ford, President and Chief Executive Officer of Alltel; prior to July 1, 2002, President and Chief Operating Officer of Alltel. Director of Tyson Foods, Inc. Director of Alltel since 1996. Chairman of Executive Committee. Age 43.

Lawrence L. Gellerstedt, III, President of the Office/Multi-Family Division of Cousins Properties, Inc., Atlanta, Georgia (real estate investment firm and property management services provider); prior to July 1, 2005 Chairman and Chief Executive Officer of The Gellerstedt Group, LLC (real estate investment firm and construction and property management services provider); prior to June 1, 2003, President and Chief Operating Officer of The Integral Group. Director of SunTrust Bank, Atlanta, and Rock Tenn Company. Director of Alltel since 1994. Chairman of Governance Committee and member of Executive Committee. Age 49.

Emon A. Mahony, Jr., Chairman of the Board of Arkansas Oklahoma Gas Corporation, Fort Smith, Arkansas (natural gas company); Vice President, Secretary, and Director of Mahony Corporation, El Dorado, Arkansas (family investment company); Managing Partner in EAM Company, LLC, El Dorado, Arkansas (family investment company). Director of Alltel since 1980. Chairman of Audit Committee and member of Executive and Pension Trust Investment Committees. Age 64.

Ronald Townsend, Communications Consultant, Jacksonville, Florida. Director of Winn Dixie Stores and Rayonier Inc. Director of Alltel since 1992. Chairman of Pension Trust Investment Committee and member of Audit Committee. Age 64.

DIRECTORS TERM ENDING 2008

John R. Belk, President and Chief Operating Officer of Belk, Inc., Charlotte, North Carolina (department store retailer). Director of Ruddick Corporation and Belk, Inc. Director of Alltel since 1996. Member of Compensation and Governance Committees. Age 47.

Gregory W. Penske, President and Director of Penske Automotive Group Inc., El Monte, California (car dealership operator); Director of Penske Corporation, International Speedway Corp., Los Angeles Sports Council, and Southern California Committee for the Olympic Games. Director of Alltel since 2000. Age 43.

Warren A. Stephens, President, Chief Executive Officer, and Director of Stephens Inc. and Stephens Group, Inc., Little Rock, Arkansas (investment banking firm and diversified investment company, respectively). Director of Dillards Inc. Director of Alltel since 2002. Member of Executive Committee. Age 49.

BOARD AND BOARD COMMITTEE MATTERS

During 2005, there were eight meetings of Alltel's Board of Directors. All of the directors attended 75% or more of the meetings of the Board and Board Committees on which they served. Directors are expected to attend each Annual Meeting of Stockholders. All of the directors attended the 2005 Annual Meeting.

The Board has determined that all of the directors, except Messrs. Joe T. Ford, Scott T. Ford, Gregory W. Penske, and Warren A. Stephens, are independent, as defined in the New York Stock Exchange listing standards. In making this determination, the Board evaluated the following relationships involving Mr. Emon A. Mahony, Jr. and found that those relationships were not material, as defined by the New York Stock Exchange listing standards, because they would not interfere with Mr. Mahony's exercise of independent judgment:

Emon A. Mahony, Jr. Mr. Mahony is employed on a part-time basis by Stephens Group, Inc. as an advisor. As discussed below under Certain Transactions, Stephens Inc. provides investment banking and investment management services to Alltel. Warren A. Stephens is an executive officer and director of Stephens Inc. Joe T. Ford is a director of Stephens Group, Inc.

The standing Committees of the Board are the Executive Committee, Audit Committee, Compensation and Equity Incentive Committee, Governance Committee, and Pension Trust Investment Committee. The Audit, Compensation, and Governance Committees are comprised entirely of independent directors, as defined under the New York Stock Exchange listing standards. A brief description of the functions of the Audit, Compensation, and Governance Committees is set forth below.

Executive sessions of the non-management directors occur at the end of each regular meeting of the Board. The non-management director presiding at those sessions rotates (in order) among the Chairmen of the Audit Committee, the Compensation Committee, the Governance Committee, and the Pension Trust Investment Committee.

The Audit Committee held five meetings during 2005. The Audit Committee assists the Board of Directors in overseeing Alltel's financial statements and financial reporting process, disclosure controls and procedures and systems of internal accounting and financial controls, independent auditors' engagement, performance, independence and qualifications, internal audit function, and legal and regulatory compliance and ethics programs as established by Alltel management and the Board of Directors. The Board has determined that Mr. Mahony is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

The Compensation Committee held six meetings during 2005. The Compensation Committee assists the Board in fulfilling its oversight responsibility related to the compensation programs, plans, and awards for Alltel's directors and principal officers. The Compensation Committee also acts as the Equity Incentive Committee.

The Governance Committee held two meetings during 2005. The Governance Committee is responsible for identifying individuals qualified to become members of the Board. The Governance Committee identifies candidates through various methods, including recommendation from directors, management, and stockholders. The Governance Committee has the authority to retain search firms to be used to identify director candidates. The Committee recommends director nominees to the Board for approval. The Governance Committee periodically reviews with the Chairman and the Chief Executive Officer the appropriate skills and characteristics required of Board members in the context of the composition of the Board and an assessment of the needs of the Board from time to time. The Governance Committee considers applicable Board and Board committee independence requirements imposed by the Board's Corporate Governance Board Guidelines, the New York Stock Exchange listing standards, and applicable law. The Governance Committee also considers, on a case-by-case basis, the number of other boards and board committees on which a director candidate serves. The

Governance Committee seeks candidates who evidence personal characteristics of high personal and professional integrity; intelligence and independent judgment; broad training and experience at the policy-making level in business; a commitment to serve on the Board over a period of several years to develop knowledge about Alltel, its strategy, and its principal operations; a willingness to evaluate management performance objectively; and the absence of activities or interests that could conflict with the director's responsibilities to Alltel. The Governance Committee considers director candidates recommended by stockholders. Stockholder recommendations must be submitted to the Committee in accordance with the substantive and procedural requirements set forth in Alltel's Bylaws, as discussed below under the caption Other Matters. The Governance Committee does not have a specific policy regarding the consideration of stockholder recommendations for director candidates because the Committee evaluates stockholder recommendations in the same manner as it evaluates director candidates recommended by other sources.

Alltel maintains a corporate governance section on its website to provide relevant information to stockholders. Governance information available on the website includes, among other items, the Board's Amended and Restated Corporate Governance Board Guidelines; the charters for the Audit, Compensation, and Governance Committees; and Alltel's code of ethics applicable to all directors, officers, and employees. This information is available on the investor relations page of the Alltel website, www.alltel.com, under corporate governance. Alltel will provide to any stockholder a copy of the Governance Board Guidelines, the Committee charters, and the code of ethics, without charge, upon written request to Vice President-Investor Relations, Alltel Corporate Services, Inc., One Allied Drive, Little Rock, Arkansas 72202. Stockholders may contact the non-management directors of Alltel's Board of Directors by writing to: Alltel Corporation, Attention: Non-Management Directors, c/o Corporate Secretary, One Allied Drive, Little Rock, Arkansas 72202.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

Effective January 22, 2004, the Board adopted minimum stock ownership requirements for Alltel's non-management directors and executive officers. Non-management directors are required to maintain beneficial ownership of shares of Alltel Common Stock valued at least five times the annual base fee paid to non-management directors. Executive officers are required to maintain beneficial ownership of shares of Common Stock at the following levels: five times base salary for the Chief Executive Officer; three times base salary for Group Presidents, Executive Vice Presidents, and Senior Vice Presidents; and two times base salary for all other executive officers. Directors and executive officers generally have three years from their initial election (or, for incumbent directors and executive officers as of January 22, 2004, until the date of the 2007 Annual Meeting of stockholders) to meet the applicable ownership requirements and, thereafter, one year to meet any increased ownership requirements resulting from changes in stock price, annual base fee, annual base salary, or applicable ownership levels occurring prior to the 2007 Annual Meeting.

Set forth below is certain information, as of February 24, 2006, as to shares of each class of Alltel equity securities beneficially owned by each of the directors, each of the executive officers identified in the Summary Compensation Table on page 14, and by all directors and executive officers of Alltel as a group. Except as otherwise indicated by footnote, all shares reported below are shares of Common Stock, and the nature of the beneficial ownership is sole voting and investment power:

	<u>Name of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class (if 1% or more)</u>
Directors	John R. Belk	62,162(a)	
	William H. Crown	5,720,383(a)(b)	1.5%
	Joe T. Ford	2,845,604(a)	
	Dennis E. Foster	403,354(a)	
	Lawrence L. Gellerstedt, III	67,351(a)	
	Emon A. Mahony, Jr.	114,687(a)(c)	
	John P. McConnell	66,322(a)	
	Josie C. Natori	64,126(a)	
	Gregory W. Penske	47,550(a)	
	Warren A. Stephens	10,817,012(a)(d)	2.8%
	Ronald Townsend	20,328(a)	
Named Executive Officers	Scott T. Ford	1,952,836(e)	
	Kevin L. Beebe	1,176,084(e)	
	Jeffrey H. Fox	1,242,576(e)	
	Francis X. Frantz	692,959(e)	
	Jeffery R. Gardner	683,950(e)	
All Directors and Executive Officers as a Group		26,662,893(f)	6.8%

- (a) Includes shares that the indicated persons have the right to acquire (through the exercise of options) on or within 60 days after February 24, 2006, as follows: John R. Belk (52,500); William H. Crown (16,500); Joe T. Ford (1,955,000); Dennis E. Foster (352,708); Lawrence L. Gellerstedt, III (55,725); Emon A. Mahony, Jr. (54,500); John P. McConnell (54,500); Josie C. Natori (56,038); Gregory W. Penske (42,500); Warren A. Stephens (36,000); and Ronald Townsend (18,500).
- (b) The nature of the beneficial ownership is shared voting and investment power with respect to all of the shares reported above, but for 99 shares owned by Mr. Crown's spouse, with respect to which Mr. Crown has no voting or investment power. Mr. Crown disclaims beneficial ownership of all these shares, except 6,992 shares owned by him, and his pro rata share of 5,713,292 shares owned directly or indirectly by partnerships of which he is a partner and corporations of which he is a shareholder.

- (c) Includes 2,595 shares held by Mr. Mahony's spouse, with respect to which Mr. Mahony has shared investment power and no voting power.
- (d) Mr. Stephens disclaims beneficial ownership of 10,720,061 of these shares, except to the extent of his pecuniary interest in them.
- (e) Includes shares that the indicated persons have the right to acquire (through the exercise of options) on or within 60 days after February 24, 2006, as follows: Scott T. Ford (1,814,000); Kevin L. Beebe (1,105,694); Jeffrey H. Fox (1,172,000); Francis X. Frantz (583,000); and Jeffery R. Gardner (653,000).
- (f) Includes a total of 8,624,143 shares that members of the group have the right to acquire (through the exercise of options) on or within 60 days after February 24, 2006.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Set forth below is certain information, as of February 24, 2006, with respect to any person known to Alltel to be the beneficial owner of more than 5% of any class of Alltel's voting securities, all of which are shares of Common Stock:

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common Stock	Private Capital Management, L. P. 8889 Pelican Bay Boulevard Suite 500 Naples, FL 34108-7512	36,468,040 shares(a)	9.5%

- (a) Based upon information contained in the Schedule 13G/A filed by Private Capital Management (PCM) on February 14, 2006, it has shared voting and investment power with respect to these shares. Bruce S. Sherman, chief executive officer of PCM, has sole voting and investment power with respect to 560,595 shares and shared voting and investment power with respect to 36,503,885 shares (including the shares held by PCM's clients and managed by PCM), and Gregg J. Powers, president of PCM, has sole voting and investment power with respect to 30,000 shares and shared voting and investment power with respect to 36,468,040 shares (including the shares held by PCM's clients and managed by PCM).

COMPARATIVE STOCKHOLDER RETURN

Set forth below is a line graph showing a five-year comparison of cumulative total stockholder return on Common Stock; the Standard & Poor's 500 Stock Index; and the Standard & Poor's 500 Telecommunications Services Index, which consists of the following companies: Alltel Corporation, AT&T Inc., BellSouth Corporation, CenturyTel, Inc., Citizens Communications Corp., Qwest Communications International Inc., Sprint Nextel Corporation, and Verizon Communications Inc. The Standard and Poor's 500 Index and the Standard and Poor's 500 Telecommunications Services Index are market capitalization weighted indices.

	Alltel	S&P 500	S&P 500 Telecom Services
Dec-00	100.00	100.00	100.00
Dec-01	101.00	88.15	87.94
Dec-02	85.68	68.79	58.02
Dec-03	80.64	88.29	61.96
Dec-04	104.31	97.77	74.03
Dec-05	114.72	102.50	70.08

* Assumes that \$100 was invested on the last trading day of 2000 and that all dividends were reinvested.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

This report provides information concerning determinations by the Compensation Committee (the Committee) of Alltel's Board of Directors for compensation reported for 2005 with respect to Alltel's Chief Executive Officer and other executive officers, including the officers named in the Summary Compensation Table on page 14. The Committee is comprised entirely of independent, non-employee directors, none of whom has any interlocking relationships as defined for proxy statement disclosure purposes.

The Committee reviewed compensation information from a group of ten companies that compete in Alltel's principal lines of business and utilized regression analysis on that information to mitigate the impact of company size on compensation levels for the comparison group. This comparison group of eight companies is not identical to the group of peer issuers identified in the Comparison of Five-Year Cumulative Total Return graph on page 9.

Base Salaries

The Committee reviews the base salaries of Alltel's executive officers annually and establishes each officer's base salary in relation to the mean of the comparison group giving consideration to each officer's performance during the prior year (without assigning a precise weighting to the foregoing components). With respect to Mr. Ford, minimum base salary is set in accordance with the terms of his employment agreement. In 2005, Alltel's relative competitiveness with the comparison group increased slightly from 2004 with the mean base salary for the officer group at the mean of the corresponding 50th percentile base salaries of the comparison group. For 2005, the Committee increased the base salary of each Alltel executive officer named in the Summary Compensation Table and each other Alltel executive officer. As reflected in the Summary Compensation Table, Mr. Ford's 2005 base salary was \$925,000.

Annual Incentives

Alltel's Performance Incentive Compensation Plan (the Incentive Plan) provides Alltel's executive officers with the opportunity to receive annual cash incentive payments (calculated as a percentage of each executive officer's base salary). The Incentive Plan is based exclusively on the achievement of an earnings per share objective from current businesses established by the Committee at the beginning of the year. The Committee establishes the criteria at three levels, minimum, mid-point, and target. For 2005, the mid-point primary earnings per share objective from current businesses was \$3.38. For mid-point performance in 2005, mean total direct compensation (base salary plus Incentive Plan payment) for the officer group was at the mean of the 60th percentile total direct compensation levels of corresponding officers of the comparison group. As reflected in the Summary Compensation Table, Mr. Ford received a \$1,875,900 payment under the Incentive Plan for 2005, which reflects Alltel's achievement of the financial performance criteria between the mid-point and target levels.

Long Term Incentives

Alltel's long term incentives for executive officers include payments under the Long-Term Performance Incentive Compensation Plan (the Long-Term Incentive Plan) and equity incentive grants. The Long-Term Incentive Plan provides Alltel's executive officers with the opportunity to receive cash incentive payments based on a three-year measurement period (calculated as a percentage of each executive officer's average annual salary during that three-year period). The Long-Term Incentive Plan payments are based exclusively on the achievement of the minimum, mid-point, or target earnings per share objective from current businesses during that three-year period. The mid-point earnings per share objective from current businesses (averaged over a three year period) for the three-year period of 2003-2005 was \$3.37. The Committee believes the design of the Long-Term Incentive Plan focuses Alltel's executive officers on Alltel's long-term financial success.

For 2005, the mid-point bonus opportunity under the Long-Term Incentive Plan yielded a mean net total compensation level (base salary, Incentive Plan and Long-Term Incentive Plan payments, and equity incentive grant) for the officer group that was below the mean of the 60th percentile of the net total compensation levels of the corresponding officers of the comparison group. As reflected in the Summary Compensation Table, Mr. Ford received a \$1,217,125 payment under the Long-Term Incentive Plan with respect to the three-year measurement period of 2003-2005, which reflects Alltel's achievement of the financial performance criteria at the mid-point level.

Alltel's equity incentive plans allow Alltel's executive officers to receive restricted stock, options to purchase shares of Common Stock, and other equity incentives. In 2005, Alltel's executive officers received stock options and restricted stock. The stock options granted in 2005 have a per share exercise price equal to the market price of a share of Alltel Common Stock on the date of grant and vest in five equal annual increments during which the officer continues to be employed by Alltel beginning on the one-year anniversary of the grant date. The restricted stock granted in 2005 vests on the three-year anniversary of the grant date, subject to partial earlier performance-based vesting, if the officer continues to be employed by Alltel through the applicable vesting date. Under the performance-based vesting provisions, one-third of the granted restricted shares vests early on each of the one- and two-year anniversaries of the grant date if Alltel meets specified stockholder return objectives on those anniversary dates. The Committee believes that stock option and restricted stock grants encourage and reward effective management, assist in the retention of valued executive officers, and align stockholder and management interests. The Committee determined the respective number of options and restricted shares granted to each officer during 2005 by considering the competitiveness of each officer's net total compensation in relation to the 60th percentile of the net total compensation of corresponding officers of the comparison group and the Committee's subjective judgment of the value of that officer's contribution to Alltel (without assigning a precise weighting to the components comprising that contribution). As reflected in the Summary Compensation Table, Mr. Ford received 120,000 options and 30,000 restricted shares in 2005.

Deductibility Limits

Section 162(m) of the Internal Revenue Code generally does not allow a deduction for annual compensation in excess of \$1,000,000 paid to Alltel's Chief Executive Officer or to any other Alltel officer or executive whose individual compensation during the year would be required to be disclosed in Alltel's annual proxy statement by reason of being among Alltel's four most highly compensated officers for the year (other than the Chief Executive Officer). This limitation on deductibility does not apply to certain compensation, including compensation that is payable solely on account of the attainment of one or more performance goals. The Committee's policy is generally to preserve the federal income tax deductibility of compensation and to qualify eligible compensation for the performance-based exception in order for compensation not to be subject to the limitation on deductibility imposed by Section 162(m) of the Internal Revenue Code; the Committee may, however, approve compensation that may not be deductible if the Committee determines that the compensation is in the best interests of Alltel.

The Compensation Committee

Dennis E. Foster, Chairman

John R. Belk

John P. McConnell

Josie C. Natori

AUDIT COMMITTEE REPORT

This report provides information concerning the Audit Committee of the Board of Directors. The Audit Committee's Amended and Restated Charter is attached to this proxy statement as Appendix B. The Audit Committee is comprised entirely of independent directors, as defined and required by applicable New York Stock Exchange listing standards.

In connection with its function to oversee and monitor Alltel's financial reporting process, the Audit Committee has reviewed and discussed with Alltel's management the audited financial statements for the year ended December 31, 2005; discussed with PricewaterhouseCoopers LLP, Alltel's independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (as amended by Statement on Auditing Standards No. 90); received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1; and discussed with PricewaterhouseCoopers LLP its independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2005, be included in Appendix A and in Alltel's 2005 Annual Report on Form 10-K for filing with the SEC.

The Audit Committee

Emon A. Mahony, Jr., Chairman

William H. Crown

John P. McConnell

Ronald Townsend

MANAGEMENT COMPENSATION

Compensation of Directors

In 2005, non-management directors of Alltel received \$60,000 as an annual base fee and \$1,750 for each Committee and Board meeting attended. Each non-management director of Alltel who chaired a Board Committee received an additional annual fee of \$7,500. Directors may elect to defer all or a part of their cash compensation under Alltel's deferred compensation plan for directors.

Under the 1999 Nonemployee Directors Stock Compensation Plan, as amended, a portion of each nonemployee director's annual base fee is paid on the annual meeting date in restricted shares of Common Stock that are subject to forfeiture if the nonemployee director ceases to be a director prior to the following year's annual meeting date for any reason other than death or disability. In the event of retirement prior to the following year's annual meeting date as a result of Alltel's retirement policy specified in Article X of Alltel's Bylaws, Alltel will pay the retiring director, in lieu of the forfeited shares, the corresponding pro rata portion of the annual base fee in cash. The number of restricted shares of Common Stock issued to each nonemployee director is determined by dividing the market price of a share of Common Stock on the annual meeting date into the portion of the annual base fee that is to be paid in restricted shares. In 2005, 50% of the annual base fee was paid by the issuance of 525 restricted shares. The Board of Directors may change the portion of the annual base fee payable in restricted shares of Common Stock, at least six months prior to the date of any annual meeting, and any nonemployee director may elect, at least six months prior to the date of any annual meeting, to receive restricted shares of Common Stock for a higher portion of the annual base fee than the portion fixed by the Board. Unless terminated earlier by the Board of Directors, the plan will continue until the 500,000 shares of Common Stock available under the plan have been issued and vested.

Under the 1994 Stock Option Plan for Nonemployee Directors, as amended (the Directors Plan), each nonemployee director automatically receives an initial grant of an option to purchase 10,000 shares of Common Stock on the date he or she first becomes a nonemployee director. The Directors Plan also provides for the automatic grant, following the conclusion of each annual meeting of stockholders, of an option to purchase 6,500 shares of Common Stock to each nonemployee director (other than a director who was first elected at the annual meeting). The exercise price of options granted under the Directors Plan is the fair market value of the Common Stock on the date the option is granted and is payable in cash, already-owned Common Stock, or a combination of both. The options vest and become exercisable on the day immediately preceding the next annual meeting of stockholders following the date of grant or, if earlier, on the death or disability of the holder or the occurrence of a change of control. If a person ceases to be a nonemployee director, all vested options held by that person continue to be exercisable for a period of six months or the earlier expiration of the ten-year term of the option. Any options that have not vested by the time the person ceases to be a nonemployee director may not thereafter be exercised. The Directors Plan will continue until the 1,000,000 shares of Common Stock available under the plan are issued, unless the plan is earlier terminated by the Board of Directors.

Mr. Joe T. Ford's services as Chairman of Alltel's Board of Directors are governed by a written agreement with Alltel. Under the agreement, Mr. Ford will serve as Chairman until the earliest of his retirement from the Board of Directors under Alltel's Board of Directors retirement policy, his resignation as Chairman of the Board of Directors, or the termination by the Board of Directors of Mr. Ford's status as Chairman of the Board. For his services as Chairman of the Board, Mr. Ford receives cash compensation of \$20,833.33 per month, and, for purposes of determining the vesting of his stock options outstanding at the time of his retirement as Chief Executive Officer in July 2002, Mr. Ford will be treated as if his employment with Alltel had continued during the period he continues to serve as Chairman of the Board. During his tenure as Chairman of the Board, Mr. Ford will receive reimbursement for country club membership on the same basis as in effect at the time of his retirement as Chief Executive Officer. Mr. Ford also will receive the following perquisites on the same basis as provided to senior executives of Alltel from time to time: physical exam reimbursement, tax/estate planning reimbursement, and corporate plane usage. The foregoing compensation to Mr. Ford for his services as Chairman

of the Board will be in lieu of any director fees, director meeting fees, director options, director stock grants, or other amounts otherwise payable to a member of the Board of Directors. Mr. Ford is eligible for reimbursement of any excise tax under Section 4999 of the Internal Revenue Code (and for any excise, income, or employment tax resulting from that reimbursement, successively, so as to offset the Internal Revenue Code Section 4999 excise tax) imposed on any payments to Mr. Ford from Alltel.

Compensation of Named Executive Officers

The following table shows the compensation, for each of the last three years, of Alltel's Chief Executive Officer and of Alltel's other four most highly compensated executive officers who were serving as executive officers on December 31, 2005:

SUMMARY COMPENSATION TABLE

Name	Principal Position	Year	Annual Compensation			Long-Term Compensation			
			Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Awards	Payouts		
						Restricted Stock Award (\$)	Securities Underlying Options (#)	Long-Term Incentive Plan Payouts (\$)	All Other Compensation (\$)
Scott T. Ford	President and CEO	2005	925,000	1,875,900	177,939(a)	1,595,000(b)	120,000	1,217,125	225,180(c)
	President and CEO	2004	850,000	2,210,000	135,233(a)	1,232,000	100,000	1,569,100	181,057
	President and CEO	2003	850,000	1,889,550	96,535(a)		200,000	1,530,000	146,398
Kevin L. Beebe	Group President Operations	2005	650,000	1,014,000	80,228(a)	1,160,000(b)	75,000	513,600	151,814(c)
	Group President Operations	2004	600,000	1,140,000	74,240(a)	924,000	75,000	643,734	103,376
	Group President Communications	2003	550,000	893,475			120,000	577,500	76,344
Jeffrey H. Fox	Group President Shared Services	2005	650,000	1,014,000		1,160,000(b)	75,000	513,600	311,069(c)
	Group President Shared Services	2004	600,000	1,140,000		924,000	75,000	643,734	157,286
	Group President Communications	2003	550,000	2,893,475			120,000	577,500	76,344
Francis X. Frantz		2005	500,000	702,000		939,420(b)	60,000	402,320	224,241(c)
	Exec. Vice President and Secretary								
	Exec. Vice President and Secretary	2004	460,000	828,000		739,200	60,000	514,986	104,766
	Exec. Vice President and Secretary	2003	450,000	692,550			120,000	472,500	70,319
Jeffery R. Gardner		2005	525,000	737,100	73,433(a)	939,420(b)	60,000	374,500	118,259(c)
	Exec. Vice President CFO								
	Exec. Vice President CFO	2004	475,000	855,000		739,200	60,000	452,625	72,982
	Exec. Vice President CFO	2003	400,000	615,600			120,000	390,000	51,421

(a) Includes the aggregate incremental cost to Alltel of personal usage of corporate aircraft, as follows: Scott T. Ford (\$174,531 in 2005, \$132,058 in 2004, and \$92,831 in 2003); Kevin L. Beebe (\$75,590 in 2005 and \$71,262 in 2004); and Jeffery R. Gardner (\$70,547 in 2005). Each officer pays the required taxes on his taxable income imputed for personal usage of corporate aircraft. The amounts reported

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for personal use of company aircraft for 2003 and 2004 differ from the amounts reported in the footnotes to prior proxy statements because in 2005 Alltel changed its method for calculating officers' other annual compensation from the Internal Revenue Code-based imputed income method to the Securities and Exchange Commission-based incremental cost method.

- (b) These shares of restricted stock vest on the three-year anniversary of the grant date, subject to partial earlier performance-based vesting on the one- and two-year anniversaries of the grant date, if the executive officer continues to be employed by Alltel on the applicable vesting date. Holders of shares of restricted stock receive the same dividends as holders of Common Stock. On December 30, 2005, the aggregate restricted stock holdings for Messrs. Ford, Beebe, Fox, Frantz, and Gardner were 44,166 shares, 32,500 shares, 32,500 shares, 27,000 shares, and 27,000 shares, respectively, and the aggregate values of the shares based upon the December 31, 2005 closing price were \$2,786,875, \$2,050,750, \$2,050,750, \$1,703,700, and \$1,703,700, respectively.
- (c) Includes the following amounts for Messrs. Ford, Beebe, Fox, Frantz, and Gardner: allocated benefits under the Alltel Benefit Restoration Plan in the respective amounts of \$179,533, \$88,796, \$88,796, \$65,196, and \$64,751; aggregate employer contributions under the Alltel Profit Sharing Plan and Alltel Thrift Plan in the amount of \$8,400 for each of the foregoing officers; above-market earnings on deferred compensation in the respective amounts of \$37,247, \$54,618, \$213,873, \$140,169, and \$45,108 (payment of which is deferred until the deferred compensation is paid); and dollar amount of premiums paid under supplemental split dollar life insurance policies in the amount of \$10,476 for Mr. Frantz.

OPTION GRANTS IN 2005

The following table shows information concerning stock option grants during 2005 to Alltel's executive officers named in the Summary Compensation Table on page 14:

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term			
	Number of Securities Underlying Options Granted (#)(a)	% of Total Options Granted to Employees in 2005	Exercise Price (\$/Sh)	Expiration Date	5%		10%	
					Stock Price (\$)	Dollar Gain (\$)	Stock Price (\$)	Dollar Gain (\$)
	Scott T. Ford	120,000	8.93	55.26	1/19/15	90.01	4,170,326	143.33
Kevin L. Beebe	75,000	5.58	55.26	1/19/15	90.01	2,606,454	143.33	6,605,266
Jeffrey H. Fox	75,000	5.58	55.26	1/19/15	90.01	2,606,454	143.33	6,605,266
Francis X. Frantz	60,000	4.46	55.26	1/19/15	90.01	2,085,163	143.33	5,284,213
Jeffery R. Gardner	60,000	4.46	55.26	1/19/15	90.01	2,085,163	143.33	5,284,213
Dollar Gains of All Alltel Stockholders (b)						\$1,333,030,000		\$3,378,417,000

- (a) These options become exercisable in five equal installments beginning on the first anniversary of the date of grant or sooner in the event Alltel experiences a change in control.
- (b) Total dollar gains are based on the indicated assumed annual rates of appreciation in the option exercise price, calculated on the 383,605,936 shares of Common Stock outstanding as of December 31, 2005.

OPTION EXERCISES IN 2005 AND 2005 YEAR-END OPTION VALUES

The following table shows information concerning stock option exercises during 2005 by Alltel's executive officers named in the Summary Compensation Table on page 14:

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<u>Name</u>	<u>Shares Acquired on Exercise (#)</u>	<u>Value Realized (\$)</u>	<u>Number of Securities Underlying Unexercised Options at 2005 Year-End Exercisable/Unexercisable</u>	<u>Value of Unexercised In-the-Money Options at 2005 Year-End Exercisable/Unexercisable (\$)</u>
Scott T. Ford	70,000	2,197,349	1,620,000/490,000	16,796,700/4,751,600
Kevin L. Beebe	40,688	1,004,363	999,694/289,000	4,483,189/2,946,660
Jeffrey H. Fox	52,917	1,524,969	1,066,000/289,000	10,518,440/2,946,660
Francis X. Frantz	-0-	-0-	603,000/262,000	1,602,280/2,650,920
Jeffery R. Gardner	84,754	1,470,298	553,000/262,000	776,200/2,650,920

LONG-TERM INCENTIVE PLAN AWARDS IN 2005

The following table shows information concerning the awards made during 2005 under the Alltel Long-Term Incentive Plan with respect to the three-year measurement period 2005 through 2007 to Alltel's Chief Executive Officer and to Alltel's four other most highly compensated executive officers named in the Summary Compensation Table on page 14:

Name	Performance Period	Estimated Future Payouts*		
		Until Payout	Minimum (\$)	Mid-Point (\$)
Scott T. Ford	3 years	601,250	1,202,500	1,803,750
Kevin L. Beebe	3 years	325,000	650,000	975,000
Jeffery H. Fox	3 years	325,000	650,000	975,000
Francis X. Frantz	3 years	250,000	500,000	750,000
Jeffery R. Gardner	3 years	262,500	525,000	787,500

* Awards will be paid upon completion of the 2007 year on the basis of Alltel's performance during the three year period 2005-2007 as determined by Alltel's attainment of prescribed corporate and unit performance targets. The Compensation Committee of the Board of Directors specified those corporate and unit performance targets and the award levels for the indicated executive officers (which are stated as a percentage of each executive officer's average base salary during the 2005-2007 period). The estimated future payouts shown above assume that each executive officer's average base salary during the 2005-2007 period would be the same as his base salary during 2005.

OTHER COMPENSATION ARRANGEMENTS
Employment Agreement with Mr. Scott T. Ford

On July 24, 2003, Alltel entered into an employment agreement with Mr. Scott T. Ford, Alltel's President and Chief Executive Officer. The term of this agreement expires on December 31, 2007, unless terminated earlier in accordance with the provisions of the agreement. The agreement provides for an annual base salary of no less than \$850,000, which the Board may increase annually. Mr. Ford's annual base salary for 2005 was \$925,000. The agreement also provides for incentive awards under the Incentive Plan and the Long-Term Incentive Plan. In addition to these payments, Mr. Ford is entitled to receive certain perquisites, including, without limitation, country club membership reimbursement, physical exam reimbursement, and corporate plane usage.

In the event Mr. Ford's employment is terminated (i) as a result of death or by the Board due to disability or for cause or (ii) by Mr. Ford without good reason, the agreement provides for the payment of Mr. Ford's unpaid salary to the termination date, incentive awards under the terms of the Incentive Plan and the Long-Term Incentive Plan, and other benefits to which Mr. Ford has a vested right on the termination date, including, without limitation, any applicable benefits under Alltel's supplemental executive retirement plan (described below).

If the Board terminates Mr. Ford's employment without cause or if Mr. Ford terminates his employment for good reason, the agreement provides for the ordinary termination benefits described above plus certain severance benefits. The severance benefits include a lump sum severance payment described below, as well as the continuation for approximately two years of any health benefits and perquisites Mr. Ford is receiving at the time of termination and reimbursement for any additional taxes incurred as a result of the health benefits provided. The lump sum severance payment would include two times the sum of Mr. Ford's (i) base salary, (ii) the greater of the then prior year's actual incentive award and the then current year's target incentive award under the Incentive Plan (the Incentive Plan Benefit), and (iii) the greater of the then prior period's actual

incentive award and the then current period's target incentive award under the Long-Term Incentive Plan (the Long-Term Incentive Plan Benefit). The lump sum payment also would include the sum of the Incentive Plan Benefit, prorated to the termination date, and the Long-Term Incentive Plan Benefit, prorated to the termination date. Mr. Ford's lump sum severance payment would be reduced by any other cash severance paid to him.

In the event a change in control of Alltel occurs during the term of the employment agreement, Mr. Ford's change in control agreement (described below) would govern the amounts payable to him under that agreement in respect of such a change in control.

Change in Control Agreements

Alltel is a party to agreements with each of Messrs. Scott Ford, Beebe, Fox, Frantz, and Gardner which provide that if, following a change in control of Alltel, the executive's employment terminates within twelve months (unless the termination is as a result of death, by Alltel as a result of the executive's disability or for cause, or by the executive without good reason) or if, after remaining employed for twelve months, the executive's employment terminates during the following three-month period (unless the termination is a result of death or is by Alltel as a result of the executive's disability) (each of the foregoing events being referred to as a Payment Trigger), Alltel is required to pay the executive an amount equal to three times the sum of his base salary as in effect immediately prior to the change in control or Payment Trigger and the maximum amounts he could have received under the Incentive Plans for the period commencing coincident with or most recently prior to the period in which the change in control or Payment Trigger occurs, but reduced by any other cash severance paid to him. Alltel also is required to make an additional payment to the executive in the amount of any excise tax under Section 4999 of the Internal Revenue Code as a result of any payments or distributions by Alltel plus the amount of all additional income tax payable by him as a result of such additional payments. Payments under the agreements are covered by Alltel's grantor trust described below.

Defined Benefit Pension Plan

Alltel maintains a trustee, noncontributory, defined benefit pension plan covering salaried and non-salaried employees under which benefits are not determined primarily by final compensation (or average final compensation). For nonbargaining participants, the pension plan was closed to new participants as of December 31, 2005 and frozen to additional accruals as of December 31, 2005 (December 31, 2010 for employees who had attained age 40 with two years of service as of December 31, 2005). Under this pension plan, Messrs. Scott Ford, Beebe, Fox, Frantz, and Gardner would have each period of post-January 1, 1988 through December 31, 2010, service credited at 1% of compensation, plus .4% of that part of his compensation that exceeds the Social Security Taxable Wage Base for such year. Service prior to 1988, if any, would be credited on the basis of a percentage of his highest consecutive five-year average annual base salary, equal to 1% for each year of service prior to 1982 and thereafter increasing by .05% each year until 1988, but only prospectively, i.e., with respect to service earned in such succeeding year; in addition, each of Messrs. Ford, Beebe, Fox, Frantz, and Gardner would receive an additional credit of .25% for each pre-1988 year of service after age 55, subject to a maximum of 10 years' such credit, and would have added to his annual pension benefits an amount equal to .4% of the amount by which his pre-1988 career average annual base salary (three highest years) exceeds his Social Security covered compensation, multiplied by his years of pre-1988 credited service. Various benefit payment options are available on an actuarially equivalent basis, including joint and survivor benefits. Compensation included in the pension base includes cash awards under the Incentive Plans.

Assuming annual increases in compensation of 5% per year through December 31, 2010, continuation in the position he held during 2005, and retirement at age 65, the estimated annual benefit under the pension plan for each of Messrs. Ford, Beebe, and Fox is \$624,602, \$361,095 and \$236,059, respectively. Assuming that Messrs. Frantz and Gardner terminate employment with Alltel on June 1, 2006, in connection with the spin-off of Alltel's wireline business, at their current levels of compensation, the estimated annual benefit under the pension plan for each of Messrs. Frantz and Gardner is \$193,953 and \$121,740, respectively. Amounts shown are straight life annuity amounts and include amounts payable under the defined benefit portion of the Alltel Benefit Restoration Plan.

Benefit Restoration Plan

Federal laws place certain limitations on pensions that may be paid under federal income tax qualified plans. The Alltel Benefit Restoration Plan provides for the payment to certain employees outside tax-qualified plans of any amounts not payable under the tax-qualified plans by reason of limitations specified in the Internal Revenue Code. Currently, under the Alltel Benefit Restoration Plan, Messrs. Scott Ford, Beebe, Fox, Frantz, and Gardner are eligible for accruals with respect to benefits not payable under Alltel's defined contribution plans and defined benefit pension plan. Amounts accrued, if any, under the defined contribution portion of these plans in 2005 for each of these executives are included in the Summary Compensation Table on page 14.

Supplemental Executive Retirement Plan

Alltel maintains a non-qualified supplemental executive retirement plan (the SERP) in which certain employees designated by the Board of Directors, including Messrs. Scott Ford, Beebe, Fox, Frantz, and Gardner, participate. The SERP provides with respect to Messrs. Ford, Beebe, and Fox that, upon normal retirement at age 65 with five or more years of service, or, if earlier, following a Payment Trigger that occurs after the participant has attained age 60 with 15 or more years of service or age 55 with 20 or more years of service, the executive will receive an annual retirement benefit under the SERP, payable as a single life annuity, equal to 60% of the greatest of (A) his base salary and cash payments to him under specified incentive compensation plans paid during the calendar year preceding his retirement; (B) his average annual base salary and cash payments to him under specified incentive compensation plans paid during the three calendar years preceding his retirement; or (C) if a Payment Trigger has occurred, the sum of (i) his annual base salary in effect immediately prior to the change in control (as defined in the change in control agreements described above), the Payment Trigger, or his retirement date, whichever is greatest, and (ii) the maximum cash amounts payable to him under specified incentive compensation plans for the period coincident with or most recently prior to the change in control, the Payment Trigger, or his retirement date, whichever is greatest. For Messrs. Frantz and Gardner, the above formula applies, but payment is made within 10 days of retirement in a single sum payment that is the actuarial equivalent of the annual retirement benefit. Cash amounts paid or payable under long-term incentive compensation plans are not included for determining the amount of retirement benefits under the SERP unless a Payment Trigger has occurred.

Each of Messrs. Ford, Beebe, and Fox also is entitled to an early retirement benefit under the SERP if he retires before becoming entitled to the normal retirement benefit but after attaining age 45 with five or more years of service, at least three of which years of service are earned in years after 2003, or after a Payment Trigger occurs (regardless of his age and years of service). Each of Messrs. Frantz and Gardner also is entitled to an early retirement benefit under the SERP upon the earliest to occur of January 1, 2007, and the date Alltel consummates the spin-off of its wireline business. The early retirement benefit is calculated the same as the normal retirement benefit, except that the percentage used in the calculation is (A) if a Payment Trigger has not occurred, 40%, increased by 1/2% for each whole number by which the sum of his age and years of service exceeds 50, up to a maximum of 60%, and (B) if a Payment Trigger has occurred, the greater of (i) the amount determined under (A) above, or (ii) 45%, increased ratably for the number of his years of service after early retirement eligibility, up to a maximum of 60%.

If Messrs. Ford, Beebe, or Fox dies after benefits commence, his surviving spouse will receive 50% of the amount that he was receiving prior to his death. If either of Messrs. Ford, Beebe, Fox, Frantz, or Gardner dies while employed, his surviving spouse will receive 50% of the amount that he would have received in the form of the annual retirement benefit if he had retired on the day before death. Following retirement, each of Messrs. Ford, Beebe, Fox, Frantz, and Gardner (and his spouse and dependents) also is entitled to receive post-retirement medical benefits under the SERP together with reimbursement for any additional taxes incurred as a result of the benefits being taxed less favorably than they would have been if received by other retired employees. Payments to Messrs. Ford, Beebe, Fox, Frantz, and Gardner under the SERP are covered by Alltel's grantor trust described below.

The retirement benefits payable under the SERP are reduced by certain benefits paid under other qualified and nonqualified benefit plans. The benefits under the SERP are not subject to offset for Social Security. For a participant who retires prior to age 55, benefits under the SERP are suspended for any period prior to the participant's 55th birthday during which the participant competes with Alltel. The Compensation Committee of Alltel's Board of Directors may accelerate the payment of benefits under the SERP on an actuarially equivalent basis.

Assuming retirement on or before January 1, 2007, the lump sum benefit under the SERP payable for each of Messrs. Frantz and Gardner is \$7,615,028 and \$9,256,645, respectively.

Assuming annual increases in compensation in future years of 5% per year, retirement at the earliest date on which the participant's age and years of service (at that date) would qualify the participant for an early retirement benefit, and based on estimates of the benefits under qualified and nonqualified benefit plans that reduce the retirement benefits payable under the SERP (as described above), the estimated annual retirement benefit under the SERP payable for each of Messrs. Ford, Beebe, and Fox, at the respective dates indicated is \$1,164,314 payable to age 65 and \$739,644 payable after age 65 (retirement date: July 31, 2007), \$828,608 payable to age 55 and \$731,038 payable after age 55 (retirement date: June 30, 2006), and \$671,618 payable to age 65 and \$548,816 payable after age 65 (retirement date: March 31, 2007), respectively.

Assuming annual increases in compensation in future years of 5% per year, retirement at the earliest date on which the participant's combined age and years of service (at that date) would produce the maximum benefit percentage of 60%, and based on estimates of the benefits under qualified and nonqualified benefit plans that reduce the retirement benefits payable under the SERP (as described above), the estimated annual retirement benefit under the SERP payable for each of Messrs. Ford, Beebe, and Fox, at the respective dates indicated is \$2,090,366 (retirement date: June 30, 2024), \$941,510 (retirement date: June 30, 2016), and \$1,456,207 (retirement date: March 31, 2024), respectively.

Assuming annual increases in compensation in future years of 5% per year, retirement at age 65, and based on estimates of the benefits under qualified and nonqualified benefit plans that reduce the retirement benefits payable under the SERP (as described above), the estimated annual normal retirement benefit under the SERP payable for each of Messrs. Ford, Beebe, and Fox, is \$2,200,547, \$1,185,437 and \$1,551,091, respectively.

Grantor Trust

Alltel maintains a grantor trust under Section 671 of the Internal Revenue Code (the Trust) to provide certain participants in designated compensation and supplemental retirement plans and arrangements with greater assurance that the benefits and payments to which those participants are entitled under those plans and arrangements will be paid. Contributions by Alltel to the Trust are discretionary. Prior to a change of control of Alltel (as defined in the trust agreement for the Trust), benefits may not be paid from the Trust.

Following a change of control of Alltel, benefits and payments may be paid from the Trust to the extent those benefits and payments are not paid by Alltel or its successor. The assets of the Trust are subject to the claims of the creditors of Alltel in the event Alltel becomes insolvent (as defined in the trust agreement for the Trust).

APPROVAL OF THE AMENDED AND RESTATED ALLTEL CORPORATION PERFORMANCE INCENTIVE COMPENSATION PLAN (Amended and Restated as of January 1, 2006)

Introduction

At the 2006 Annual Meeting, the stockholders of Alltel are being asked to approve an amendment to the Alltel Corporation Performance Incentive Compensation Plan. The amendment (i) increases the types of performance objectives that the Compensation Committee may use to structure annual incentive awards, (ii) removes the specific weightings of corporate/business unit earnings growth objectives and specified annual performance objectives, and (iii) adopts certain other best practices described below. Stockholders are asked to approve the amendment to qualify awards granted under the Alltel Corporation Performance Incentive Compensation Plan as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). Following is a summary of the Alltel Corporation Performance Incentive Compensation Plan (as amended and restated as of January 1, 2006), which is qualified in its entirety by reference to the full text of the plan document, a copy of which is attached as Appendix C to this proxy statement.

History and Background

Alltel maintains the Alltel Corporation Performance Incentive Compensation Plan (the Incentive Plan), as amended on January 1, 1993 and January 29, 1998. The Incentive Plan was adopted in order to advance the interests of Alltel by strengthening the linkage between Alltel executives and stockholders, the decision-making focus of Alltel executives upon improving stockholder wealth, and the ability of Alltel to attract and retain key employees.

Under the Incentive Plan, each officer or key management employee of Alltel or its subsidiaries that is designated by the Compensation Committee (or, in some cases, the CEO), has the opportunity to receive an annual cash incentive payment based on the achievement of certain corporate/business unit earnings growth objectives and certain specified annual performance objectives. The corporate/business unit earnings growth objectives must be expressed as a percentage increase in the Alltel or business unit earnings per share. The specified annual performance objectives must be expressed in terms of specified objectives, at least 50% of which must be annual financial measures and the remaining portion (if any) must be objective or subjective criteria. The corporate/business unit earnings growth objectives and specified annual performance objectives must be weighted equally and can be adjusted to take into account certain extraordinary or nonrecurring items affecting earnings and changes in employment status. The awards are payable as soon as administratively practicable after the close of the plan year.

On January 19, 2006, the Board unanimously approved, subject to stockholder approval at the 2006 Annual Meeting, an amendment and restatement of the Plan, effective as of January 1, 2006 (referred to hereafter as the Amended Incentive Plan), to (i) increase the types of performance objectives that the Compensation Committee may use to structure annual incentive awards, (ii) remove the specific weightings of corporate/business unit earnings growth objectives and specified annual performance objectives, and (iii) adopt certain other best practices described below. These changes will increase the Board's flexibility in evaluating and structuring its executive compensation program. Since executive compensation practices are influenced by a wide range of complex factors, including changes in strategic goals, regulatory developments, and the competitive compensation practices of other companies, it is important that Alltel retain the flexibility to structure annual incentives that balance these influences as well as the flexibility to respond quickly to changes that may otherwise limit its ability to attract, motivate and retain key talent.

The Amended Incentive Plan will also ensure that annual cash incentive awards comply with the performance-based compensation exception to Section 162(m) of the Code. Section 162(m) of the Code

generally prevents a publicly held corporation from claiming federal income tax deductions for compensation in excess of \$1 million paid to certain of its senior executives. Compensation is exempt from this limitation, however, if it qualifies as performance-based compensation. In order for awards under the Amended Incentive Plan to qualify as performance-based compensation, Alltel's stockholders must approve the individuals eligible to receive an award under the Amended Incentive Plan, the material terms of the performance objectives under the plan, and the maximum amount of compensation that is payable under an award during a specified period to any one individual (and certain other requirements must be satisfied).

Our stockholders are asked to approve the Amended Incentive Plan to qualify awards as performance-based compensation for purposes of Section 162(m) of the Code. No awards granted to our named executive officers in 2006 under the Amended Incentive Plan will be paid unless the stockholders approve the Amended Incentive Plan. The approval of the Amended Incentive Plan requires the affirmative vote of a majority of the shares of Common Stock present in person or by proxy and entitled to vote on this proposal.

THE ALLTEL BOARD RECOMMENDS THAT ALLTEL STOCKHOLDERS VOTE IN FAVOR OF APPROVAL OF THE AMENDED INCENTIVE PLAN.

Summary of Amended Incentive Plan

Purpose. The purpose of the Amended Incentive Plan is to advance the interests of Alltel by strengthening the linkage between Alltel executives and stockholders, the decision-making focus of Alltel executives upon improving stockholder wealth, and the ability of Alltel to attract and retain key employees.

Administration. The Compensation Committee will administer the Amended Incentive Plan and shall have full power and authority to construe, interpret and carry out the provisions of the Amended Incentive Plan. The Compensation Committee may delegate to the CEO or other officers, subject to such terms as the Compensation Committee shall determine, authority to perform certain functions, including administrative functions. However, the Compensation Committee must retain the exclusive authority to determine matters relating to awards to the CEO and other key executives that are intended to qualify as performance-based compensation under Section 162(m) of the Code. Nothing contained in the Amended Incentive Plan shall be deemed to affect the authority of Alltel or the Compensation Committee to grant annual or long-term bonuses or other benefits to employees.

Eligibility and Participation. Participation in the Amended Incentive Plan will be available to officers or key management employees of Alltel or its subsidiaries who are customarily employed more than 20 hours per week and at least six months per year. At this time, however, the Compensation Committee anticipates that only 15 individuals will participate in the Amended Incentive Plan.

As soon as practicable after the beginning of each plan year, the Compensation Committee shall designate those eligible employees who will participate in the Amended Incentive Plan for the current plan year (each a participant). If a person becomes an eligible employee after the beginning of the plan year, he shall be designated as a participant as soon as practicable after he becomes an eligible employee. An eligible employee who is a participant for a given plan year is neither guaranteed nor assured of being selected for participation in any subsequent year. Notwithstanding the foregoing, individuals who are covered employees (generally any officer whose compensation would likely be non-deductible by Alltel under Section 162(m) of the Code if Alltel did not comply with the provisions of such section) must be designated by the Compensation Committee to participate in the Amended Incentive Plan no later than 90 days following the beginning of the plan year (or before 25% of the plan year has elapsed, if earlier).

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Determination of Awards. The Compensation Committee shall establish the performance objectives (described below under Performance Objectives) and payout formulas for each participant during the first quarter of each plan year and notify each participant in writing of its determination. The performance objectives and payout formulas need not be uniform with respect to any or all participants and may be pro rated in the case

of newly hired or newly promoted executives. The Compensation Committee must establish the performance objectives and payout formulas for each covered employee (defined above) not later than 90 days following the beginning of the plan year (or before 25% of the plan year has elapsed, if earlier). Participants must achieve the performance objectives established by the Compensation Committee in order to receive an award under the Amended Incentive Plan.

The Compensation Committee may determine that only the threshold level relating to a performance objective must be achieved for awards to be paid under the Amended Incentive Plan. Similarly, the Compensation Committee may establish a minimum threshold performance level, a maximum performance level, and one or more intermediate performance levels or ranges, with target award levels or ranges that will correspond to the respective performance levels or ranges. The Compensation Committee may also establish multiple performance objectives with respect to a single participant, which will be weighted by the Compensation Committee to reflect their relative importance.

The Compensation Committee may in its sole discretion modify such payout formulas, performance objectives or the related minimum acceptable level of achievement, in whole or in part, as the Compensation Committee deems appropriate and equitable (i) to reflect a change in the business, operations, corporate structure or capital structure of Alltel or its subsidiaries, the manner in which it conducts its business, or other events or circumstances or (ii) in the event that a participant's responsibilities materially change during a plan year or a participant is transferred to a position that is not designated or eligible to participate in the Amended Incentive Plan. However, the Compensation Committee cannot take such action to the extent that it would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.

In no event shall an award paid to any participant for a plan year exceed \$7,000,000.

Performance Objectives. The Amended Incentive Plan requires that the Compensation Committee establish performance objectives for purposes of granting awards to participants. Performance objectives are generally measured over Alltel's fiscal year (or such other period as determined by the Compensation Committee). Performance objectives may be described in terms of Alltel-wide objectives or objectives that are related to the performance of the individual participant or of a subsidiary, division, department, region or function within Alltel or a subsidiary in which the participant is employed. The performance objectives may be made relative to the performance of other corporations. The performance objectives applicable to any award to a covered employee (defined above) that is intended to qualify for the performance-based compensation exception to Section 162(m) of the Code shall be based on specified levels of growth in one or more of the following criteria: revenues, weighted average revenue per unit, earnings from operations, operating income, earnings before or after interest and taxes, operating income before or after interest and taxes, net income, cash flow, earnings per share, debt to capital ratio, economic value added, return on total capital, return on invested capital, return on equity, return on assets, total return to stockholders earnings before or after interest, taxes, depreciation, amortization or extraordinary or special items, operating income before or after interest, taxes, depreciation, amortization, or extraordinary or special items, return on investment, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, cash flow in excess of cost of capital, operating margin, profit margin, contribution margin, stock price and/or strategic business criteria consisting of one or more objectives based on meeting specified product development, strategic partnering, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, gross or net additional customers, average customer life, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates and joint ventures. Performance objectives may be stated as a combination of the listed factors.

Certification. Promptly following the end of each plan year, the Compensation Committee will meet to certify achievement of the performance objectives for such year, and if such performance objectives have been achieved, approve actual awards under the Amended Incentive Plan pursuant to the payout formulas. Such certification with respect to covered employee (as defined above) shall be documented in writing and satisfy the requirements under Section 162(m) of the Code prior to the payout of such award.

Payment. Awards shall be paid as soon as practicable after the close of the plan year, but in no event later than 75 days after the end of such year. The Compensation Committee may, in its sole discretion and upon such terms and conditions as it may establish, direct that payments to the participants (other than covered employees) be made during December of the plan year in the amount of an estimated award for that year, subject to adjustment when the exact amount of the award is determined. No participant shall have the unconditional right to an award under the Amended Incentive Plan until the plan year has concluded and the exact amount of the award has been determined.

If a participant's employment with Alltel and its subsidiaries is terminated before the last day of a plan year due to disability, death, or retirement (as defined in the Amended Incentive Plan), the participant's award shall be pro rated on the basis of the ratio of the number of days of participation during the plan year to which the award relates to the aggregate number of days in such plan year. If, however, a participant's employment terminates before the last day of a plan year for any other reason, then, unless otherwise determined by the Compensation Committee, such participant shall not be entitled to receive payment of the award.

The Compensation Committee may, in its sole discretion, (i) eliminate or reduce the amount of any award payable to any participant, and (ii) except in the case of a covered employee, increase the amount of any award payable to any participant to recognize his or her individual performance or in other circumstances deemed appropriate by the Compensation Committee.

Amendments, Etc. The Board reserves the right, at any time, to amend, suspend or terminate the Amended Incentive Plan, in whole or in part, in any manner, and for any reason, and without the consent of any participant, eligible employee, beneficiary or other person. However, no such action shall adversely affect the payment of any amount for a plan year ending prior to the action of the Board.

The Amended Incentive Plan is intended to qualify for the performance-based compensation exception of Section 162(m) of the Code and the short-term deferral exception of Section 409A of the Code. The Amended Incentive Plan and any awards shall be administrated in a manner consistent with this intent, and any provision that would cause the Amended Incentive Plan or any award to fail to satisfy either such exception shall have no force and effect until amended to so comply (which amendment may be retroactive and may be made by Alltel without the consent of any participant, eligible employee, beneficiary or other person).

Federal Income Tax Consequences

Following is a brief summary of certain of the federal income tax consequences of certain transactions under the Amended Incentive Plan. This summary is not intended to be complete and does not describe state, local, foreign or other tax consequences.

A participant in the Amended Incentive Plan will be taxed at ordinary income rates on the amount of any cash payment received pursuant to the Amended Incentive Plan. Alltel or the subsidiary for which the participant performs services will be entitled to a federal income tax deduction corresponding to the amount of income recognized by a participant in the Amended Incentive Plan, provided that, among other things, (a) the income meets the test of reasonableness, (b) is an ordinary and necessary business expense, and (c) is not an excess parachute payment within the meaning of Section 280G of the Code.

Plan Benefits

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Future benefits to be received by a person or group under the Amended Incentive Plan are not determinable at this time and will depend on individual and corporate performance. Awards under the Plan (prior to its amendment and restatement as described above) to named executive officers for 2005 are reported in this proxy statement in the Bonus column of the Summary Compensation Table on page 14. Awards for 2005 to all executive officers as a group were \$6,627,485.

**APPROVAL OF THE AMENDED AND RESTATED ALLTEL CORPORATION LONG-TERM PERFORMANCE INCENTIVE
COMPENSATION PLAN**

(Amended and Restated as of January 1, 2006)

Introduction

At the 2006 Annual Meeting, the stockholders of Alltel are being asked to approve an amendment to the Alltel Corporation Long-Term Performance Incentive Compensation Plan. The amendment (i) increases the types of performance objectives that the Compensation Committee may use to structure long-term incentive awards, (ii) permits greater discretion in establishing target award opportunities, and (iii) adopts certain other best practices described below. Stockholders are asked to approve the amendment to qualify awards granted under the Alltel Corporation Long-Term Performance Incentive Compensation Plan as performance-based compensation for purposes of Section 162(m) of the Code. Following is a summary of the Alltel Corporation Long-Term Performance Incentive Compensation Plan, which is qualified in its entirety by reference to the full text of the plan document, a copy of which is attached as Appendix D to this proxy statement.

History and Background

Alltel maintains the Alltel Corporation Long-Term Performance Incentive Compensation Plan (the "Long-Term Incentive Plan"), as amended on January 1, 1993, January 1, 1994 and January 29, 1998. The Long-Term Incentive Plan was adopted in order to advance the interests of Alltel by strengthening the linkage between Alltel executives and stockholders, the decision-making focus of Alltel executives upon improving stockholder wealth, and the ability of Alltel to attract and retain key employees.

Under the Long-Term Incentive Plan, each officer or key management employee of Alltel or its subsidiaries that is designated by the Compensation Committee (or, in some cases, the CEO), has the opportunity to receive cash incentive payments based on a three-year measurement period (calculated as a percentage of each executive officer's average annual salary during that three-year period). The Long-Term Incentive Plan is based exclusively on a participant's achievement of certain minimum, target and maximum levels of performance at the corporate and business unit level during the three-year period. The Compensation Committee may in its sole discretion take into consideration certain extraordinary or nonrecurring items affecting income or loss in modifying the amount of an award paid under the Long-Term Incentive Plan. The awards are payable as soon as administratively practicable after the performance period.

On January 19, 2006, the Board unanimously approved, subject to stockholder approval at the 2006 Annual Meeting, an amendment and restatement of the Alltel Corporation Long-Term Performance Incentive Compensation Plan, effective as of January 1, 2006 (referred to hereafter as the "Amended Long-Term Incentive Plan"), to (i) increase the types of performance objectives that the Compensation Committee may use to structure long-term incentive awards, (ii) permit greater discretion in establishing target award opportunities, and (iii) adopt certain other best practices described below. These changes will increase the Board's flexibility in evaluating and structuring its executive compensation program. Since executive compensation practices are influenced by a wide range of complex factors, including changes in strategic goals, regulatory developments, and the competitive compensation practices of other companies, it is important that Alltel retain the flexibility to structure long-term incentives that balance these influences as well as the flexibility to respond quickly to changes that may otherwise limit its ability to attract, motivate and retain key talent.

This Amended Long-Term Incentive Plan will also ensure that long-term cash incentive awards comply with the performance-based compensation exception to Section 162(m) of the Code. Section 162(m) of the Code generally prevents a publicly held corporation from claiming federal income tax deductions for compensation in excess of \$1 million paid to certain of its senior executives. Compensation is exempt from this limitation, however, if it qualifies as performance-based compensation. In order for awards under the Amended Long-Term

Incentive Plan to qualify as performance-based compensation, Alltel's stockholders must approve the

individuals eligible to receive an award under the Amended Long-Term Incentive Plan, the material terms of the performance objectives under the plan, and the maximum amount of compensation that is payable under an award during a specified period to any one individual (and certain other requirements must be satisfied).

Our stockholders are asked to approve the Amended Long-Term Incentive Plan to qualify awards as performance-based compensation for purposes of Section 162(m) of the Code. No awards granted to our named executive officers in 2006 under the Amended Long-Term Incentive Plan will be paid unless the stockholders approve the Amended Long-Term Incentive Plan. The approval of the Amended Long-Term Incentive Plan requires the affirmative vote of a majority of the shares of Common Stock present in person or by proxy and entitled to vote on this proposal.

THE ALLTEL BOARD RECOMMENDS THAT ALLTEL STOCKHOLDERS VOTE IN FAVOR OF APPROVAL OF THE AMENDED LONG-TERM INCENTIVE PLAN.

Summary of Amended Long-Term Incentive Plan

Purpose. The purpose of the Amended Long-Term Incentive Plan is to advance the interests of Alltel by strengthening the linkage between Alltel executives and stockholders, the decision-making focus of Alltel executives upon improving stockholder wealth, and the ability of Alltel to attract and retain key employees.

Performance Period. Awards granted under the Amended Long-Term Incentive Plan will emphasize long-term performance. Accordingly, the level of achievement by participants under the Amended Long-Term Incentive Plan will be measured by performance over a period of three consecutive calendar years or such other period as determined by the Compensation Committee in its discretion (referred to herein as the performance period).

Administration. The Compensation Committee will administer the Amended Long-Term Incentive Plan and shall have full power and authority to construe, interpret and carry out the provisions of the Amended Long-Term Incentive Plan. The Compensation Committee may delegate to the CEO or other officers, subject to such terms as the Compensation Committee shall determine, authority to perform certain functions, including administrative functions. However, the Compensation Committee must retain the exclusive authority to determine matters relating to awards to the CEO and other key executives that are intended to qualify as performance-based compensation under Section 162(m) of the Code. Nothing contained in the Amended Long-Term Incentive Plan shall be deemed to affect the authority of Alltel or the Compensation Committee to grant annual or long-term bonuses or other benefits to employees.

Eligibility and Participation. Participation in the Amended Long-Term Incentive Plan will be available to officers or key management employees of Alltel or its subsidiaries who are customarily employed more than 20 hours per week and at least six months per year. At this time, however, the Compensation Committee anticipates that only 67 individuals will participate in the Amended Long-Term Incentive Plan.

As soon as practicable after the beginning of each performance period, the Compensation Committee shall designate those eligible employees who will participate in the Amended Long-Term Incentive Plan for that performance period (each a participant). If a person becomes an eligible employee after the beginning of a performance period, he shall be designated as a participant at such time as determined by Compensation Committee. An eligible employee who is a participant for a given performance period is neither guaranteed nor assured of being selected for participation for any subsequent performance period. Notwithstanding the foregoing, individuals who are covered employees (generally any officer whose compensation would likely be non-deductible by Alltel under Section 162(m) of the Code if Alltel did not comply with the

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provisions of such section) must be designated by the Compensation Committee to participate in the Amended Long-Term Incentive Plan no later than 90 days following the beginning of the performance period (or before 25% of the performance period has elapsed, if earlier).

Performance Objectives. The Amended Long-Term Incentive Plan requires that the Compensation Committee establish performance objectives that are measured over the performance period for purposes of determining awards. Performance objectives may be described in terms of Alltel-wide objectives or objectives that are related to the performance of the individual participant or of a subsidiary, division, department, region or function within Alltel or a subsidiary in which the participant is employed. The performance objectives may be made relative to the performance of other corporations. The performance objectives applicable to any award to a covered employee (defined above) that is intended to qualify for the performance-based compensation exception to Section 162(m) of the Code shall be based on specified levels of growth in one or more of the following criteria: revenues, weighted average revenue per unit, earnings from operations, operating income, earnings before or after interest and taxes, operating income before or after interest and taxes, net income, cash flow, earnings per share, debt to capital ratio, economic value added, return on total capital, return on invested capital, return on equity, return on assets, total return to stockholders earnings before or after interest, taxes, depreciation, amortization or extraordinary or special items, operating income before or after interest, taxes, depreciation, amortization, or extraordinary or special items, return on investment, free cash flow, cash flow return on investment (discounted or otherwise), net cash provided by operations, cash flow in excess of cost of capital, operating margin, profit margin, contribution margin, stock price and/or strategic business criteria consisting of one or more objectives based on meeting specified product development, strategic partnering, research and development, market penetration, geographic business expansion goals, cost targets, customer satisfaction, gross or net additional customers, average customer life, employee satisfaction, management of employment practices and employee benefits, supervision of litigation and information technology, and goals relating to acquisitions or divestitures of subsidiaries, affiliates and joint ventures. Performance objectives may be stated as a combination of the listed factors.

At the beginning of each performance period (or, if an eligible employee becomes a participant during a performance period, such other date as determined by the Compensation Committee), the Compensation Committee shall establish the performance objectives for each participant. The Compensation Committee shall also establish a minimum threshold performance level, a maximum performance level, a target performance level and one or more intermediate performance levels or ranges. The performance objectives established by the Compensation Committee need not be uniform with respect to any or all participants. The Compensation Committee may also establish multiple performance objectives with respect to a single participant. The Compensation Committee must establish the performance objectives for each covered employee not later than 90 days following the beginning of the performance period (or before 25% of the performance period has elapsed, if earlier).

The Compensation Committee may in its sole discretion modify such performance objectives or the related minimum acceptable level of achievement, in whole or in part, as the Compensation Committee deems appropriate and equitable to reflect a change in the business, operations, corporate structure or capital structure of Alltel, the manner in which it conducts its business, or other events or circumstances. However, the Compensation Committee cannot take such action to the extent that it would result in the loss of the otherwise available exemption of the award under Section 162(m) of the Code.

Target Award Opportunity. At the beginning of each performance period (or, if an eligible employee becomes a participant during a performance period, on such other date as determined by the Compensation Committee), the Compensation Committee shall assign each participant a target award opportunity. The target award opportunity shall be expressed as a percentage of the participant's average base salary and shall represent the amount payable to the participant under the Amended Long-Term Incentive Plan for the participant's achievement of the target performance level of the performance objective established for the performance period. In determining the applicable target award opportunity, other than for the CEO, the Compensation Committee shall consider the recommendations of the CEO. With respect to covered employees (defined above), the Compensation Committee shall establish the target award opportunity no later than 90 days following the beginning of the performance period or before 25% of the performance period has elapsed, whichever is earlier.

Determination of Awards. Following the end of each performance period, the Compensation Committee will meet to certify the extent to which the performance objectives for the applicable performance period have been achieved and assign the corresponding award percentage (award percentage) with respect thereof. The award percentage for achieving the minimum, target and maximum level of performance with respect to a performance objective shall be 50%, 100% and 150% respectively. Participants shall not be entitled to an award for achieving less than the minimum level of performance. For performance levels between the minimum, target and maximum performance levels, the award percentage shall be interpolated by the Compensation Committee to the nearest 1/100th of one percent. The certification of the performance objectives of a covered employee (defined above) shall be documented in writing (and otherwise conform to the requirements of applicable regulations under Section 162(m) of the Code) prior to the payout of the award.

Where the Compensation Committee has established more than one performance objective for a participant, the participant's award percentage shall be determined by: (i) multiplying the award percentage of each performance objective by the relative weight assigned to such performance objective (in the form of a percentage) by the Compensation Committee, and (ii) adding the resulting percentages. After determining the applicable award percentage for a participant, the Compensation Committee shall calculate that participant's award by multiplying his or her award percentage by his or her target award opportunity (as defined above). In no event shall an award paid to any participant for a performance period exceed \$7,000,000.

Limitation on Payment. The Compensation Committee in its sole discretion may (i) eliminate or reduce the amount of any award payable to any participant below that which otherwise would be payable under the Amended Long-Term Incentive Plan, and (ii) except in the case of a covered employee, increase the amount of any award payable to any participant above that which otherwise would be payable in recognition of a participant's individual performance or in other circumstances deemed appropriate by the Compensation Committee.

Payment. Awards shall be paid as soon as practicable after the end of the performance period, but in no event later than 75 days after the end of such performance period. The Compensation Committee may, in its sole discretion and upon such terms and conditions as it may establish, direct that payments to the participants (other than covered employees) be made during December of the last year of the performance period in the amount of an estimated award for that performance period, subject to adjustment when the exact amount of the award is determined. No participant shall have the unconditional right to an award under the Long-Term Incentive Plan until the performance period has concluded and the exact amount of the award has been determined.

Transfers and Separations. Except with respect to covered employees, if an eligible employee becomes a participant or a participant's duties change during a performance period, the Compensation Committee may, in its sole discretion, make such adjustments to the participant's target award opportunity that it deems appropriate or pro rate the award payable to the participant. In the case of a participant's or an employee's separation from service with Alltel or a subsidiary for any reason prior to the last day of a performance period, then, unless otherwise determined by the Compensation Committee, such participant or employee shall become ineligible to participate in the Amended Long-Term Incentive Plan and shall not receive payment of any award for any performance period that has not ended prior to the participant's separation from service.

Amendments, Etc. The Board reserves the right, at any time, to amend, suspend or terminate the Amended Long-Term Incentive Plan, in whole or in part, in any manner, and for any reason, and without the consent of any participant, eligible employee, beneficiary or other person. However, no such action shall adversely affect the payment of any amount for a performance period ending prior to the action of the Board.

The Amended Long-Term Incentive Plan is intended to qualify for the performance-based compensation exception of Section 162(m) of the Code and the short-term deferral exception of Section 409A of the Code. The Amended Long-Term Incentive Plan and any awards shall be administered in a manner consistent with this intent, and any provision that would cause the Amended Long-Term Incentive Plan or any award to fail to satisfy either

such exception shall have no force and effect until amended to so comply (which amendment may be retroactive and may be made by Alltel without the consent of any participant, eligible employee, beneficiary or other person).

Federal Income Tax Consequences

Following is a brief summary of certain of the federal income tax consequences of certain transactions under the Amended Long-Term Incentive Plan. This summary is not intended to be complete and does not describe state, local, foreign or other tax consequences.

A participant in the Amended Long-Term Incentive Plan will be taxed at ordinary income rates on the amount of any cash payment received pursuant to the Amended Long-Term Incentive Plan. Alltel or the subsidiary for which the participant performs services will be entitled to a federal income tax deduction corresponding to the amount of income recognized by a participant in the Amended Long-Term Incentive Plan, provided that, among other things, the income (a) meets the test of reasonableness, (b) is an ordinary and necessary business expense, and (c) is not an excess parachute payment within the meaning of Section 280G of the Code.

Plan Benefits

Future benefits to be received by a person or group under the Amended Long-Term Incentive Plan are not determinable at this time and will depend on individual and corporate performance. Awards under the Amended Long-Term Incentive Plan (prior to its amendment and restatement as described above) to named executive officers for 2005 are reported in this Proxy Statement in the Long-Term Incentive Plan Payouts column of the Summary Compensation Table on page 14. Awards for 2005 to all executive officers as a group, were \$3,611,017.

Current Equity Compensation Plan Information

Set forth below is additional information as of December 31, 2005, about shares of Alltel's Common Stock that may be issued upon the exercise of options under the company's existing equity compensation plans, divided between plans approved by Alltel's stockholders and plans not submitted to the stockholders for approval.

(Thousands, except per share amounts)	(a) Number of securities to be issued upon exercise of outstanding options (2)	(b) Weighted-average exercise price of outstanding options	(c) Number of securities available for future issuance under equity compensation plans, excluding securities reflected in column (a)
Equity compensation plans approved by security holders (1)	15,396.0	\$ 56.83	15,904.2
Equity compensation plans not approved by security holders			

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Totals	15,396.0	\$	56.83	15,904.2
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- (1) Includes the Alltel Corporation 1991 Stock Option Plan, Alltel Corporation 1994 Stock Option Plan for Employees, Alltel Corporation 1994 Stock Option Plan for Nonemployee Directors, Alltel Corporation 1998 Equity Incentive Plan, and the Alltel Corporation 2001 Equity Incentive Plan.
- (2) Does not include 1,920,503 stock options with a weighted-average exercise price of \$30.77, which were assumed by Alltel in connection with the company's mergers with 360° Communications Company in 1998, Aliant Communications Inc. in 1999 and Western Wireless Corporation in 2005. These options were issued under the Amended and Restated 360° Communications Company 1996 Equity Incentive Plan, 360° Communications Company 1996 Replacement Stock Option Plan, the Lincoln Telecommunications Company 1989 Stock and Incentive Stock Plan, Western Wireless Corporation 2005 Long-Term Equity Incentive Plan and the Amended and Restated 1994 Management Incentive Stock Option Plan of Western Wireless Corporation. These plans have been frozen since the merger dates with respect to the granting of any additional options.

RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

The Audit Committee has selected PricewaterhouseCoopers LLP (PwC) to audit Alltel 's consolidated financial statements for the fiscal year ended December 31, 2006. Alltel is submitting to the stockholders for ratification at the Annual Meeting the selection of PwC as Alltel 's independent auditors for 2006, although neither the Board of Directors nor its Audit Committee maintains a policy requiring Alltel to seek stockholder ratification of the independent auditor selection. PwC also served as Alltel 's independent auditor for the 2004 and 2005 fiscal years. Information regarding PwC 's fees for 2004 and 2005 is provided below under the caption Audit and Non-Audit Fees. Representatives of PwC are expected to be present at the 2006 Annual Meeting and will have an opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

STOCKHOLDER PROPOSALS

Stockholders who intend to present proposals at the 2007 Annual Meeting, and who wish to have those proposals included in Alltel 's proxy statement for the 2007 Annual Meeting, must be certain that those proposals are received by the Corporate Secretary at One Allied Drive, Little Rock, Arkansas 72202, prior to November 3, 2006. Such proposals must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the proxy statement for Alltel 's 2007 Annual Meeting.

CERTAIN TRANSACTIONS

Alltel engaged Stephens Inc., an affiliate of Stephens Group, Inc., to render investment banking and investment management services to Alltel and its subsidiaries during 2005, for which Alltel paid Stephens Inc. fees totaling \$13,127,179 during the period January 1, 2005, through December 31, 2005. Stephens Group, Inc. beneficially owned, on February 24, 2006, 10,720,061 shares of Common Stock. Warren A. Stephens, an executive officer of Stephens Inc., is a director of Alltel.

As part of its advertising campaign, Alltel was the corporate sponsor of a race car in the Busch and Nextel Cup Circuits during 2005, for which Alltel paid Penske Racing South, Inc. sponsorship fees totaling \$10,305,850 during the period January 1, 2005, through December 31, 2005. Roger S. Penske, Gregory W. Penske 's father, is an executive officer of Penske Racing South, Inc. Gregory W. Penske is a director of Alltel.

Alltel believes that the transactions set forth above were conducted on terms that are no less favorable to Alltel than could have been obtained from unaffiliated third parties.

SECTION 16(a) BENEFICIAL OWNERSHIP

REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Alltel 's directors and executive officers, and persons who own more than ten percent of Alltel 's Common Stock, to file with the SEC and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of that Common Stock. To Alltel 's knowledge, based solely upon a review of copies of reports provided by those individuals to Alltel and written representations of those individuals that no other reports were required with respect to the year ended December 31, 2005, Alltel

believes that all of the foregoing filing requirements applicable to its directors, executive officers, and greater-than-ten percent beneficial owners have been met.

ANNUAL REPORT

The 2005 Annual Report accompanies this proxy statement. Alltel will provide, without charge upon written request, to any person receiving a copy of this proxy statement, a copy of Alltel's 2005 Form 10-K report, including the financial statements and the financial statement schedules thereto. Those requests should be addressed to Vice President Investor Relations, Alltel Corporate Services, Inc., One Allied Drive, Little Rock, Arkansas 72202.

Only one copy of this proxy statement, and the accompanying Annual Report, is being delivered to stockholders who share an address, unless Alltel has received contrary instructions from one or more of the stockholders. Alltel will promptly deliver a separate copy of this proxy statement and the accompanying Annual Report to any stockholder at a shared address to which a single copy of those documents has been delivered upon the written or oral request from that stockholder to Alltel at the foregoing address or by calling (501) 905-8991. Any stockholder sharing a single copy of the proxy statement and Annual Report who wishes to receive a separate mailing of Alltel's proxy statement and Annual Report in the future and stockholders sharing an address and receiving multiple copies of Alltel's proxy statement and Annual Report who wish to share a single copy of those documents in the future should also notify Alltel at the foregoing address.

AUDIT AND NON-AUDIT FEES

PricewaterhouseCoopers LLP (PwC) has been selected as Alltel's independent auditors for 2006. The following discussion presents fees for services rendered by PwC for 2005 and 2004.

Audit Fees

The aggregate fees incurred for professional services rendered for the audit of Alltel's annual financial statements for the fiscal years ended December 31, 2005 and 2004, and the review of the financial statements included in Alltel's Forms 10-Q for the fiscal years ended December 31, 2005 and 2004, were \$6,686,530 and \$4,344,300, respectively. These audit fees include services rendered for the audits of certain subsidiaries and wireless partnerships.

Audit-Related Fees

The aggregate fees incurred for assurance and related services by PwC that were reasonably related to the performance of the audit or review of Alltel's financial statements and are not reported above under the caption "Audit Fees" for the fiscal years ended December 31, 2005 and 2004, were \$785,200 and \$1,000, respectively, which amounts were incurred for the following categories of services:

	<u>2005</u>	<u>2004</u>
Employee benefit plan audits ⁽¹⁾	\$ 0	\$ 1,000
State regulatory assistance	58,000	0
Wireline business audit	701,600	0
Retail store audits	25,600	0

Totals	<u>\$ 785,200</u>	<u>\$ 1,000</u>
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- (1) On February 23, 2004, Alltel engaged Moore Stephens Frost, PLC to serve as independent auditors for Alltel's employee benefit plans. Fees paid in 2004 to PwC relate to the audit of the benefit plans for the fiscal year ended December 31, 2002.

Tax Fees

The aggregate fees incurred by Alltel for tax compliance, tax consulting and tax planning services by PwC for the fiscal years ended December 31, 2005 and 2004, were \$90,137 and \$37,722, respectively. The foregoing tax-related services include review of tax returns, tax payment planning services and tax advice related to acquisitions.

All Other Fees

The aggregate fees incurred during 2005 and 2004 for services rendered to Alltel by PwC, other than those services covered in the sections captioned **Audit Fees** , **Audit-Related Fees** , and **Tax Fees** , were \$10,500 in each year for subscriptions to PwC's on-line accounting research software.

In making its determination regarding the independence of PwC, the Audit Committee considered whether the provision of the services covered in the sections herein regarding **Audit-Related Fees** , **Tax Fees** and **All Other Fees** was compatible with maintaining such independence. All services to be performed for Alltel by PwC must be preapproved by the Audit Committee or a designated member of the Audit Committee pursuant to the Committee's Pre-Approval Policies and Procedures. The Audit Committee's pre-approval policy prohibits Alltel from engaging PwC for any non-audit services other than the following tax-related services: tax return preparation and review; advice on income tax, tax accounting, sales/use tax, excise tax and other miscellaneous tax matters; tax advice and implementation assistance on restructurings, mergers and acquisition matters and other tax strategies.

OTHER MATTERS

The management and the Board of Directors of Alltel do not know of any other matters that may come before the meeting. If any other matters properly come before the meeting, however, it is the intention of the persons named in the accompanying form of proxy to vote the proxy in accordance with their judgment on those matters. Under Alltel's Bylaws, nominations for director may be made only by the Board, or by an Alltel stockholder entitled to vote who has delivered notice to Alltel not fewer than 90 days nor more than 120 days prior to the first year anniversary of the immediately preceding year's Annual Meeting. The Bylaws also provide that no business may be brought before an Annual Meeting except as specified in the notice of the meeting or as otherwise brought before the meeting by or at the direction of the Board or by an Alltel stockholder entitled to vote who has delivered notice to Alltel (containing certain information specified in the Bylaws) within the time limits described above for delivering notice of a nomination for the election of a director. These requirements apply to any matter that an Alltel stockholder wishes to raise at an Annual Meeting other than in accordance with the procedures in SEC Rule 14a-8. A copy of the full text of the Bylaw provisions discussed above may be obtained by writing to the Corporate Secretary of Alltel, One Allied Drive, Little Rock, Arkansas 72202.

Alltel will bear the cost of solicitation of proxies. In addition to the use of the mail, proxies may be solicited by officers, directors, and employees of Alltel, personally or by telephone or electronic means. In the event the management of Alltel deems it advisable, Alltel may engage the services of an independent proxy solicitation firm to aid in the solicitation of proxies. The fees paid by Alltel, in the event of such an engagement, likely would not exceed \$20,000. Alltel will pay persons holding stock in their names or those of their nominees for their expenses in sending soliciting material to their principals in accordance with regulations of the SEC and the New York Stock Exchange.

The material referred to in this proxy statement under the captions **Comparative Stockholder Return**, **Compensation Committee Report on Executive Compensation** and **Audit Committee Report** shall not be deemed soliciting material or otherwise deemed filed and shall not be

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deemed to be incorporated by any general statement of incorporation by reference in any filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934.

IT IS IMPORTANT THAT ALLTEL S SHARES BE VOTED PROMPTLY. THEREFORE, STOCKHOLDERS ARE URGED TO FILL IN, DATE, SIGN, AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE, OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD.

Dated: March 16, 2006

By Order of the Board of Directors,
RICHARD N. MASSEY,

Secretary

ALLTEL CORPORATION

**CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER ANNUAL REPORT INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005**

ALLTEL CORPORATION

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS**

Executive Summary

ALLTEL Corporation (Alltel or the Company) is a customer-focused communications company providing wireless, local telephone, long-distance, Internet and high-speed data services to more than 15 million residential and business customers in 36 states. Among the highlights in 2005:

Wireless revenues and sales increased 24 percent over 2004 reflecting the effects of Alltel's August 1, 2005 acquisition of Western Wireless Corporation (Western Wireless) and the exchange of wireless properties with Cingular Wireless LLC (Cingular) completed during the second quarter of 2005. Excluding the effects of acquisitions, wireless revenues and sales increased 11 percent from a year ago driven by Alltel's continued focus on quality customer growth, improvements in data revenues, additional Eligible Telecommunications Carrier (ETC) subsidies, and growth in wholesale minutes. Average revenue per customer increased 7 percent from a year ago to \$51.44, while retail revenue per customer increased to \$46.68, a 5 percent increase from a year ago. Excluding the acquired markets, both average revenue per customer and retail revenue per customer increased 5 percent from the same period a year ago, reflecting Alltel's continued focus on quality customer growth, improvements in data revenues and additional ETC subsidies. Retail minutes of use per wireless customer per month increased to 597 minutes, a 21 percent increase from the same period of 2004.

Wireless gross customer additions were 4.5 million in 2005, and net customer additions were 2.0 million. Within its non-acquired or heritage markets, Alltel added 344,000 net postpay wireless customers and added 91,000 net prepaid customers during 2005. The net gain in prepaid customers included the addition of 90,000 net customers in the fourth quarter of 2005, driven by significant success of Simple Freedom, Alltel's phone-in-the-box prepay service that is sold primarily through Wal-Mart. In the acquired markets excluding Western Wireless, Alltel incurred approximate net losses of 138,000 customers, primarily driven by the conversion of customers from GSM technology to CDMA technology in those markets, which conversion has been completed. In the former Western Wireless markets, net customer additions for the year were 46,000, which includes the addition of 25,000 customers resulting from conforming these markets to Alltel's disconnect policies. Wireless postpay churn was 1.77 percent and total churn, which includes prepay customer losses, was 2.17 percent. Comparatively, in Alltel's heritage markets, postpay churn declined 8 basis points year-over-year to 1.66 percent.

Wireless segment income increased 23 percent from a year ago, primarily reflecting the acquisition-related growth in revenues and sales noted above. Excluding the effects of acquisitions, wireless segment income increased 10 percent from the same period a year ago driven by revenue growth.

In its wireline business, Alltel added 154,000 broadband customers, increasing Alltel's broadband customer base to nearly 400,000. During 2005, the Company lost approximately 124,000 wireline access lines, a year-over-year decline of 4 percent. Average revenue per wireline customer increased 2 percent from 2004 to \$67.21 due primarily to growth in broadband revenues and selling additional services and features to existing wireline customers. Wireline segment income decreased 2 percent from a year ago, reflecting the 2 percent decline in wireline revenues and sales attributable to the loss of access lines and additional costs related to the growth in broadband customers.

The Company's merger with Western Wireless was significant to Alltel in several ways. First, it increased Alltel's wireless revenue mix to 65 percent of the Company's total consolidated revenues. Second, the transaction increased the Company's retail position in markets where Alltel can bring significant value to customers by offering competitive national rate plans. Third, this transaction diversified Alltel's wireless roaming revenue sources, and, as a result of offering multiple technologies, the Company became the leading independent roaming partner for the four national carriers in its markets.

In integrating the acquired operations, Alltel began preparation for operational support system conversions within the former Western Wireless markets, which is expected to occur in the first quarter of 2006. In addition, Alltel launched its national service plans and began retail store modifications in the former Western Wireless markets. In the markets acquired from Cingular and Public Service Cellular, Inc. (PS Cellular), Alltel launched several marketing and promotional activities to improve its competitiveness in those markets. Alltel also continued expansion of its 1XRTT data footprint, which now covers approximately 92 percent of Alltel's total potential customers (POPs).

As further discussed under Acquisitions to be Completed in 2006, Alltel positioned its wireless business for future growth opportunities as a result of the Company's planned acquisition of Midwest Wireless Holdings of Mankato, Minnesota (Midwest Holdings). Through this acquisition, which is expected to close by mid-year 2006, Alltel will add approximately 400,000 wireless customers and expand its wireless operations in Minnesota, Iowa and Wisconsin.

On December 9, 2005, Alltel announced that it would spin off its wireline telecommunications business to its stockholders and merge it with Valor Communications Group, Inc. (Valor). The separation of the wireless and wireline businesses is part of Alltel's strategic plan. Upon completion of the transaction, both businesses will have sufficient scale to compete on their own and should be positioned to take advantage of strategic, operational and financial opportunities. The spin off will include the majority of Alltel's communications support services, including directory publishing, information technology outsourcing services, retail long distance and the wireline sales portion of communications products. The transaction, which is further discussed under Pending Transactions to be Completed in 2006, is expected to close by mid-year 2006.

During 2006, Alltel will continue to face significant challenges resulting from competition in the telecommunications industry and changes in the regulatory environment, including the effects of potential changes to the rules governing universal service and inter-carrier compensation. In addressing these challenges, Alltel will continue to focus its efforts on improving customer service, enhancing the quality of its networks, expanding its product and service offerings, and conducting vigorous advocacy efforts in favor of governmental policies that will benefit Alltel's business and its customers.

PENDING TRANSACTIONS TO BE COMPLETED DURING 2006

Spin Off of Wireline Business and Merger with Valor

Pursuant to the plan of distribution and immediately prior to the effective time of the merger with Valor described below, Alltel will contribute all of the assets of its wireline telecommunications business to ALLTEL Holding Corp. (Alltel Holding or Spinco), a wholly owned subsidiary of the Company, in exchange for: (i) the issuance to Alltel of Spinco common stock to be distributed pro rata to Alltel's stockholders as a tax free stock dividend, (ii) the payment of a special dividend to Alltel in an amount not to exceed the Company's tax basis in Spinco, and (iii) the distribution by Spinco to Alltel of certain Spinco debt securities, which Alltel intends to exchange for outstanding Company debt securities or otherwise transfer to Alltel's creditors. Alltel will also transfer to Spinco approximately \$261.0 million of long-term debt that had been issued by the Company's wireline subsidiaries. Prior to the distribution and merger with Valor, Spinco will borrow approximately \$4.0 billion (the Spinco financing amount) through a new senior credit agreement, the issuance of high yield debt securities in the private placement market or through a public offering to pay the special dividend and to distribute debt securities to Alltel in an amount equal to the difference between the Spinco financing amount and the special dividend. Alltel has received a commitment letter from various financial institutions to provide Spinco with up to \$4.2 billion in senior secured credit facilities comprised of term loan facilities in an aggregate amount of up to \$3.7 billion and a revolving credit facility of up to \$500 million.

Immediately after the consummation of the spin off, Alltel Holding will merge with and into Valor, with Valor continuing as the surviving corporation. As a result of the merger, all of the issued and outstanding shares

of Spinco common stock will be converted into the right to receive an aggregate number of shares of common stock of Valor. Valor is expected to issue in the aggregate approximately 403 million shares of common stock to Alltel stockholders pursuant to the merger, or approximately 1.04 shares of Valor common stock (subject to variation based on the number of Spinco common shares to be distributed to Alltel stockholders and as a result of compensatory equity grants and other issuances) for each share of Spinco common stock outstanding as of the effective time of the merger. Upon completion of the merger, Alltel stockholders will own approximately 85 percent of the outstanding equity interests of the surviving corporation and the stockholders of Valor will own the remaining 15 percent of such equity interests. Valor will also assume approximately \$4.2 billion of long-term debt. The transaction requires approval from Valor shareholders, federal and state regulators and a letter ruling from the Internal Revenue Service (IRS) approving the tax-free status of the distribution, special dividend, debt exchange and merger transaction. (See Restructuring and Other Charges below for a discussion of nonrecurring expenses recorded by Alltel in the fourth quarter of 2005 related to the spin off and merger transaction).

Acquisitions to be Completed During 2006

On November 18, 2005, Alltel announced that it had entered into a definitive agreement to purchase Midwest Wireless for \$1.075 billion in cash. Under terms of the agreement, Alltel will acquire from Midwest Holdings wireless properties, including 850 MHz licenses and PCS spectrum covering approximately 2.0 million POPs, network assets and approximately 400,000 customers in select markets in southern Minnesota, northern and eastern Iowa, and western Wisconsin. Closing of the transaction is contingent upon regulatory approval, including approval of the Federal Communications Commission (FCC) and the termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. (See Note 20 to the consolidated financial statements for additional information regarding these pending transactions.)

ACQUISITIONS COMPLETED DURING 2005, 2004 AND 2003

On August 1, 2005, Alltel and Western Wireless completed the merger of Western Wireless with and into a wholly-owned subsidiary of Alltel. In the merger, each share of Western Wireless common stock was exchanged for 0.535 shares of Alltel common stock and \$9.25 in cash unless the shareholder made an all-cash election, in which case the shareholder received \$40 in cash. Western Wireless shareholders making an all-stock election were subject to proration and received approximately 0.539 shares of Alltel common stock and \$9.18 in cash. In the aggregate, Alltel issued approximately 54.3 million shares of stock valued at \$3,430.4 million and paid approximately \$933.4 million in cash. Through its wholly-owned subsidiary that merged with Western Wireless, Alltel also assumed debt of approximately \$2.1 billion. As a result of the merger, Alltel added approximately 1.3 million domestic wireless customers in 19 midwestern and western states that are contiguous to the Company's existing wireless properties, increasing the number of wireless customers served by Alltel to more than 10 million customers in 34 states.

As a condition of receiving approval for the merger from the U.S. Department of Justice (DOJ) and FCC, Alltel agreed to divest certain wireless operations of Western Wireless in 16 markets in Arkansas, Kansas and Nebraska, as well as the Cellular One brand. On December 19, 2005, Alltel completed an exchange of wireless properties with United States Cellular Corporation (U.S. Cellular) that included a substantial portion of the divestiture requirements related to the merger. Under terms of the agreement, Alltel acquired approximately 90,000 customers in two Rural Service Area (RSA) markets in Idaho that are adjacent to the Company's existing operations and received \$48.2 million in cash in exchange for 15 rural markets in Kansas and Nebraska owned by Western Wireless. In December 2005, Alltel sold the Cellular One brand to Dobson Cellular Systems, Inc. and announced an agreement to sell the remaining market in Arkansas to Cingular. During the third and fourth quarters of 2005, Alltel completed the sale of Western Wireless international operations in Georgia, Ghana and Ireland for \$570.3 million in cash, and Alltel has pending definitive agreements to sell the Western Wireless international operations in Austria, Bolivia and Haiti for \$1.7 billion in cash. The sales of the market in Arkansas and the Austrian, Bolivian and Haitian operations are expected to close during the first half of 2006.

The Company is also actively pursuing the disposition of the remaining international operations acquired from Western Wireless. Accordingly, the acquired international operations and interests of Western Wireless and the 16 domestic markets required to be divested by Alltel have been classified as assets held for sale and discontinued operations in the accompanying consolidated financial statements. Alltel's integration of the remaining acquired domestic operations of Western Wireless is currently underway. In connection with this integration, the Company expects to incur significant nonrecurring expenses over the next several quarters, principally consisting of branding, signage, retail store redesigns and computer system conversion costs. (See Restructuring and Other Charges below for a discussion of integration expenses recorded by Alltel in the third and fourth quarters of 2005).

On April 15, 2005, Alltel and Cingular exchanged certain wireless assets. Under the terms of the agreement, Alltel acquired former AT&T Wireless properties, including licenses, network assets, and subscribers, in selected markets in Kentucky, Oklahoma, Texas, Connecticut and Mississippi representing approximately 2.7 million POPs. Alltel also acquired 20MHz of spectrum and network assets formerly owned by AT&T Wireless in Kansas and wireless spectrum in several counties in Georgia and Texas. In addition, Alltel and Cingular exchanged partnership interests, with Cingular receiving interests in markets in Kansas, Missouri and Texas, and Alltel receiving more ownership in majority-owned markets it manages in Michigan, Louisiana, and Ohio. Alltel also paid Cingular approximately \$153.0 million in cash. In connection with this transaction, Alltel recorded a pretax gain of approximately \$127.5 million in the second quarter of 2005 and an additional gain of \$30.5 million in the third quarter of 2005 and added approximately 212,000 customers. On February 28, 2005, Alltel completed the purchase of wireless properties, representing approximately 900,000 POPs in Alabama and Georgia, from PS Cellular for \$48.1 million in cash. Through the completion of this transaction, Alltel added approximately 54,000 customers. During 2005, Alltel also acquired additional ownership interests in wireless properties in Michigan, Ohio and Wisconsin in which the Company owned a majority interest. In connection with these acquisitions, the Company paid \$15.7 million in cash.

On December 1, 2004, Alltel completed the purchase of certain wireless assets from U.S. Cellular and TDS Telecommunications Corporation for \$148.2 million in cash, acquiring wireless properties with a potential service area covering approximately 584,000 POPs in Florida and Ohio. The Company also purchased partnership interests in seven Alltel-operated markets in Georgia, Mississippi, North Carolina, Ohio and Wisconsin. Prior to this acquisition, Alltel owned an approximate 42 percent interest in the Georgia market, with a potential service area covering approximately 229,000 POPs, and Alltel owned a majority interest in the Mississippi, North Carolina, Ohio and Wisconsin markets. On November 2, 2004, the Company purchased for \$35.6 million in cash wireless properties with a potential service area covering approximately 275,000 POPs in south Louisiana from SJI, a privately held company. During the fourth quarter of 2004, Alltel also acquired additional ownership interests in wireless properties in Louisiana and Wisconsin in which the Company owned a majority interest in exchange for \$1.4 million in cash and a portion of the Company's ownership interest in a wireless partnership serving the St. Louis, Missouri market.

Through these transactions, Alltel added approximately 92,000 wireless customers. Because all of these acquisitions were completed in the fourth quarter of 2004, the acquired operations did not have a significant effect on the Company's consolidated results of operations or cash flows for the year ended December 31, 2004.

On August 29, 2003, Alltel purchased for \$22.8 million in cash a wireless property with a potential service area covering approximately 205,000 POPs in an Arizona RSA. During the third quarter of 2003, the Company also purchased for \$5.7 million in cash additional ownership interests in wireless properties in Mississippi, New Mexico and Virginia in which the Company owned a majority interest. On April 1, 2003, the Company paid \$7.5 million to increase its ownership interest from 43 percent to approximately 86 percent in a wireless property with a potential service area covering about 145,000 POPs in a Wisconsin RSA. On February 28, 2003, the Company purchased for \$72.0 million in cash wireless properties with a potential service area covering approximately 370,000 POPs in southern Mississippi, from Cellular XL Associates, a privately held company. On February 28, 2003, the Company also purchased for \$60.0 million in cash the remaining ownership interest in wireless

properties with a potential service area covering approximately 355,000 POPs in two Michigan RSAs. Prior to this acquisition, Alltel owned approximately 49 percent of the Michigan properties. Through the completion of these transactions, Alltel added approximately 147,000 wireless customers.

The accounts and results of operations of the acquired wireless properties discussed above are included in the accompanying consolidated financial statements from the date of acquisition. (See Note 3 to the consolidated financial statements for additional information regarding these acquisitions.)

CONSOLIDATED RESULTS OF OPERATIONS

(Millions, except per share amounts)	2005	2004	2003
Revenues and sales:			
Service revenues	\$ 8,380.5	\$ 7,374.3	\$ 7,156.1
Product sales	1,106.5	871.8	823.8
Total revenues and sales	9,487.0	8,246.1	7,979.9
Costs and expenses:			
Cost of services	2,743.8	2,374.2	2,273.6
Cost of products sold	1,315.3	1,075.5	1,043.5
Selling, general, administrative and other	1,795.5	1,524.2	1,498.1
Depreciation and amortization	1,482.6	1,299.7	1,247.7
Restructuring and other charges	58.7	50.9	19.0
Total costs and expenses	7,395.9	6,324.5	6,081.9
Operating income	2,091.1	1,921.6	1,898.0
Non-operating income (expense), net	133.1	22.9	(3.2)
Interest expense	(332.6)	(352.5)	(378.6)
Gain on disposal of assets, write-down of investments and other	218.8		17.9
Income from continuing operations before income taxes	2,110.4	1,592.0	1,534.1
Income taxes	801.9	565.3	580.6
Income from continuing operations	1,308.5	1,026.7	953.5
Income from discontinued operations, net of income taxes	30.3	19.5	361.0
Cumulative effect of accounting change, net of income taxes	(7.4)		15.6
Net income	\$ 1,331.4	\$ 1,046.2	\$ 1,330.1
Basic earnings per share:			
Income from continuing operations	\$ 3.84	\$ 3.34	\$ 3.06
Income from discontinued operations	.09	.06	1.16
Cumulative effect of accounting change	(.02)		.05
Net income	\$ 3.91	\$ 3.40	\$ 4.27

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Diluted earnings per share:			
Income from continuing operations	\$ 3.80	\$ 3.33	\$ 3.05
Income from discontinued operations	.09	.06	1.15
Cumulative effect of accounting change	(.02)		.05
	<u> </u>	<u> </u>	<u> </u>
Net income	\$ 3.87	\$ 3.39	\$ 4.25
	<u> </u>	<u> </u>	<u> </u>

Total revenues and sales increased 15 percent, or \$1,240.9 million, and service revenues increased by 14 percent, or \$1,006.2 million, in 2005 compared to the prior year. The acquisitions of wireless properties completed in 2005 and during the fourth quarter of 2004 previously discussed accounted for approximately

\$614.1 million and \$644.4 million of the overall increases in service revenues and total revenues and sales in 2005, respectively. In addition to the effects of the acquisitions, service revenues increased due to nonacquisition-related growth in Alltel's wireless customer base and the corresponding increases in wireless access revenues, which increased \$259.7 million from 2004. Service revenues for 2005 also reflected growth in revenues derived from wireless and wireline data services, which increased \$152.4 million from a year ago, primarily reflecting strong demand for these services and the effects of two large-scale promotions aimed at increasing text messaging usage. Wireless service revenues also included increases in regulatory and other fees of \$126.6 million compared to 2004 due to additional Universal Service Fund (USF) support received by Alltel reflecting an increase in the contribution factor, and additional revenues attributable to Alltel's certification in twelve states as an ETC, which accounted for \$69.1 million of the overall increase in regulatory fees in 2005. Wholesale wireless revenues also increased \$40.4 million in 2005 compared to 2004, primarily due to strong growth in CDMA minutes of use and stability in the volumes of TDMA and analog minutes of use by other carriers' customers roaming on Alltel's wireless network.

Service revenues increased \$218.2 million, or 3 percent, in 2004, primarily reflecting growth in Alltel's wireless customer base and the corresponding increase of \$333.8 million in wireless access revenues compared to 2003. Service revenues for 2004 also reflected growth in revenues derived from wireless and wireline data services and from the sale of enhanced communication services, including caller identification, call waiting, call forwarding, voice mail, and wireless equipment protection plans. Revenues from data and enhanced services increased \$78.5 million in 2004 compared to 2003, primarily reflecting continued demand for these services. Wireless service revenues in 2004 also included increased regulatory and other fees of \$76.4 million compared to 2003. Regulatory fees in 2004 included USF support received by Alltel pursuant to its certification in seven states as an ETC, and accounted for \$48.2 million of the overall increase in regulatory fees in 2004. Regulatory fees in 2004 also reflected additional amounts billed to customers to offset costs related to certain regulatory mandates, including universal service funding, primarily resulting from changes in FCC regulations applicable to universal service fees that were effective on April 1, 2003.

The above increases in service revenues in both 2005 and 2004 were partially offset by lower wireless airtime and retail roaming revenues, decreases in wireline access and toll service revenues and reductions in revenues derived from telecommunications information services. Compared to the prior year periods, wireless airtime and retail roaming revenues decreased \$66.3 million in 2005 and \$122.2 million in 2004, primarily due to the effects of customers migrating to rate plans with a larger number of packaged minutes. Such rate plans, for a flat monthly service fee, provide customers with a specified number of airtime minutes and include unlimited weekend, nighttime and mobile-to-mobile minutes at no extra charge. Wireline local service and network access and long-distance revenues decreased \$78.8 million in 2005, primarily as a result of the loss of wireline access lines due, in part, to broadband and wireless substitution. Wireline local service and network access and toll revenues decreased \$51.4 million in 2004, primarily as a result of the loss of wireline access lines and a \$20.3 million reduction in high-cost funding received by Alltel's wireline subsidiaries under the USF program. Telecommunications information services revenues decreased \$24.6 million in 2005 from 2004 due to the loss of one of Alltel's remaining unaffiliated wireline services customers during the fourth quarter of 2004. Telecommunications information services revenues decreased \$67.1 million in 2004 compared to 2003, primarily due to the December 2003 sale of certain assets and related liabilities, including selected customer contracts and capitalized software development costs, to Convergys Information Management Group, Inc. (Convergys), as well as the loss of one of Alltel's remaining unaffiliated customers previously discussed. Service revenue growth in 2004 was also adversely affected by reductions in wireless wholesale revenues and revenues from long-distance and network management services. Wholesale wireless revenues declined \$15.1 million in 2004 compared to 2003 primarily due to lower analog and TDMA minutes of use by other carriers' customers roaming on Alltel's wireless network, partially offset by growth in CDMA minutes of use as other CDMA carriers directed wholesale traffic to Alltel's network. Revenues from long-distance and network management services decreased \$15.2 million in 2004, primarily due to declining usage by residential customers and a reduction in intercompany and residential customer billing rates.

Product sales increased \$234.7 million, or 27 percent, in 2005 and \$48.0 million, or 6 percent, in 2004. The increases in product sales in both 2005 and 2004 were primarily driven by higher retail prices realized on the sale of wireless handsets that include advanced features, such as picture messaging, and that are capable of downloading games, entertainment content, weather and office applications. The acquisitions of wireless properties completed during 2005 and the fourth quarter of 2004 accounted for \$30.3 million of the overall increase in product sales in 2005. In addition to the effects of higher retail prices realized from the sale of wireless handsets, product sales in 2004 also reflected growth in the Company's directory publishing operations. Compared to 2003, directory publishing revenues increased \$33.3 million, reflecting an increase in the number of directories published, including the initial publication of directories for the Kentucky and Nebraska operations, which had been previously outsourced.

Cost of services increased \$369.6 million, or 16 percent, in 2005 and \$100.6 million, or 4 percent, in 2004. The acquisitions of wireless properties completed during 2005 and the fourth quarter of 2004 accounted for \$200.0 million of the overall increase in cost of services in 2005. Cost of services also increased in both years due to increases in wireless network-related costs, wireless regulatory fees and wireless customer service expenses. Compared to the prior year periods, wireless network-related costs increased \$61.2 million in 2005 and \$131.8 million in 2004 reflecting increased network traffic due to customer growth, increased minutes of use and expansion of network facilities. Cost of services for 2005 and 2004 also reflected increases in wireless customer service expenses of \$31.7 million and \$34.5 million, respectively, primarily reflecting additional costs associated with Alltel's retention efforts focused on improving customer satisfaction and reducing postpay churn. Cost of services for 2005 and 2004 also reflected increases in wireless regulatory fees of \$21.7 million and \$12.7 million, respectively, principally related to an increase in the contribution factor applicable to universal service funding and changes in FCC regulations effective April 1, 2003. Cost of services in 2005 also reflected increased payments to data content providers, which increased \$32.9 million from 2004, consistent with the growth in wireless revenues derived from data services. When compared to 2004, cost of services for 2005 included additional wireless bad debt expense of \$27.8 million, primarily due to non-acquisition growth in customers and increased write-offs associated with early disconnect penalties. Cost of services for 2005 also included \$17.8 million of incremental costs associated with Hurricane Katrina and three other storms, consisting of increased long-distance and roaming expenses due to providing these services to affected customers at no charge for a three-month period, system maintenance costs to restore network facilities and additional losses from bad debts. These incremental costs, which are included in corporate expenses, also included Company donations to support the hurricane relief efforts. In addition, cost of services for 2005 also included \$19.8 million of incremental costs primarily related to a change in accounting for operating leases. Certain of the Company's operating lease agreements for cell sites and for office and retail locations include scheduled rent escalations during the initial lease term and/or during succeeding optional renewal periods. Prior to January 1, 2005, the Company had not recognized the scheduled increases in rent expense on a straight-line basis in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases, and Financial Accounting Standards Board (FASB) Technical Bulletin No. 85-3, Accounting for Operating Leases with Scheduled Rent Increases. The effects of this change, which are included in corporate expenses, were not material to the Company's previously reported consolidated results of operations, financial position or cash flows.

The above increases in cost of services for 2005 were partially offset by a reduction in operating costs incurred by the telecommunications information services operations consistent with the overall decline in its operating revenues previously discussed. Partially offsetting the increase in cost of services in 2004 attributable to increased wireless network-related costs, wireless regulatory fees and wireless customer service expenses was a reduction in network-related costs for the wireline operations of \$32.9 million, primarily due to the loss of wireline access lines and the effects of incremental strike-related expenses and maintenance costs incurred in 2003. During 2003, the Company incurred incremental expenses of approximately \$14.9 million associated with a strike that began in early June and ended on October 1, 2003, when the Company signed a new collective bargaining agreement impacting approximately 400 Alltel employees in Kentucky represented by the Communications Workers of America. Alltel also incurred \$6.0 million of additional maintenance costs in 2003.

to repair damage caused by severe winter storms. Cost of services for 2004 was also favorably affected by reduced operating costs of \$48.2 million, resulting from the sale of certain telecommunications information services operations to Convergys, as previously discussed.

Cost of products sold increased \$239.8 million, or 22 percent, in 2005 and \$32.0 million, or 3 percent, in 2004. The increases in both years were consistent with the overall growth in product sales noted above and reflected the sales of higher-priced wireless handsets and increased sales to resellers and other distributors. In addition, the wireless property additions discussed above accounted for \$57.0 million of the overall increase in cost of products sold in 2005. The increase in 2004 attributable to the sale of higher-priced wireless handsets was partially offset by decreased sales of telecommunications and data products to regulated wireline affiliates, as well as the effects of vendor rebates earned by Alltel for attaining specified purchase volumes with the Company's wireless handset vendors.

Selling, general, administrative and other operating expenses increased \$271.3 million, or 18 percent, in 2005 and \$26.1 million, or 2 percent, in 2004. The acquisitions of wireless properties accounted for \$137.9 million of the overall increase in selling, general, administrative and other expenses in 2005. Compared to 2004, selling, general, administrative and other operating expenses also reflected increased advertising costs of \$37.4 million in 2005 primarily due to two large-scale promotions aimed at increasing text messaging usage, as well as additional costs associated with Alltel's rebranding initiative. During the second quarter of 2005, Alltel launched a rebranding initiative that involved changing the Company logo, improving the design in Alltel's retail stores to be more customer friendly and initiating an advertising campaign highlighting Alltel's commitment to customer satisfaction. Alltel incurred \$13.8 million of incremental expenses associated with the rebranding initiative and the redesign of its retail stores. Increased insurance premiums related to the Company's employee medical and dental plans, additional costs associated with write-offs identified as a result of system improvements in the Company's cash processing procedures and higher audit fees and internal staffing costs incurred to comply with the Section 404 internal control reporting requirements of the Sarbanes-Oxley Act of 2002 also contributed to the increase in selling, general, administrative and other operating expenses in 2005. The increase in 2004 primarily reflected increased wireless commissions expense of \$34.0 million, driven by increased sales of Alltel's more profitable rate plans and a higher mix of postpay gross customer additions, as compared to 2003. The increase in 2004 due to wireless commissions expense was partially offset by cost savings realized in the wireline operations, reflecting Alltel's continued control of operating expenses.

Pension expense, which is included in both cost of services and selling, general, administrative and other expenses, increased \$11.1 million in 2005 and decreased \$9.0 million in 2004, when compared to the prior year period. The increase in pension expense for 2005 reflected a reduction in the discount rate used to measure annual pension costs from 6.4 percent in 2004 to 6.0 percent in 2005. Conversely, the decrease in pension expense for 2004 primarily reflected the effects of strong investment returns earned on pension plan assets during the year ended December 31, 2003, partially offset by a reduction in the discount rate used to measure annual pension costs from 6.85 percent in 2003 to 6.40 percent in 2004.

(See Pension Plans below for an additional discussion of the factors affecting the Company's annual pension costs.)

Depreciation and amortization expense increased \$182.9 million, or 14 percent, in 2005 and \$52.0 million, or 4 percent, in 2004. The effects of the wireless property acquisitions accounted for \$117.5 million of the overall increases in depreciation and amortization expense in 2005 and included amortization of customer lists of \$49.2 million. In addition to the effects of acquisitions, the increase in depreciation and amortization expense in 2005 also reflected growth in wireless plant in service and the impact of a third quarter 2004 prospective change in the depreciable lives of certain wireless telecommunications equipment. The depreciable lives were shortened in response to the rapid pace of technological development and the increasing demands of Alltel's customers for new products and services. The increases in 2005 attributable to the wireless operations were partially offset by lower wireline depreciation and amortization expense, reflecting a reduction in depreciation rates for the

Company's operations in Florida, Georgia and South Carolina, effective September 1, 2005 and July 1, 2005, and in Nebraska, effective April 1, 2004. The depreciable lives were lengthened to reflect the estimated remaining useful lives of the wireline plant based on the Company's expected future network utilization and capital expenditure levels required to provide service to its customers. The increase in depreciation and amortization expense in 2004 primarily resulted from growth in wireless plant in service and included the effects of the changes in depreciable lives discussed above.

Operating income increased \$169.5 million, or 9 percent, in 2005 and \$23.6 million, or 1 percent, in 2004. The increase in 2005 primarily reflected growth in wireless segment income resulting from the nonacquisition-related growth in revenues and sales discussed above, as well as the effects of the wireless property acquisitions, which accounted for \$132.1 million of the overall increase in operating income for 2005. The increase in 2005 attributable to the wireless operations was partially offset by a reduction in wireline segment income, reflecting the decline in wireline access lines discussed above, and the effects of incremental expenses associated with Hurricane Katrina and three other storms previously discussed. Operating income comparisons for 2005 were also adversely affected by the effects of restructuring and other charges, as further discussed below. The increase in operating income in 2004 reflected growth in both wireless and wireline segment income, partially offset by the net increase in restructuring and other charges incurred in 2004 compared to 2003, as further discussed below. The growth in wireless segment income in 2004 primarily reflected an increase in wireless revenues and sales, partially offset by increased network costs attributable to the significant growth in customer usage and additional costs associated with Company's retention efforts. Wireline segment income increased in 2004 primarily due to selling additional services and features to existing wireline customers, growth in the Company's Internet operations and the effects of the incremental strike-related costs incurred in 2003. The changes in wireless and wireline segment income are further discussed below under Results of Operations by Business Segment.

Restructuring and Other Charges

A summary of the restructuring and other charges recorded in 2005 was as follows:

<u>(Millions)</u>	<u>Wireless</u>	<u>Wireline</u>	<u>Total</u>
Severance and employee benefit costs	\$	\$ 4.4	\$ 4.4
Relocation costs	0.7		0.7
Computer system conversion and other integration costs	22.3		22.3
Costs associated with pending spin off and merger of wireline operations		31.3	31.3
Total restructuring and other charges	\$ 23.0	\$ 35.7	\$ 58.7

In connection with the exchange of wireless assets with Cingular and purchase of wireless properties from PS Cellular, the Company incurred \$18.5 million of integration expenses, primarily consisting of handset subsidies incurred to migrate the acquired customer base to CDMA handsets. Alltel also incurred \$4.5 million of integration expenses related to its acquisition of Western Wireless, primarily consisting of computer system conversion and other integration costs. These expenses included internal payroll and employee benefit costs, contracted services, relocation expenses and other programming costs incurred in converting Western Wireless' customer billing and operational support systems to Alltel's internal systems, a process which is expected to be completed during the first quarter of 2006. Of the total integration expenses recorded, \$14.3 million were incurred in the third quarter of 2005 and \$8.7 million were incurred in the fourth quarter of 2005. During the third quarter of 2005, the Company incurred \$4.6 million of severance and employee benefit costs related to a planned workforce reduction in its wireline operations. In the fourth quarter of 2005, Alltel reduced the liabilities associated with the wireline restructuring activities by \$0.2 million to reflect differences between estimated and actual costs paid in completing the employee terminations. As of December 31, 2005, the Company had paid \$4.4 million in severance and employee-related expenses, and all of the employee reductions had been

completed. As previously discussed, on December 9, 2005, Alltel announced that it would spin off its wireline telecommunications business to its stockholders and merge it with Valor. In connection with the spin-off and merger, Alltel incurred \$31.3 million of incremental costs during the fourth quarter of 2005, principally consisting of investment banker, audit and legal fees.

A summary of the restructuring and other charges recorded in 2004 was as follows:

(Millions)	Communications Support			Corporate Operations	Total
	Wireless	Wireline	Services		
Severance and employee benefit costs	\$ 8.6	\$ 11.2	\$ 0.5	\$ 2.1	\$ 22.4
Relocation costs	2.7	1.2	0.1	0.1	4.1
Lease and contract termination costs	0.5	(1.9)		(0.1)	(1.5)
Write-down in the carrying value of certain facilities	0.7			24.1	24.8
Other exit costs	0.4	0.7			1.1
Total restructuring and other charges	\$ 12.9	\$ 11.2	\$ 0.6	\$ 26.2	\$ 50.9

In January 2004, the Company announced its plans to reorganize its operations and support teams. During February 2004, Alltel announced its plans to exit its Competitive Local Exchange Carrier (CLEC) operations in the Jacksonville, Florida market due to the continued unprofitability of these operations. In connection with these activities, the Company recorded a restructuring charge of \$29.3 million consisting of \$22.9 million in severance and employee benefit costs related to a planned workforce reduction, \$4.8 million of employee relocation expenses, \$0.5 million in lease termination costs and \$1.1 million of other exit costs. The severance and employee benefit costs included a \$1.2 million payment to a former employee of the Company's sold financial services division that became payable in the first quarter of 2004 pursuant to the terms of a change in control agreement between the employee and Alltel. During the fourth quarter of 2004, the Company recorded a \$0.9 million reduction in the liabilities associated with the restructuring efforts initiated in the first quarter of 2004, consisting of \$0.7 million in employee relocation expenses and \$0.2 million in severance and employee benefit costs. The reductions primarily reflected differences between estimated and actual costs paid in completing the employee relocations and terminations. As of December 31, 2004, the Company had paid \$22.5 million in severance and employee-related expenses, and all of the employee reductions and relocations had been completed.

During the first quarter of 2004, Alltel recorded a \$2.3 million reduction in the liabilities associated with various restructuring activities initiated prior to 2003, consisting of \$2.0 million in lease and contract termination costs and \$0.3 million in severance and employee benefit costs. The reductions primarily reflected differences between estimated and actual costs paid in completing the previous planned workforce reductions and lease and contract terminations. In the first quarter of 2004, Alltel also recorded a write-down in the carrying value of certain corporate and regional facilities to fair value in conjunction with the 2004 organizational changes and the 2003 sale of the Company's financial services division to Fidelity National Financial Inc. (Fidelity National), as further discussed below under Discontinued Operations.

A summary of the restructuring and other charges recorded in 2003 was as follows:

(Millions)	Communications Support			Corporate Operations	Total
	Wireless	Wireline	Services		
Severance and employee benefit costs	\$ 1.3	\$ 7.0	\$	\$ (2.0)	\$ 6.3

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Lease and contract termination costs			(0.5)		(0.5)
Write-down of software development costs	7.6	1.8	3.8		13.2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total restructuring and other charges	\$ 8.9	\$ 8.8	\$ 3.3	\$ (2.0)	\$ 19.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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During 2003, the Company recorded a restructuring charge of \$8.5 million consisting of severance and employee benefit costs related to a planned workforce reduction, primarily resulting from the closing of certain call center locations. As of December 31, 2004, Alltel had paid \$8.5 million in severance and employee-related expenses, and all of the employee reductions had been completed. Alltel also recorded a \$2.7 million reduction in the liabilities associated with various restructuring activities initiated prior to 2003, consisting of \$2.2 million in severance and employee benefit costs and \$0.5 million in lease termination costs. The reduction primarily reflected differences between estimated and actual costs paid in completing the previous planned workforce reductions and lease terminations. In 2003, Alltel also wrote off certain capitalized software development costs that had no alternative future use or functionality.

As of December 31, 2005, the remaining unpaid liability related to the Company's restructuring activities consisted of investment banker, audit and legal fees of \$29.5 million and lease and contract termination costs of \$0.2 million. Cash outlays for the remaining unpaid liability will be disbursed over the next 12 months and will be funded from operating cash flows. The restructuring and other charges decreased net income \$48.1 million, \$31.1 million and \$11.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. The restructuring and other charges discussed above were not allocated to the Company's business segments, as management evaluates segment performance excluding the effects of these items. (See Note 10 to the consolidated financial statements for additional information regarding these charges.)

Non-Operating Income (Expense), Net

<u>(Millions)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Equity earnings in unconsolidated partnerships	\$ 43.4	\$ 68.5	\$ 64.4
Minority interest in consolidated partnerships	(69.1)	(80.1)	(78.6)
Other income, net	158.8	34.5	11.0
Non-operating income (expense), net	\$ 133.1	\$ 22.9	\$ (3.2)

As indicated in the table above, non-operating income, net increased \$110.2 million, or 481 percent, in 2005 and \$26.1 million, or 816 percent, in 2004. The increase in other income, net of \$124.3 million in 2005 primarily reflected the effect of a special cash dividend received by Alltel related to its investment in Fidelity National common stock. On March 28, 2005, Alltel received a special \$10 per share cash dividend from Fidelity National amounting to \$111.0 million. Compared to 2004, other income, net for 2005 also included additional interest income earned on the Company's cash and short-term investments of \$12.7 million due to significant growth in Alltel's available cash on hand following the May 17, 2005 issuance of common stock to settle the purchase contract obligation related to the Company's equity units. As more fully discussed in Note 5 to the consolidated financial statements, during 2002, Alltel issued 27.7 million equity units which included a purchase contract that obligated the holder to purchase, and obligated Alltel to sell, on May 17, 2005, a variable number of newly-issued Alltel common shares at a price of \$50 per share. Upon settlement of the purchase contract obligation, Alltel issued 24.5 million common shares and received proceeds of \$1,385.0 million. Other income, net for 2005 also included \$5.0 million of insurance proceeds received to offset expenses incurred by the Company related to Hurricane Katrina, as previously discussed, as well as a \$2.4 million gain on the sale of investments in certain limited partnerships.

The decrease in equity earnings of \$25.1 million in 2005 primarily reflected the effects of the wireless property exchange with Cingular and Alltel's December 1, 2004 acquisition of a majority ownership interest in a Georgia market in which the Company previously owned a minority interest. Conversely, the increase in equity earnings of \$4.1 million in 2004 reflected improved operating results in the Company's minority-owned wireless partnerships. The effects of the improved operating results on equity earnings were partially offset by the effects of the acquisitions of additional ownership interests in wireless properties in Wisconsin and Georgia, in which the Company previously held a minority ownership interest. Minority interest expense decreased \$11.0 million in

2005 primarily due to the effects of Alltel's acquisitions during the fourth quarter of 2004 and 2005 of additional ownership interests in wireless properties in Louisiana, Michigan, Mississippi, North Carolina, Ohio and Wisconsin in which the Company owned a majority interest.

Other income, net for 2004 included a \$6.2 million increase in the amount of annual dividends paid on the Company's investment in Rural Telephone Bank (RTB) Class C stock. In the second quarter of 2003, Alltel received additional shares of this stock investment as a result of the Company's repayment of all outstanding debt under the Rural Utilities Services (RUS), RTB and Federal Financing Bank (FFB) programs, as further discussed below. In addition, other income, net for 2004 included a gain of \$3.8 million realized from the previously discussed exchange of wireless partnership interests involving markets in Louisiana and St. Louis, Missouri. Compared to 2003, other income, net for 2004 included additional interest income earned on the Company's cash and short-term investments of \$3.3 million. The additional interest income reflected growth in the Company's available cash on hand following the sale of the financial services division to Fidelity National completed in April 2003. Compared to 2003, other income, net for 2004 also included additional dividend income of \$2.8 million earned on Alltel's investment in Fidelity National common stock.

Interest Expense

Interest expense decreased \$19.9 million, or 6 percent, in 2005 and \$26.1 million, or 7 percent, in 2004. The decrease in 2005 primarily reflected the effects of the April 8, 2005 redemption of \$450.0 million, 7.50 percent senior notes, as further discussed below. Interest expense for 2005 also reflected the effects of the February 17, 2005 remarketing of the senior note portion of Alltel's equity units that reset the annual interest rate on the notes to 4.656 percent from 6.25 percent for periods subsequent to February 17, 2005. Interest expense for 2005 was also favorably affected by the April 1, 2004 repayment of a \$250.0 million, 7.25 percent senior unsecured note. The decrease in interest expense in 2005 attributable to the repayment of senior notes and resetting the annual interest rate on the equity units was partially offset by additional interest costs resulting from \$1.0 billion of incremental commercial paper borrowings incurred by Alltel to finance a portion of the repayment of Western Wireless' long-term debt subsequent to the merger and the cash portion of the merger consideration, as further discussed below under Cash Flows-Financing Activities. The decrease in interest expense in 2004 reflected the April 1, 2004 repayment of the \$250.0 million unsecured note discussed above, as well as the Company's repayment of \$763.4 million of long-term debt during 2003. In 2003, Alltel repaid a \$450.0 million, 7.125 percent unsecured note due March 1, 2003 and prepaid \$249.1 million of long-term debt outstanding under the RUS, RTB and FFB programs.

Gain on Disposal of Assets, Write-Down of Investments and Other

As previously discussed, on April 15, 2005, Alltel and Cingular exchanged certain wireless assets. Primarily as a result of certain minority partners' rights-of-first-refusal, three of the wireless partnership interests to be exchanged between Alltel and Cingular were not completed until July 29, 2005. As a result of completing the exchange transactions, Alltel recorded pretax gains of \$127.5 million in the second quarter of 2005 and \$30.5 million in the third quarter of 2005. On April 6, 2005, Alltel completed the sale of all of its shares of Fidelity National common stock to Goldman Sachs for approximately \$350.8 million and recognized a pretax gain of approximately \$75.8 million. Proceeds from the stock sale were used to fund a substantial portion of the cost to redeem, on April 8, 2005, all of the issued and outstanding 7.50 percent senior notes due March 1, 2006, representing an aggregate principal amount of \$450.0 million. Concurrent with the debt redemption, Alltel also terminated the related pay variable/receive fixed, interest rate swap agreement that had been designated as a fair value hedge against the \$450.0 million senior notes. In connection with the early termination of the debt and interest rate swap agreement, Alltel incurred net pretax termination fees of approximately \$15.0 million. These transactions increased net income \$136.7 million in 2005.

In 2003, Alltel sold to Convergys certain assets and related liabilities, including selected customer contracts and capitalized software development costs, associated with the Company's telecommunications information services operations. In connection with this sale, the Company received proceeds of \$37.0 million and recorded a

pretax gain of \$31.0 million. Alltel also recorded pretax write-downs totaling \$6.0 million to reflect other-than-temporary declines in the fair value of certain investments in unconsolidated limited partnerships. As noted above, during the second quarter of 2003, Alltel retired, prior to stated maturity dates, \$249.1 million of long-term debt. In connection with the early retirement of this debt, the Company incurred pretax termination fees of \$7.1 million. These transactions increased net income \$10.7 million in 2003.

Income Taxes

Income tax expense increased \$236.6 million, or 42 percent, in 2005 consistent with the overall growth in the Company's income before income taxes. Conversely, income tax expense decreased \$15.3 million, or 3 percent, in 2004 primarily due to tax benefits associated with the reversal of certain income tax contingency reserves and the allowance of a prior year loss from the sale of a subsidiary further discussed below, partially offset by additional taxes attributable to the overall growth in the Company's earnings from continuing operations. As more fully discussed in Note 13 to the consolidated financial statements, during the third quarter of 2004, the IRS issued its proposed audit adjustments related to Alltel's consolidated federal income tax returns for the fiscal years 1997 through 2001. With the exception of three issues which are pending at appeals, Alltel agreed with the IRS findings. As a result, Alltel reassessed its income tax contingency reserves to reflect the IRS findings and recorded a \$129.3 million reduction in these reserves during the third quarter of 2004. The corresponding effects of the adjustments to the tax contingency reserves resulted in a reduction in goodwill of \$94.5 million and a reduction in income tax expense associated with continuing operations of \$19.7 million. The remaining \$15.1 million of the adjustments to the tax contingency reserves related to the sold financial services division and has been reported as discontinued operations in the Company's consolidated financial statements for 2004. During 2004, the Company also reached an agreement with the IRS allowing for the deduction of a previously realized loss associated with Alltel's 1997 disposition of a subsidiary, which resulted in the recognition of a tax benefit of \$17.6 million in 2004.

The Company's effective income tax rate increased to 38.0 percent in 2005 compared to 35.5 percent in 2004. The Company's effective income tax rate in 2004 was favorably affected by tax benefits associated with the reversal of income tax contingency reserves and the allowance of a prior year loss from the sale of a subsidiary discussed above. For 2006, Alltel's annual effective income tax rate is expected to range between 38.0 percent and 39.0 percent.

Net Income and Earnings per Share from Continuing Operations

Net income from continuing operations increased \$281.8 million, or 27 percent, in 2005 and \$73.2 million, or 8 percent, in 2004. Basic and diluted earnings per share from continuing operations in 2005 increased 15 percent and 14 percent, respectively from 2004, and both basic and diluted earnings per share increased 9 percent in 2004 compared to 2003. Growth in basic and diluted earnings per share in 2005 was adversely affected by increases in weighted average share counts due to the equity unit conversion in May 2005 and the Western Wireless merger as further discussed below. The increases in net income and earnings per share in 2005 primarily reflected the special dividend related to the Company's investment in Fidelity National common stock, gains realized from the exchange of wireless assets with Cingular and the sale of the Company's investment in Fidelity National common stock and growth in wireless and communications support services segment income. These increases were partially offset by a reduction in wireline segment income, reflecting the decline in wireline access lines.

Conversely, the increases in net income and earnings per share in 2004 primarily reflected growth in wireless and wireline segment income, increased income earned from the Company's investments in RTB stock, Fidelity National common stock, cash and short-term investments and minority-owned wireless partnerships, and the tax benefits associated with the reversal of income tax contingency reserves and the allowance of a prior year loss from the sale of a subsidiary previously discussed. These increases were partially offset by the effects of restructuring and other charges. The changes in segment income in 2005 and 2004 are further discussed below under Results of Operations by Business Segment.

Discontinued Operations

As discussed earlier, as a condition of receiving approval from the DOJ and FCC for its merger with Western Wireless, Alltel agreed to divest certain wireless operations of Western Wireless in 16 markets in Arkansas, Kansas and Nebraska, as well as the Cellular One brand. On December 19, 2005, Alltel completed an exchange of wireless properties with U.S. Cellular that included a substantial portion of the divestiture requirements related to the merger. In December 2005, Alltel sold the Cellular One brand to Dobson Cellular Systems, Inc and announced an agreement to sell the remaining market in Arkansas to Cingular. During the third and fourth quarters of 2005, Alltel completed the sale of Western Wireless international operations in Georgia, Ghana and Ireland, and Alltel has pending definitive agreements to sell the Western Wireless international operations in Austria, Bolivia and Haiti. The Company also is actively pursuing the disposition of the remaining international operations acquired from Western Wireless. The acquired international operations and interests of Western Wireless and the 16 domestic markets required to be divested by Alltel have been classified as assets held for sale and discontinued operations in the accompanying consolidated financial statements.

On April 1, 2003, Alltel completed the sale of the financial services division of its information services subsidiary, ALLTEL Information Services, Inc., to Fidelity National, for \$1.05 billion, received as \$775.0 million in cash and \$275.0 million in Fidelity National common stock. As part of this transaction, Fidelity National acquired Alltel's mortgage servicing, retail and wholesale banking and commercial lending operations, as well as the community/regional bank division. Approximately 5,500 employees of the Company transitioned to Fidelity National as part of the transaction. As a result of this transaction, the financial services division has been reflected as discontinued operations in the Company's consolidated financial statements for all periods presented. The telecom division of ALLTEL Information Services, Inc. was retained by the Company and was not part of the sale transaction with Fidelity National. The operations of the retained telecom division are included in the communications support services segment.

In January 2003, Alltel completed the termination of its business venture with Bradford & Bingley Group. The business venture, ALLTEL Mortgage Solutions, Ltd., a majority-owned consolidated subsidiary of Alltel, was created in 2000 to provide mortgage administration and information technology products in the United Kingdom. Unfortunately, the business climate in the United Kingdom limited the venture's ability to leverage the business across a broad base of customers. As a result, the operations of ALLTEL Mortgage Solutions, Ltd. were also reflected as discontinued operations in the Company's consolidated financial statements for all periods presented.

The table presented below includes certain summary income statement information related to the international operations and the domestic markets to be divested acquired from Western Wireless and the financial services operations that have been reflected as discontinued operations for the years ended December 31:

<u>(Millions)</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Revenues and sales	\$ 455.4	\$	\$ 210.3
Operating expenses	368.1		148.1
Operating income	87.3		62.2
Minority interest in consolidated entities	(5.9)		
Other income (expense), net	(1.1)		(0.1)
Gain on sale of discontinued operations			555.1
Pretax income from discontinued operations	80.3		617.2
Income tax expense (benefit)	50.0	(19.5)	256.2
Income from discontinued operations	\$ 30.3	\$ 19.5	\$ 361.0

The depreciation of long-lived assets related to the international operations and the domestic markets to be divested ceased as of August 1, 2005, the date of the Western Wireless merger with Alltel. The cessation of depreciation had the effect of reducing operating expenses by approximately \$47.8 million in 2005. Conversely, the depreciation of long-lived assets related to the financial services division ceased as of January 28, 2003, the date of the agreement to sell such operations. The cessation of depreciation had the effect of reducing operating expenses by approximately \$13.0 million in 2003. The Company recorded an after-tax gain of \$323.9 million upon completion of the sale of the financial services division. The income tax benefit recorded in 2004 included the reversal of \$15.1 million of federal income tax contingency reserves attributable to the sold financial services division, as previously discussed. In connection with the IRS audits of the Company's consolidated federal income tax returns for the fiscal years 1997 through 2001, the Company also recorded a foreign tax credit carryback benefit of \$4.4 million. (See Note 14 to the consolidated financial statements for additional information regarding the disposal of the financial services operations.)

Cumulative Effect of Accounting Change

During the fourth quarter of 2005, Alltel adopted FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). The Company evaluated the effects of FIN 47 on its operations and determined that, for certain buildings containing asbestos, Alltel is legally obligated to remediate the asbestos if the Company were to abandon, sell or otherwise dispose of the buildings. In addition, for its acquired Kentucky and Nebraska wireline operations not subject to SFAS No. 71 *Accounting for the Effects of Certain Types of Regulation*, upon adoption of FIN 47, Alltel recorded a liability to reflect its legal obligation to properly dispose of its chemically-treated telephone poles at the time they are removed from service. In accordance with federal and state regulations, depreciation expense for Alltel's wireline operations that follow the accounting prescribed by SFAS No. 71 have historically included an additional provision for cost of removal, and accordingly, the adoption of FIN 47 had no impact to these operations. The cumulative effect of this change in 2005 resulted in a non-cash charge of \$7.4 million, net of income tax benefit of \$4.6 million, and was included in net income for the year ended December 31, 2005.

Except for certain wireline subsidiaries as further discussed below, the Company adopted SFAS No. 143, *Accounting for Asset Retirement Obligations*, effective January 1, 2003. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal use of the assets. SFAS No. 143 requires that a liability for an asset retirement obligation be recognized when incurred and reasonably estimable, recorded at fair value and classified as a liability in the balance sheet. When the liability is initially recorded, the entity capitalizes the cost and increases the carrying value of the related long-lived asset. The liability is then accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. At the settlement date, the entity will settle the obligation for its recorded amount and recognize a gain or loss upon settlement.

Alltel has evaluated the effects of SFAS No. 143 on its operations and has determined that, for telecommunications and other operating facilities in which the Company owns the underlying land, Alltel has no contractual or legal obligation to remediate the property if the Company were to abandon, sell or otherwise dispose of the property. Certain of the Company's cell site and switch site operating lease agreements contain clauses requiring restoration of the leased site at the end of the lease term. Similarly, certain of the Company's lease agreements for office and retail locations require restoration of the leased site upon expiration of the lease term. Accordingly, Alltel is subject to asset retirement obligations associated with these leased facilities under the provisions of SFAS No. 143. The application of SFAS No. 143 to the Company's cell site and switch site leases and leased office and retail locations did not have a material impact on Alltel's consolidated results of operations, financial position or cash flows as of or for the year ended December 31, 2003. As noted above, in accordance with federal and state regulations, depreciation expense for the Company's wireline operations has historically included an additional provision for cost of removal. The additional cost of removal provision does not meet the recognition and measurement principles of an asset retirement obligation under SFAS No. 143. On

December 20, 2002, the FCC notified wireline carriers that they should not adopt the provisions of SFAS No. 143 unless specifically required by the FCC in the future. As a result of the FCC ruling, Alltel continues to record a regulatory liability for cost of removal for its wireline subsidiaries that follow the accounting prescribed by SFAS No. 71 Accounting for the Effects of Certain Types of Regulation. For the acquired Kentucky and Nebraska wireline operations not subject to SFAS No. 71, effective January 1, 2003, the Company ceased recognition of the cost of removal provision in depreciation expense and eliminated the cumulative cost of removal included in accumulated depreciation. The cumulative effect of retroactively applying these changes to periods prior to January 1, 2003, resulted in a non-cash credit of \$15.6 million, net of income tax expense of \$10.3 million, and was included in net income for the year ended December 31, 2003. The cessation of the cost of removal provision in depreciation expense for the acquired Kentucky and Nebraska wireline operations did not have a material impact on the Company's consolidated results of operations for the year ended December 31, 2003.

Weighted Average Common Shares Outstanding

The weighted average number of common shares outstanding increased 11 percent in 2005 and decreased one percent in 2004. The increase in 2005 primarily reflected the issuance of approximately 54.3 million Alltel common shares to effect the merger with Western Wireless completed on August 1, 2005 and the issuance of 24.5 million Alltel common shares on May 17, 2005 to settle the equity purchase contract portion of the Company's mandatorily convertible units. The increase in weighted average share counts attributable to the equity units and Western Wireless merger were partially offset by Alltel's repurchase of approximately 11.2 million of its common shares during 2004. The decrease in outstanding common shares in 2004 primarily reflected the share repurchase discussed above, partially offset by additional shares issued upon the exercise of options granted under Alltel's employee stock-based compensation plans.

RESULTS OF OPERATIONS BY BUSINESS SEGMENT

Communications-Wireless Operations

(Millions, customers in thousands)	2005	2004	2003
Revenues and sales:			
Service revenues	\$ 5,895.2	\$ 4,791.2	\$ 4,466.5
Product sales	380.7	286.9	261.9
Total revenues and sales	6,275.9	5,078.1	4,728.4
Costs and expenses:			
Cost of services	1,917.7	1,543.6	1,367.8
Cost of products sold	697.6	573.7	536.7
Selling, general, administrative and other	1,445.2	1,201.8	1,154.9
Depreciation and amortization	960.7	738.8	671.0
Total costs and expenses	5,021.2	4,057.9	3,730.4
Segment income	\$ 1,254.7	\$ 1,020.2	\$ 998.0
Customers	10,662.3	8,626.5	8,023.4
Average customers	9,550.8	8,295.9	7,834.5
Gross customer additions (a)	4,523.2	2,812.7	2,856.8
Net customer additions (a)	2,035.8	603.1	421.8
Market penetration	14.0%	13.8%	13.3%
Postpay customer churn	1.77%	1.74%	2.09%
Total churn	2.17%	2.23%	2.59%
Retail minutes of use per customer per month (b)	597	494	375
Retail revenue per customer per month (c)	\$46.68	\$44.39	\$43.39
Average revenue per customer per month (d)	\$51.44	\$48.13	\$47.51
Cost to acquire a new customer (e)	\$340	\$315	\$308

Notes to Communications-Wireless Operations Table:

- (a) Includes the effects of acquisitions and dispositions.
- (b) Represents the average monthly minutes that Alltel's customers use on both the Company's network and while roaming on other carriers networks.
- (c) Retail revenue per customer is calculated by dividing wireless retail revenues by average customers for the period. A reconciliation of the revenues used in computing retail revenue per customer per month was as follows:

(Millions)	2005	2004	2003
Service revenues	\$ 5,895.2	\$ 4,791.2	\$ 4,466.5
Less wholesale revenues	(545.1)	(372.4)	(387.5)
Total retail revenues	\$ 5,350.1	\$ 4,418.8	\$ 4,079.0

- (d) Average revenue per customer per month is calculated by dividing wireless service revenues by average customers for the period.

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- (e) Cost to acquire a new customer is calculated by dividing the sum of product sales, cost of products sold and sales and marketing expenses (included within Selling, general, administrative and other), as reported above, by the number of internal gross customer additions during the period. Customer acquisition costs exclude amounts related to the Company's customer retention efforts. A reconciliation of the revenues, expenses and customer additions used in computing cost to acquire a new customer was as follows:

(Millions, except customers in thousands)	2005	2004	2003
Product sales	\$ (230.3)	\$ (209.9)	\$ (176.4)
Cost of products sold	320.8	322.7	296.8
Sales and marketing expense	870.5	743.9	714.0
Total costs incurred to acquire new customers	\$ 961.0	\$ 856.7	\$ 834.4
Gross customer additions, excluding acquisitions	2,830.1	2,720.3	2,709.4
Cost to acquire a new customer	\$ 340	\$ 315	\$ 308

During 2005, the total number of wireless customers served by Alltel increased by more than 2.0 million customers, or 24 percent, compared to an annual growth rate in customers of 8 percent in 2004. As previously discussed, on August 1, 2005, Alltel completed the acquisition of Western Wireless. During 2005, Alltel also exchanged certain wireless properties with Cingular and U.S. Cellular and purchased wireless properties from PS Cellular. The acquired properties accounted for approximately 1.7 million of the overall increase in wireless customers during 2005. Excluding the effects of acquisitions, Alltel added 344,000 net postpay wireless customers and 91,000 net prepaid customers during 2005. The net gain in prepaid customers reflected the addition of 90,000 net customers in the fourth quarter of 2005, driven by significant success of Simple Freedom, Alltel's phone-in-the-box prepay service that is sold primarily through Wal-Mart. In the Western Wireless markets, net customer additions were 46,000, which includes the addition of 25,000 customers resulting from conforming these markets to Alltel's disconnect policies. Conversely, in the markets acquired from Cingular, PS Cellular and those markets acquired in the fourth quarter of 2004, the Company incurred net losses of 138,000 customers primarily due to transition issues, as further discussed below. Sales of Alltel's higher-yield Total and National Freedom rate plans accounted for approximately 34 percent of the gross additions during 2005. At December 31, 2005, customers on the Company's Total and National Freedom rate plans represented approximately 44 percent of Alltel's wireless customer base. Excluding the effects of acquisitions, net wireless customer additions were 511,000 in 2004, substantially all of which were on postpay plans. As previously discussed, in the fourth quarter of 2004, the Company purchased wireless properties in Florida, Georgia, Louisiana, Mississippi, North Carolina, Ohio and Wisconsin. The acquired properties accounted for approximately 92,000 of the overall increase in wireless customers that occurred during 2004. During 2003, net wireless customer additions were 422,000, of which 147,000 were attributable to the Company's acquisition of wireless properties in Arizona, Michigan, Mississippi and Wisconsin. Overall, the Company's wireless market penetration rate (number of customers as a percent of the total population in Alltel's service areas) increased to 14 percent as of December 31, 2005.

In terms of the acquired Cingular and PS Cellular markets, as expected, Alltel experienced customer losses, which primarily resulted from transition issues, such as rebranding and deploying a CDMA network to replace the existing GSM/TDMA network in those markets, because Alltel's use of the existing Cingular GSM/TDMA network would be discontinued by year-end. As of December 31, 2005, Alltel had completed deployment of a CDMA network in all of the acquired Cingular markets and transitioned the entire customer base to CDMA handsets. In completing these integration efforts, Alltel incurred approximately \$18.5 million in incremental handset subsidies during 2005. The impact of the incremental handset subsidies was included in restructuring and other charges, and accordingly, is not reflected in the results of operations of the wireless segment discussed below.

The level of customer growth in 2006 will be dependent upon the Company's ability to attract new customers and retain existing customers in a highly competitive marketplace. The Company will continue to

focus its efforts on sustaining value-added customer growth by improving service quality and customer satisfaction, managing its distribution channels and customer segments, offering attractively priced rate plans and new or enhanced services and other features, selling additional services to existing customers, integrating acquired operations, and pursuing strategic acquisitions, such as the pending acquisition of Midwest Wireless previously discussed.

The Company continues to focus its efforts on lowering postpay customer churn (average monthly rate of customer disconnects). To improve customer retention, Alltel continues to upgrade its telecommunications network in order to offer expanded network coverage and quality and to provide enhanced service offerings to its customers. In addition, the Company has increased the number of its customers under contract through the offering of competitively priced rate plans, proactively analyzing customer usage patterns and migrating customers to newer digital handsets. Postpay customer churn increased slightly in 2005 from the same period a year ago primarily due to customer losses sustained in the acquired markets as discussed above. Primarily due to the success of the Simple Freedom product and the resulting improvement in prepay churn rates, total churn decreased 6 basis points in 2005 from the same period a year ago.

Wireless revenues and sales increased \$1,197.8 million, or 24 percent, and services revenues increased \$1,104.0 million, or 23 percent, in 2005 compared to the prior year. The acquisitions of wireless properties completed in 2005 and the fourth quarter of 2004 accounted for approximately \$614.1 million of the overall increase in service revenues in 2005. In addition to the effects of the acquisitions, service revenues also reflected an increase in wireless access revenues, which increased \$259.7 million in 2005 primarily driven by nonacquisition-related customer growth. Service revenues for 2005 also reflected growth in revenues derived from wireless data services, including text and picture messaging and downloadable applications, such as games, ringtones, wallpaper and office applications. Revenues from data services increased 125 percent, or \$126.4 million, in 2005, reflecting strong demand for these services and the effects of a large-scale promotion surrounding Super Bowl XXXIX and the Txt2Win \$1 Million Home Sweepstakes promotion completed in July 2005, both aimed at increasing text messaging usage. During 2005, Alltel also launched several operational initiatives, including offering an industry-first pricing plan for wireless data services which allows customers to combine video, picture and text messaging services for one flat rate, selling portable BlackBerry® devices in its retail stores and offering national coverage for the BlackBerry® device and other 1XRTT data services through a roaming agreement with Verizon Wireless. During the fourth quarter, Alltel launched MobiTV, a real-time television application that is available on both the Company's 1XRTT and EV-DO networks. Alltel ended the year with 1XRTT data coverage of approximately 92 percent of Alltel's POPs, including the former Western Wireless markets, and had deployed EV-DO services in 12 markets.

Wireless service revenues also included increases in regulatory and other fee revenues of \$126.6 million in 2005, which included USF support received by Alltel pursuant to its certification in 12 states as an ETC, and accounted for \$69.1 million of the overall increase in regulatory fees in 2005. Following the merger with Western Wireless, the Company is designated as an ETC and currently receiving USF support in 23 states. After deducting the portion of USF subsidies distributed to its partners in wireless markets operated in partnership with other companies, Alltel expects to receive in 2006, on a quarterly basis, net USF subsidies of approximately \$50.0 million in its wireless business. The increase in regulatory fees in 2005 also reflected additional amounts billed to customers to offset costs related to certain regulatory mandates, which have increased consistent with the overall growth in customers and also reflected an increase in the contribution factor applicable to universal service funding. Growth in revenues from the sale of wireless equipment protection plans and automotive roadside assistance services also contributed to the growth in service revenues during 2005. Revenues from these services increased \$37.5 million in 2005, reflecting continued demand for these services. Wholesale wireless revenues also increased \$40.4 million in 2005, primarily due to strong growth in CDMA minutes of use and stability in the volumes of TDMA and analog minutes of use by other carriers' customers roaming on Alltel's wireless network.

The increase in service revenues in 2005 attributable to increased access revenues from customer growth including the effects of acquisitions, additional revenues earned from data services, increased regulatory and

other fees, and growth in wholesale revenues were partially offset by a decline of \$66.3 million in airtime and retail roaming revenues. In addition, revenues derived from sales of enhanced features, including caller identification, call waiting and voice mail, decreased by \$29.2 million in 2005 as compared to 2004. The decrease in airtime, retail roaming and feature revenues primarily reflected the effects of customers migrating to rate plans with a larger number of packaged minutes that, for a flat monthly service fee, provide customers with a specified number of airtime minutes and include at no extra charge unlimited weekend, nighttime and mobile-to-mobile minutes and certain enhanced features.

Wireless revenues and sales and service revenues both increased 7 percent in 2004, or \$349.7 million and \$324.7 million, respectively. The growth in wireless service revenues in 2004 primarily reflected nonacquisition-related growth in Alltel's customer base and the corresponding increase in access revenues, which increased \$333.8 million in 2004. Service revenues for 2004 also reflected growth in revenues derived from text messaging and other wireless data services and from the sale of enhanced communication services, including caller identification, call waiting, call forwarding, voice mail, and wireless equipment protection plans. Revenues from data and enhanced services increased \$54.2 million in 2004. Wireless service revenues also included an increase in regulatory and other fees of \$76.4 million in 2004, primarily due to additional amounts billed to customers to offset costs related to certain regulatory mandates, including universal service funding, primarily resulting from changes in FCC regulations applicable to universal service fees that were effective on April 1, 2003. Regulatory fees in 2004 also included USF support received by Alltel pursuant to its certification in seven states as an ETC, and accounted for \$48.2 million of the overall increase in regulatory fees in 2004.

Service revenue growth in 2004 attributable to increased access revenues from customer growth, additional revenues earned from data and enhanced services, and increased regulatory and other fees were partially offset by lower airtime and retail roaming revenues of \$122.2 million, primarily due to the effects of customers migrating to rate plans with a larger number of packaged minutes. In addition, wholesale wireless revenues declined \$15.1 million in 2004 compared to 2003 primarily due to lower analog and TDMA minutes of use by other carriers' customers roaming on Alltel's wireless network, partially offset by growth in CDMA minutes of use as other CDMA carriers directed wholesale traffic to Alltel's network.

Compared to 2004, average revenue per customer per month increased 7 percent to \$51.44 and retail revenue per customer per month increased 5 percent to \$46.68. Excluding the acquired markets, both average revenue per customer and retail revenue per customer increased 5 percent from the same period a year ago to \$50.36 and \$46.49, respectively, reflecting Alltel's continued focus on quality customer growth, improvements in data revenues and additional ETC subsidies. Primarily driven by growth in average monthly retail minutes of use, increased sales of higher-priced postpay rate plans, additional revenues from data and other enhanced services and the effects of the USF subsidies which were partially offset by lower airtime revenues, retail revenue per customer per month increased 2 percent in 2004 compared to 2003. Average revenue per customer per month also increased one percent in 2004 compared to 2003 due to the increase in retail revenue per customer per month, partially offset by the effects of the decline in wholesale revenues. Sustaining growth in service revenues and average revenue per customer per month in 2006 will depend upon Alltel's ability to effectively integrate acquired operations and maintain market share in a competitive marketplace. Alltel enters 2006 planning to maintain its competitiveness for post-pay customer growth by emphasizing a broader selection of phones, data applications, and pricing to market primary and family plans. In addition, Alltel completed the first phase of its conversion to a new prepay service platform that allows the Company to offer expanded features at substantially reduced costs. Alltel also re-launched the prepay service plans sold in Company retail stores and dealer locations and enhanced the features available for the Simple Freedom product offering. Given the expected increase of family plans and prepay sales, combined with limited ETC revenue growth, Alltel expects retail revenue per customer in 2006 to slow from the 5 percent growth rate experienced in 2005.

Product sales increased \$93.8 million, or 33 percent, in 2005 and \$25.0 million, or 10 percent, in 2004. The increase in product sales in both 2005 and 2004 were primarily driven by higher retail prices for wireless handsets that include advanced features, such as picture messaging, and that are capable of downloading games,

entertainment content, weather and office applications. The acquisitions previously discussed accounted for \$30.3 million of the overall increase in product sales in 2005. The increase in product sales in 2005 also reflected the continued retention efforts by the Company focused on migrating existing wireless customers to new wireless technologies.

Cost of services increased \$374.1 million, or 24 percent, in 2005 and \$175.8 million, or 13 percent, in 2004. The increases in cost of services in both years reflected higher network-related costs and increases in wireless regulatory fees and customer service expenses. The wireless property acquisitions completed in 2005 and the fourth quarter of 2004 accounted for \$200.0 million of the overall increase in cost of services in 2005. Compared to the prior year periods, wireless network-related costs increased \$61.2 million in 2005 and \$131.8 million in 2004 reflecting increased network traffic due to nonacquisition-related customer growth, increased minutes of use and expansion of network facilities. Cost of services for 2005 and 2004 also reflected increases in wireless regulatory fees of \$21.7 million and \$12.7 million, respectively, principally related to various regulatory mandates, including USF, consistent with the growth in revenues derived from regulatory fees discussed above. Cost of services for 2005 and 2004 also reflected increases in customer service expenses of \$31.7 million and \$34.5 million, respectively, primarily reflecting additional costs associated with Alltel's retention efforts focused on improving customer satisfaction and reducing postpay churn. Compared to 2004, payments to data content providers increased \$32.9 million in 2005 consistent with the growth in revenues derived from data services discussed above. When compared to 2004, cost of services for 2005 included additional bad debt expense of \$27.8 million, primarily due to non-acquisition growth in customers and increased write-offs associated with early disconnect penalties. Conversely, losses sustained from bad debts decreased \$5.3 million in 2004 primarily reflecting the Company's efforts to monitor its customer credit policies, evaluate minimum deposit requirements for high-credit risk customers and improve collection practices by adding new technologies and proactively managing the efforts of its collection agencies.

Cost of products sold increased \$123.9 million, or 22 percent, in 2005 and \$37.0 million, or 7 percent, in 2004. The wireless acquisitions discussed above accounted for \$57.0 million of the overall increase in cost of products sold in 2005. In addition to the effects of the acquisitions, cost of products sold for both 2005 and 2004 also reflected sales of higher-priced wireless handsets and the Company's continuing customer retention efforts, which include subsidizing the cost of new handsets provided to existing customers before the expiration of their service contracts. These increases were partially offset by the effects of additional vendor rebates earned by Alltel for attaining specified purchase volumes with the Company's wireless handset vendors.

Selling, general, administrative and other expenses increased \$243.4 million, or 20 percent, in 2005 and \$46.9 million, or 4 percent, in 2004. The wireless property acquisitions accounted for \$137.9 million of the overall increase in these expenses in 2005. In addition to the effects of acquisitions, selling, general, administrative and other operating expenses also reflected increased advertising costs of \$20.0 million in 2005 associated with two large-scale promotions aimed at increasing text messaging usage, as discussed above. Selling, general, administrative and other expenses for 2005 also included \$13.8 million of incremental expenses associated with Alltel's rebranding initiative and redesign of the Company's retail stores, as previously discussed. The increase in selling, general, administrative and other expenses in 2005 was also due to an increase in the costs associated with Alltel's wireless equipment protection plans, consistent with the associated increase in revenues discussed above. Also contributing to the increase in selling, general, administrative and other costs in 2005 was increased commission expense of \$9.5 million, primarily reflecting a higher mix of postpay gross additions, as compared to the same period a year ago. Increased insurance premiums related to the Company's employee medical and dental plans, additional costs associated with write-offs identified as a result of system improvements in the Company's cash processing procedures and higher audit fees and internal staffing costs incurred in complying with the Section 404 internal control reporting requirements of the Sarbanes-Oxley Act of 2002 also contributed to the increase in selling, general, administrative and other expenses in 2005. The increase in selling, general, administrative and other expenses in 2004 primarily reflected increased commission costs of \$34.0 million compared to 2003 driven by increased sales of Alltel's Total and National Freedom rate plans and a higher mix of postpay gross customer additions, as compared to 2003. Commission rates paid to the Company's internal sales force and outside agents are higher on the sales of Alltel's more profitable postpay rate plans than

comparable rates paid on other lower-margin rate plans offered by the Company. In addition, selling, general, administrative and other expenses in 2004 reflected higher insurance costs resulting from an increase in the number of customer claims filed related to wireless equipment protection plans, consistent with the growth in sales of those plans previously discussed.

Depreciation and amortization expense increased \$221.9 million, or 30 percent, in 2005 and \$67.8 million, or 10 percent, in 2004. The increases in depreciation and amortization expense in both 2005 and 2004 were primarily due to growth in wireless plant in service consistent with Alltel's plans to expand and upgrade its network facilities. Depreciation and amortization expense in 2005 also reflected the effects of a third quarter 2004 prospective change in the depreciable lives of certain wireless telecommunications equipment. The depreciable lives were shortened in response to the rapid pace of technological development and the increasing demands of Alltel's customers for new products and services. Additionally, the wireless property acquisitions accounted for \$117.5 million of the overall increase in depreciation and amortization expense in 2005 and included amortization of customer lists of \$49.2 million.

Primarily as a result of growth in revenues and sales discussed above, wireless segment income increased \$234.5 million, or 23 percent, in 2005 and \$22.2 million, or 2 percent, in 2004. The wireless property acquisitions accounted for \$132.1 million of the overall increase in wireless segment income in 2005. The growth in segment income in 2004 attributable to increased revenues and sales was partially offset by increased network costs attributable to the significant growth in customer usage and additional costs associated with the Company's retention efforts and initiatives designed to improve customer satisfaction and reduce postpay churn. In addition to these factors, wireless segment income in 2004 also reflected increased customer acquisition costs of \$22.3 million consistent with the growth in gross postpay customer additions, excluding acquisitions.

The cost to acquire a new wireless customer represents sales, marketing and advertising costs and the net equipment cost, if any, for each new customer added. The increase in cost to acquire a new customer in 2005 primarily reflected additional advertising and commissions costs, incremental expenses related to Alltel's rebranding initiative and increased promotional activities in the acquired markets, as previously discussed. The increases in cost to acquire a new customer attributable to these factors were partially offset by improved margins on the sales of wireless handsets, reflecting the favorable effects of selling higher-priced phones, and to a lesser extent, vendor rebates. The increase in cost to acquire a new customer in 2004 primarily reflected the increase in commissions expense and a higher mix of postpay gross customer additions, partially offset by improved margins on the sales of wireless handsets. For 2005, approximately 59 percent of the gross customer additions came from Alltel's internal distribution channels, compared to approximately 66 percent in both 2004 and 2003. Alltel's internal distribution channels include Company retail stores and kiosks located in shopping malls, other retail outlets and mass merchandisers. Incremental sales costs at a Company retail store or kiosk are significantly lower than commissions paid to dealers. Although Alltel intends to manage the costs of acquiring new customers during 2006 by continuing to enhance its internal distribution channels, the Company will also continue to utilize its large dealer network.

Set forth below is a summary of the restructuring and other charges related to the wireless operations that were not included in the determination of segment income for the years ended December 31:

(Millions)	2005	2004	2003
Severance and employee benefit costs	\$ 0.7	\$ 8.6	\$ 1.3
Relocation costs	0.7	2.7	
Lease and contract termination costs		0.5	
Computer system conversion and other integration costs	22.3		
Write-down of software development costs			7.6
Write-down of certain facilities		0.7	
Other exit costs		0.4	
Total restructuring and other charges	\$ 23.0	\$ 12.9	\$ 8.9

Regulatory Matters-Wireless Operations

Regulatory Oversight

Alltel is subject to regulation by the FCC as a provider of Commercial Mobile Radio Services (CMRS). The FCC's regulatory oversight consists of ensuring that wireless service providers are complying with the Communications Act of 1934, as amended (the Communications Act), and the FCC's regulations governing technical standards, spectrum usage, license requirements, market structure, consumer protection, including public safety issues like enhanced 911 emergency service (E-911) and the Communications Assistance for Law Enforcement Act (CALEA), and environmental matters governing tower siting. State public service commissions are pre-empted under the Communications Act from regulatory oversight of wireless carriers' market entry and retail rates, but they are entitled to address certain terms and conditions of service offered by wireless service providers. Recently, various state public service commissions have sought to regulate wireless carriers' terms and conditions of service. At this time, the Company cannot estimate the impact that increased state regulatory oversight would have on its operations in the event state public service commissions are successful.

Telecommunications Law Modernization

In 1996, Congress passed the Telecommunications Act of 1996 (the 96 Act), which significantly changed the existing laws and regulations governing the telecommunications industry, such as establishing requirements for the interconnection of carriers' networks and creating a competitive universal service system. The 96 Act, however, failed to contemplate the rapid evolution of technology and the associated consumer demand for wireless services, the Internet and voice-over-Internet-protocol (VoIP). Today, providers of communications services are regulated differently depending primarily upon the network technology used to deliver service. In an effort to reform the manner in which telecommunications service providers are regulated, two bills were recently introduced in the U.S. Senate. The first bill, entitled the Broadband Investment and Consumer Choice Act , was introduced on July 27, 2005. This bill reduces the level of government regulation within the telecommunications industry in favor of market-based competition and provides for parity in the remaining rules for functionally equivalent services, like broadband access to the Internet via DSL, cable modem and other means. Another bill, entitled the Universal Service for the 21st Century Act , was introduced on July 29, 2005. This bill changes the way telecommunications companies contribute to the universal service fund, establishes limited support for broadband investment in unserved areas and calls for the FCC to establish inter-carrier compensation reform within six months of enactment. There have been, and there will likely be, additional bills submitted for consideration in the future as Congress evaluates changing the regulatory environment in the telecommunications industry. Accordingly, at this time, Alltel cannot predict the outcome of these efforts to reform regulation of the telecommunications industry.

Radio Licenses

Alltel holds FCC authorizations for Cellular Radiotelephone Service (CRS), Personal Communications Service (PCS), and paging services, as well as ancillary authorizations in the private radio and microwave services (collectively, the FCC Licenses). Generally, FCC licenses are issued initially for 10-year terms and may be renewed for additional 10-year terms upon FCC approval of the renewal application. The Company has routinely sought and been granted renewal of its FCC Licenses without contest and anticipates that future renewals of its FCC Licenses will be granted.

Universal Service

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To ensure affordable access to telecommunications services throughout the United States, the FCC and many state commissions administer universal service programs. CMRS providers are required to contribute to the federal USF and are required to contribute to some state universal service funds. The rules and methodology under which carriers contribute to the federal fund are the subject of an ongoing FCC rulemaking in which a

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change from the current interstate revenue-based system to some other system based upon line capacity or utilized numbers is being considered. Under FCC rules, CMRS providers also are eligible to receive support from the federal USF if they obtain certification as an ETC. The federal universal service program is under legislative, regulatory and industry scrutiny as a result of growth in the fund and a migration of customers from wireline service providers to providers using alternative technologies, like VoIP that, today, are not required to contribute to the universal service program. There are several FCC proceedings underway that are likely to change the way universal service programs are funded and the way these funds are disbursed to program recipients. In particular, the FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF program, including how to determine whether a carrier is eligible for USF support in a specific geographic area. Currently, CMRS carriers receive the per-line equivalent of the support received by the underlying local exchange carrier.

On March 17, 2005, the FCC issued an order establishing rules governing the eligibility of wireless carriers to receive and maintain ETC status. The new requirements apply to carriers seeking ETC designation from the FCC and are recommended when state regulatory agencies are responsible for evaluating ETC applications. Effective October 1, 2006, the new standards require ETCs to: (1) provide a five-year plan demonstrating how support will be used to improve coverage, service quality or capacity, including annual progress reports; (2) demonstrate the network's ability to remain functional in emergencies; (3) demonstrate how they will satisfy consumer and quality standards; (4) offer local-usage plans comparable to the ILEC; and (5) acknowledge that they may be required to provide equal access to interexchange carriers in the event they become the sole ETC within a designated service area. The FCC also adopted additional requirements related to the certification of the use of universal service support. These new requirements are not expected to adversely affect the Company's eligibility for universal service support. Some states have adopted, or are considering adopting, the same or similar requirements. The new requirements in the order are subject to both reconsideration requests pending at the FCC and judicial appeals.

On June 14, 2005, the FCC issued a notice of proposed rulemaking initiating a broad inquiry into the management and administration of the universal service programs. The notice of proposed rulemaking seeks comment on ways to streamline the application process for federal support and whether and how to increase audits of fund contributors and fund recipients to deter waste and fraud. The FCC is also considering proposals regarding the contribution methodology, which could change the category of service providers that contribute to the fund and the basis upon which they contribute. At this time, Alltel cannot estimate the impact that the potential changes, if any, would have on its operations.

The FCC mandated that, effective October 1, 2004, the Universal Service Administrative Company (USAC) begin accounting for the USF program in accordance with generally accepted accounting principles for federal agencies, rather than the accounting rules that USAC formerly used. This change in accounting method subjected USAC to the Anti-Deficiency Act (the ADA), the effect of which could have caused delays in payments to USF program recipients and significantly increased the amount of USF regulatory fees charged to wireline and wireless consumers. In December 2004, Congress passed legislation to exempt USAC from the ADA for one year to allow for a more thorough review of the impact the ADA would have on the universal service program. In April 2005, the FCC tentatively concluded that the high-cost and low-income programs of the universal service fund comply with ADA requirements, and has asked the Office of Management and Budget (OMB) to make a final determination on this issue. Congress is contemplating a permanent solution to alleviate the ADA issues and the related negative impact to the universal service program.

The Company is designated as an ETC and receiving USF support in the following states: Alabama, Arkansas, California, Colorado, Florida, Georgia, Iowa, Kansas, Louisiana, Michigan, Minnesota, Mississippi, Montana, Nevada, New Mexico, North Carolina, North Dakota, South Dakota, Texas, Virginia, West Virginia, Wisconsin, and Wyoming. The Communications Act and FCC regulations require that universal service receipts be used to provision, maintain and upgrade the networks that provide the supported services. Additionally, the

Company accepted certain federal and state reporting requirements and other obligations as a condition of the ETC certifications. As of December 31, 2005, the Company is compliant with the FCC regulations and all of the federal and state reporting requirements and other obligations. Alltel received approximately \$55.0 million of gross USF subsidies in the fourth quarter of 2005 related to the ETC certifications and net USF subsidies of approximately \$53.0 million after deducting the portion of USF subsidies distributed to its unaffiliated partners in certain markets. Alltel expects to receive net USF subsidies of approximately \$50.0 million in the first quarter of 2006.

E-911

Wireless service providers are required by the FCC to provide E-911 in a two-phased approach. In phase one, carriers must, within six months after receiving a request from a phase one enabled Public Safety Answering Point (PSAP), deliver both the caller's number and the location of the cell site to the PSAP serving the geographic territory from which the E-911 call originated. A phase one-enabled PSAP is generally one that is capable of receiving and utilizing the number and cell site location data transmitted by the carrier. Alltel has generally complied with the phase one requirements and provides service to phase one capable PSAPs. As a result of certain technology and deployment issues, the six-month window in which service is to be provided under the FCC rules has, in certain instances and in accordance with the rules, been extended by mutual agreement between Alltel and the particular PSAPs.

In phase two, CMRS carriers like the Company that have opted for a handset-based solution must determine the location of the caller within 50 meters for 67 percent of the originated calls and 150 meters for 95 percent of the originated calls and deploy Automatic Location Identification (ALI) capable handsets according to specified thresholds. ALI capability permits more accurate identification of the caller's location by PSAPs. On July 26, 2002, the FCC released an order that provides for a phased-in deployment of ALI-capable handsets that began on March 1, 2003. Under the FCC Order, Alltel was required to: (1) begin selling and activating ALI-capable handsets prior to March 1, 2003; (2) ensure that, as of May 31, 2003, at least 25 percent of all new handsets activated were ALI-capable; (3) ensure that, as of November 30, 2003, at least 50 percent of all new handsets activated were ALI-capable; (4) ensure that, as of May 31, 2004, 100 percent of its new digital handsets activated were ALI-capable; and (5) ensure that at least 95 percent of its customers have ALI-capable handsets by December 31, 2005.

The FCC has released a series of orders disposing of numerous E-911 waiver requests filed by a group of Tier III wireless carriers (no more than 500,000 customers as of December 31, 2001) requesting the FCC to extend the December 31, 2005, deadline for meeting the 95 percent handset requirement. While stressing the importance of E-911 compliance, the FCC provided certain of these carriers with greater latitude to comply with handset deployment dates and to accommodate transitions to alternative digital technologies. While it is uncertain how the April 1, 2005, order may affect the FCC's consideration of waiver requests filed by larger carriers, the order indicates FCC flexibility on E-911 compliance matters where the requesting carrier makes a detailed showing of special circumstances and provides a detailed proposal outlining a realistic path to future compliance.

Alltel began selling ALI-capable handsets in June 2002 and, to date, has complied with each of the intermediate handset deployment thresholds under the FCC's order or otherwise obtained short-term relief from the FCC to facilitate certain recent acquisitions. However, on September 30, 2005, due to the slowing pace of customer migration to ALI-capable handsets and lower than forecasted churn, Alltel filed a request with the FCC for a waiver of the December 31, 2005 requirement to achieve 95 percent penetration of ALI-capable phones. The request included an explanation of the Company's compliance efforts to date and the expected date when it will meet the 95 percent penetration rate of ALI-capable handsets, June 30, 2007. A number of other wireless carriers, including large national carriers and CTIA-The Wireless Association (CTIA) on behalf of CMRS carriers in general, have also sought relief from the 95 percent requirement. At this time, it is not clear what action the FCC will take on Alltel's request for waiver of the 95 percent requirement.

Furthermore, on April 1, 2005, the FCC issued an order imposing an E-911 obligation to deliver ALI data on carriers providing only roaming services. In the acquired Western Wireless properties, Alltel operates a CDMA network with Phase II E-911 capability for its customers and a GSM network without Phase II capability for roamers in the same geographic area. Alltel believes that its multi-technology operations with Phase II CDMA capability is distinguishable from the carrier providing roaming only services specified in the April 1, 2005 order.

On June 30, 2005, CTIA and Rural Cellular Association filed a Joint Petition for Suspension or Waiver of the Location-Capable Handset Penetration Deadline with the FCC. The petition recommends that the FCC adopt a framework for individual carriers to use in order to streamline potential future waiver requests. While the joint petition requested an overall suspension of the December 31, 2005 deadline, it also outlined several factors and circumstances for the FCC to consider in evaluating future waiver requests. To date, the FCC has taken no action on the CTIA petition. The Company cannot determine if the FCC will take any action on this petition, or the related impact of its action.

CALEA

CALEA requires wireless and wireline carriers to ensure that their networks are capable of accommodating lawful intercept requests received from law enforcement agencies. The FCC has imposed various obligations and compliance deadlines, with which Alltel has either complied or, in accordance with CALEA, filed a request for an extension of time. On August 18, 2004, the DOJ objected to Alltel's pending extension request relating to the Company's packet-mode services because the DOJ erroneously thought that Alltel's Touch2Talk walkie-talkie service was delivered via packet-mode technology. However, the Company's Touch2Talk service does not use packet-mode technology and is compliant with CALEA standards. Alltel is coordinating further testing with the Federal Bureau of Investigation to demonstrate Alltel's Touch2Talk CALEA compliance.

In response to a petition filed by the DOJ and other federal agencies, the FCC initiated a rulemaking in August 2004, to adopt new rules under CALEA pertaining to wireless and wireline carriers' packet mode communications services, including Internet protocol (IP) based services. The FCC concurrently issued a declaratory ruling concerning the appropriate treatment of push-to-talk services under CALEA. On September 23, 2005, the FCC issued an order in this proceeding finding that providers of certain broadband and interconnected VoIP services were subject to CALEA, and must be prepared to provide electronic surveillance to law enforcement upon proper authorization. The Company is currently evaluating the order and at this time does not believe that it will have a substantial impact on its operations. The Company's packet services network requires a modest upgrade to be fully compliant with CALEA standards. The cost of the upgrade is immaterial and will not adversely affect the Company's operations.

Inter-carrier Compensation

Under the 96 Act and the FCC's rules, CMRS providers are subject to certain requirements governing the exchange of telecommunications traffic with other carriers. Additionally, CMRS carriers are characterized as telecommunications carriers under the 96 Act and not local exchange carriers (LECs). Consequently, CMRS carriers are not subject to the interconnection, resale, unbundling, and other obligations applicable to LECs under the 96 Act until such time as the FCC makes a finding that treatment of CMRS carriers as LECs is warranted. The 96 Act also eliminated any requirement that CMRS carriers provide subscribers with equal access to their long distance carrier of choice, although the FCC is empowered under the 96 Act to impose an equal access requirement on CMRS carriers through rulemaking should market conditions so warrant.

In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rulemaking, the FCC proposed a bill and keep compensation method that would overhaul the existing rule governing inter-carrier compensation. On March 3, 2005, the FCC issued a further notice of proposed rulemaking on inter-carrier compensation matters in which the FCC solicited comment on a number of

alternative compensation proposals submitted by various industry participants. In addition, the FCC issued a ruling effective April 29, 2005, which is subject to both reconsideration requests and judicial appeals, that ILECs can no longer impose wireless termination tariffs for local traffic. The outcome of the FCC and related state proceedings could impact the amount of compensation paid to other carriers and received by Alltel for the exchange of communications traffic. At this time, the extent and timing of any changes to inter-carrier compensation and the related financial impact to Alltel's wireless revenues and expenses cannot be determined.

Wireless Spectrum

The FCC conducts proceedings through which additional spectrum is made available for the provision of wireless communications services, including broadband services. Additional spectrum is generally made available to carriers through auctions conducted by the FCC. In October 2003, the FCC issued an order adopting rules that allow CMRS licensees to lease spectrum to others. The FCC further streamlined its rules to facilitate spectrum leasing in a subsequent order issued in September 2004. The FCC's spectrum leasing rules revise the standards for transfer of control and provide new options for the lease of spectrum to providers of new and existing wireless technologies. The FCC also deleted the rule prohibiting ownership of both A and B block cellular systems in the same rural service area. The FCC decisions provide increased flexibility to wireless companies with regard to obtaining additional spectrum through leases and retaining spectrum acquired in conjunction with wireless company acquisitions. On August 15, 2005, the FCC issued an order on reconsideration modifying the spectrum plan for Advanced Wireless Services (AWS). The spectrum plan, as revised, generally divided certain bands of spectrum into smaller blocks that are to be licensed over smaller geographic areas. The FCC has indicated that it will hold the auction of the AWS spectrum in June of 2006. The Company's evaluation of opportunities as a result of these proceedings and decisions is ongoing.

Customer Billing

In response to a petition filed by the National Association of State Utility Consumer Advocates, the FCC issued an order and further rulemaking on its truth in billing and billing format proceeding. In the order, the FCC applied to CMRS carriers the obligation to ensure that the descriptions of line items on customer bills are clear and not misleading and to reiterate that the representation of a discretionary item on a bill as a tax or government-mandated charge is misleading. The FCC also made a declaratory ruling that state regulations requiring or prohibiting the use of line items on CMRS carriers' bills were preempted in favor of federal authority pursuant to Section 332 (c) of the Communications Act. The FCC's decision has been appealed to the Federal Court of Appeals for the Eleventh Circuit. In the further rulemaking, the FCC will consider additional CMRS billing regulations that would require: (1) government-mandated charges to be segregated from discretionary charges; (2) the combination of certain charges into single categories; and (3) disclosure by carriers of the full rate for service, including discretionary charges and charges imposed by government mandates, to consumers at the point of sale prior to the execution of a service contract. Additionally, the FCC is considering whether states should be preempted from regulation of wireless carriers' customer bills. The Company does not expect the outcome of the FCC's further rulemaking to have a material impact on its operations.

CMRS Roaming

The FCC has initiated a rulemaking proceeding to examine the rules applicable to roaming relationships between carriers. The FCC's rules currently require only that manual roaming be provided by a carrier to any subscriber in good standing with their home market carrier. Automatic roaming agreements, although common throughout the CMRS industry, are not currently mandated by the FCC. The rulemaking seeks to develop a record on the state of roaming markets, the impact of technology, the price and quality of current roaming arrangements, and whether there is any evidence that larger national carriers are engaging in anti-competitive roaming practices against smaller carriers. An automatic roaming requirement is under consideration. Comments in the proceeding have been filed, and FCC action in the matter is pending. The outcome of the rulemaking is unknown at this time and therefore the potential impact on the Company can not be determined.

Wireless Termination Fees

The FCC has received comments on two petitions seeking a declaratory ruling from the Commission that wireless termination fees incurred when a subscriber terminates its contract prior to the end of its term are rates charged and therefore beyond the jurisdiction of the state regulators pursuant to Section 332 (c) of the Communications Act. The outcome of this proceeding is not likely to have a material impact on the Company's operations.

Communications-Wireline Operations

(Dollars in millions, except access lines in thousands)	2005	2004	2003
Revenues and sales:			
Local service	\$ 1,083.4	\$ 1,115.7	\$ 1,136.8
Network access and long-distance	1,039.9	1,047.9	1,055.5
Miscellaneous	255.8	256.2	243.8
Total revenues and sales	2,379.1	2,419.8	2,436.1
Costs and expenses:			
Cost of services	705.5	704.3	737.2
Cost of products sold	32.9	28.7	29.1
Selling, general, administrative and other	256.3	244.3	259.4
Depreciation and amortization	480.7	516.5	526.5
Total costs and expenses	1,475.4	1,493.8	1,552.2
Segment income	\$ 903.7	\$ 926.0	\$ 883.9
Access lines in service (excludes DSL lines)	2,885.7	3,009.4	3,095.6
Average access lines in service	2,950.0	3,061.5	3,136.8
Average revenue per customer per month (a)	\$67.21	\$65.87	\$64.72

Notes:

(a) Average revenue per customer per month is calculated by dividing total wireline revenues by average access lines in service for the period.

Wireline operations consist of Alltel's Incumbent Local Exchange Carrier (ILEC), CLEC and Internet operations. Wireline revenues and sales decreased \$40.7 million, or 2 percent, in 2005 and \$16.3 million, or 1 percent, in 2004. Customer access lines decreased 4 percent in 2005 compared to a 3 percent decline in 2004. The Company lost approximately 124,000 and 86,000 access lines during 2005 and 2004, respectively, primarily as a result of the effects of wireless and broadband substitution for the Company's wireline services. The Company expects the number of access lines served by its wireline operations to continue to be adversely affected by wireless and broadband substitution in 2006.

To slow the decline of revenue in 2006, the Company will continue to emphasize sales of enhanced services and bundling of its various product offerings including Internet, long-distance and broadband data transport services. Deployment of broadband service is an important strategic initiative for Alltel. During 2005 and 2004, Alltel added 154,000 and 90,000 broadband customers, respectively. At December 31, 2005, Alltel's broadband customer base had grown to almost 400,000 customers. The growth in the Company's broadband customers more than offset the decline in customer access lines that occurred in 2005 and 2004 noted above. As further discussed below, revenues generated from the sales of

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data and enhanced services increased in both 2005 and 2004, which helped to offset the adverse effects on wireline revenues resulting from the loss of access lines.

Local service revenues decreased \$32.3 million, or 3 percent, in 2005 and \$21.1 million, or 2 percent, in 2004. Local service revenues reflected reductions in basic service access line revenues of \$33.6 million in 2005 and \$27.0 million in 2004, consistent with the overall decline in access lines discussed above. The decline in

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local service revenues attributable to access line loss was partially offset by growth in revenues derived from the sales of enhanced products and services and equipment protection plans. Revenues from these services increased \$3.7 million in 2005 and \$7.3 million in 2004, reflecting continued demand for these products and services.

Network access and long-distance revenues decreased 1 percent in both 2005 and 2004, or \$8.0 million and \$7.6 million, respectively. Primarily due to the overall decline in access lines discussed above, network access usage and toll revenues decreased \$46.5 million in 2005 and \$4.3 million in 2004. The declines in network access usage and toll revenues in both years attributable to access line loss were partially offset by growth in revenues earned from data services, which increased \$26.0 million and \$17.0 million in 2005 and 2004, respectively, primarily reflecting increased demand for high-speed data transport services. USF revenues increased \$12.5 million in 2005 and decreased \$20.3 million in 2004. The increase in USF revenues in 2005 primarily resulted from an increase of \$13.3 million in interstate common line support (ICLS) funding received by the Company's rate-of-return subsidiaries due to the decline in access revenues discussed above. Conversely, compared to the prior year periods, high-cost loop support (HCLS) funding received by Alltel's ILEC subsidiaries decreased \$4.4 million in 2005 and \$20.3 million in 2004. The decreases in HCLS funding in both years primarily resulted from increases in the national average cost per loop combined with the effects of the Company's cost control efforts. Receipts from the HCLS fund are based on a comparison of each company's embedded cost per loop to a national average cost per loop. Primarily due to expected increases in the national average cost per loop and the Company's continued focus on controlling operating costs in its wireline business, Alltel expects net USF receipts in 2006 to decline by \$15.0 million, compared to 2005.

Miscellaneous revenues primarily consist of charges for Internet services, directory advertising, customer premise equipment sales, and billing and collection services provided to long-distance companies. Miscellaneous revenues decreased slightly in 2005 and increased \$12.4 million, or 5 percent, in 2004. Primarily driven by growth in broadband customers, revenues from the Company's Internet operations increased \$10.8 million in 2005 and \$12.4 million in 2004. In addition, sales and rentals of customer premise equipment increased \$3.4 million in 2005, reflecting continued customer demand for these products. In addition, during the fourth quarter of 2005, Alltel began offering DISH Network satellite television service to its residential customers as part of a bundled product offering, which generated \$1.1 million in commission revenues. Offsetting the increase in miscellaneous revenues in 2005 attributable to growth in the Company's Internet operations, sales and rentals of customer premise equipment and commission revenues was a decline in directory advertising revenues of \$12.2 million from 2004, primarily due to a change in the number and mix of directories published. Conversely, miscellaneous revenues for 2004 reflected a \$4.4 million increase in directory advertising revenues from 2003. Directory advertising revenues for 2004 included additional revenues of approximately \$14.9 million associated with the initial publication of directories in the acquired Kentucky and Nebraska markets, partially offset by lower directory advertising revenues in Alltel's other wireline markets as compared to 2003. The decline in directory advertising revenues in Alltel's other wireline markets were due primarily to a change in the number and mix of directories published. The increase in miscellaneous revenues attributable to the Internet and directory publishing operations was partially offset in 2004 by a \$2.6 million decline from 2003 in customer premise equipment sales and rentals due to lower customer demand for purchasing or leasing landline-based communications equipment.

Primarily due to the broadband customer growth and increased sales of enhanced features, average revenue per customer per month increased 2 percent in both 2005 and 2004 from the corresponding prior year period. Future growth in average revenue per customer per month will depend on the Company's success in sustaining growth in sales of broadband and other enhanced services to new and existing customers.

Cost of services increased \$1.2 million, or less than 1 percent, in 2005 and decreased \$32.9 million, or 4 percent, in 2004. Cost of services for 2005 included approximately \$3.2 million of incremental costs incurred during the first quarter of 2005 related to work force reductions in the Company's wireline business, as well as higher overtime and maintenance costs due to inclement weather. Cost of services in 2005 included additional customer service expenses attributable to the growth in broadband customers, specifically the costs associated

with subsidizing broadband-capable modems. In addition, cost of services in 2005 included increased regulatory fees of \$5.6 million related to an increase in the contribution factor applicable to universal service funding. Offsetting the increases in salaries and benefits, customer service costs and regulatory fees in 2005 were decreases in business taxes of \$6.3 million and bad debt expense of \$4.4 million, which both decreased consistent with the decline in revenues discussed above. In addition, interconnection expenses decreased \$2.8 million in 2005 and \$8.2 million in 2004, consistent with the declines in toll revenues and access lines discussed above. Cost of services for 2004 also reflected reductions in customer service expenses and the effects of incremental strike-related expenses and maintenance costs incurred in 2003, as further discussed below. Compared to 2003, customer service expenses decreased \$3.3 million in 2004, primarily due to cost savings from the Company's continued efforts to control operating expenses. Included in cost of services in 2003 were \$6.0 million of additional maintenance costs to repair damage caused by severe winter storms and incremental expenses of approximately \$14.9 million associated with a strike that ended on October 1, 2003, when the Company signed a new collective bargaining agreement impacting approximately 400 Alltel employees in Kentucky represented by the Communications Workers of America.

Cost of products sold increased \$4.2 million, or 15 percent, in 2005 and decreased slightly in 2004. The increase in 2005 was consistent with the increase in sales and rentals of customer premise equipment discussed above. Conversely, the decrease in 2004 was consistent with the decline in sales and leasing of customer premise equipment discussed above.

Selling, general, administrative and other expenses increased \$12.0 million, or 5 percent, in 2005 and decreased \$15.1 million, or 6 percent, in 2004. The increase in 2005 primarily resulted from higher audit fees and internal staffing costs incurred in complying with the Section 404 internal control reporting requirements of the Sarbanes-Oxley Act of 2002 and higher insurance premiums related to the Company's employee medical and dental plans. Conversely, the decrease in selling, general, administrative and other expenses in 2004 resulted from reductions in data processing charges and salaries and employee benefit costs, primarily reflecting cost savings from the Company's continued efforts to control operating expenses. Compared to 2003, data processing charges declined \$3.7 million, while employee benefit costs and salaries decreased \$12.1 million during 2004.

Depreciation and amortization expense decreased \$35.8 million, or 7 percent, in 2005 and \$10.0 million, or 2 percent, in 2004. The decreases in depreciation and amortization expense in both years primarily resulted from a reduction in depreciation rates for the Company's Nebraska operations, reflecting the results of a triennial study of depreciable lives completed by Alltel in the second quarter of 2004 as required by the Nebraska Public Service Commission. The decrease in depreciation and amortization expense in 2005 also resulted from a reduction in depreciation rates for the Company's Florida, Georgia and South Carolina operations, reflecting the results of studies of depreciable lives completed by Alltel during 2005. The depreciable lives were lengthened to reflect the estimated remaining useful lives of the wireline plant based on the Company's expected future network utilization and capital expenditure levels required to provide service to its customers. During 2006, Alltel expects to review the depreciation rates utilized in its remaining wireline operations.

Wireline segment income decreased \$22.3 million, or 2 percent, in 2005 and increased \$42.1 million, or 5 percent, in 2004. The decrease in segment income in 2005 primarily resulted from the decline in revenues and sales due to the loss of access lines and the adverse effects of increased operating expenses related to the growth in broadband customers, higher employee benefit costs and incremental expenses associated with work force reductions, which were partially offset by the favorable effects of reduced depreciation rates, as discussed above. Conversely, the increase in 2004 primarily reflected the selling of additional services and features to existing wireline customers, growth in the Company's Internet operations, the effects of the incremental strike-related and maintenance costs incurred in 2003 and the Company's cost savings and expense control efforts discussed above.

Set forth below is a summary of the restructuring and other charges related to the wireline operations that were not included in the determination of segment income for the years ended December 31:

(Millions)	2005	2004	2003
Severance and employee benefit costs	\$ 4.4	\$ 11.2	\$ 7.0
Relocation costs		1.2	
Lease and contract termination costs		(1.9)	
Costs associated with pending spin off and merger of wireline operations	31.3		
Write-down of software development costs			1.8
Other exit costs		0.7	
Total restructuring and other charges	\$ 35.7	\$ 11.2	\$ 8.8

Accounting for Regulated Entities

Except for the acquired Kentucky and Nebraska operations, Alltel's ILEC operations follow the accounting for regulated enterprises prescribed by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. Criteria that would give rise to the discontinuance of SFAS No. 71 include (1) increasing competition restricting the regulated ILEC subsidiaries' ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. Alltel reviews these criteria on a quarterly basis to determine whether the continuing application of SFAS No. 71 is appropriate. In assessing the continued applicability of SFAS No. 71, the Company monitors the following:

Level of competition in its markets. Sources of competition to Alltel's local exchange business include, but are not limited to, resellers of local exchange services, interexchange carriers, satellite transmission services, wireless communications providers, cable television companies, and competitive access service providers including those utilizing Unbundled Network Elements-Platform (UNE-P), VoIP providers and providers using other emerging technologies. Alltel's ILEC operations have begun to experience competition in their local service areas. Through December 31, 2005, this competition has not had a material adverse effect on the results of operations of Alltel's ILEC operations, primarily because these subsidiaries provide wireline telecommunications services in mostly rural areas. To date, ILEC subsidiaries have not been required to discount intrastate service rates in response to competitive pressures.

Level of revenues and access lines currently subject to rate-of-return regulation or which could revert back to rate-of-return regulation in the future. For the ILEC subsidiaries that follow SFAS No. 71, all interstate revenues are subject to rate-of-return regulation. The majority of the ILEC subsidiaries' remaining intrastate revenues are either subject to rate-of-return regulation or could become subject to rate-of-return regulation upon election by the Company, subject in certain cases to approval by the state public service commissions.

Level of profitability of the ILEC subsidiaries. Currently, the prices charged to customers for interstate and intrastate services continue to be sufficient to recover the specific costs of the ILEC subsidiaries in providing these services to customers.

Although the Company believes that the application of SFAS No. 71 continues to be appropriate, it is possible that changes in regulation, legislation or competition could result in the Company's ILEC operations no longer qualifying for the application of SFAS No. 71 in the near future. If Alltel's ILEC operations no longer qualified for the application of SFAS No. 71, the accounting impact to the Company would be an extraordinary non-cash credit to operations. The non-cash credit would consist primarily of the reversal of the regulatory liability for cost of removal included in accumulated depreciation, which amounted to \$156.9 million as of December 31, 2005. At this time, Alltel does not expect to record any impairment charge related to the carrying value of its ILEC plant. Under SFAS No. 71, Alltel currently depreciates its ILEC plant based upon asset lives

approved by regulatory agencies or as otherwise allowed by law. Upon discontinuance of SFAS No. 71, Alltel would be required to revise the lives of its property, plant and equipment to reflect the estimated useful lives of the assets. The Company does not expect any revisions in asset lives to have a material adverse effect on its ILEC operations.

Regulatory Matters-Wireline Operations

Alltel's ILECs are regulated by both federal and state agencies. Certain of Alltel's products and services (interstate) and the related earnings are subject to federal regulation and others (local and intrastate) are subject to state regulation. With the exception of the Nebraska and a portion of the Kentucky operations, Alltel's ILEC operations are subject to rate-of-return regulation federally by the FCC. The Nebraska and a portion of the Kentucky operations are subject to price-cap regulation by the FCC that allows a greater degree of retail pricing flexibility than is afforded to Alltel's rate-of-return operations. Companies meeting certain criteria had the option to elect price-cap regulation as part of an FCC order issued in May 2000 (the CALLS plan). The CALLS plan expired on June 30, 2005, and to date, the FCC had not established a successor mechanism for regulating price-cap companies. Nonetheless, the existing rules and regulations for price-cap companies remain effective until the FCC modifies or otherwise replaces them with a successor mechanism.

Telecommunications Law Modernization