ALLTEL CORP
Form 10-Q
August 08, 2007

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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-4996

ALLTEL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	34-0868285
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Allied Drive, Little Rock, Arkansas	72202
(Address of principal executive offices)	(Zip Code)

Registrant’s telephone number, including area code (501) 905-8000

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES ¨ NO

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). ¨ YES x NO

Number of common shares outstanding as of July 31, 2007: 343,880,806

The Exhibit Index is located on page 40.

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* No reportable information under this item.

Forward-Looking Statements
This Report on Form 10-Q includes, and future filings by the Company on Form 10-K, Form 10-Q and Form 8-K and future oral and written statements by ALLTEL Corporation ("Alltel") and its management may include, certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. These forward-looking statements are based on estimates, projections, beliefs, and assumptions and are not guarantees of future events and results. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and "should", and variations of these words ar expressions, are intended to identify these forward-looking statements. Alltel disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information, or otherwise.

Actual future events and results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors. Representative examples of these factors include (without limitation): the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement with TPG Partners V, L.P. and GS Capital Partners VI Fund, L.P.; the inability to complete the merger due to the failure to obtain stockholder approval for the merger or the failure to satisfy other conditions to completion of the merger, including the receipt of all regulatory approvals related to the merger; risks that the proposed transaction disrupts current plans and operations; adverse changes in economic conditions in the markets served by Alltel; the extent, timing, and overall effects of competition in the communications business; material changes in the communications industry generally that could adversely affect vendor relationships with equipment and network

suppliers and customer relationships with wholesale customers; changes in communications technology; the risks associated with the integration of acquired businesses; adverse changes in the terms and conditions of the wireless roaming agreements of Alltel; the potential for adverse changes in the ratings given to Alltel's debt securities by nationally accredited ratings organizations; the uncertainties related to Alltel's strategic investments; the effects of litigation; and the effects of federal and state legislation, rules, and regulations governing the communications industry.

In addition to these factors, actual future performance, outcomes and results may differ materially because of more general factors including (without limitation) general industry and market conditions and growth rates, economic conditions, and governmental and public policy changes.

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ALLTEL CORPORATION
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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share amounts)		June 30, 2007		December 31, 2006
Assets				
Current Assets:				
Cash and short-term investments	$	456.3	$	934.2
Accounts receivable (less allowance for doubtful accounts of $64.5 and $54.9, respectively)		839.2		807.3
Inventories		206.5		218.6
Prepaid expenses and other		86.1		67.7
Assets related to discontinued operations		-		4.3
Total current assets		1,588.1		2,032.1
Investments		187.1		368.9
Goodwill		8,421.3		8,447.0
Other intangibles		2,042.3		2,129.4
Property, Plant and Equipment:				
Land		328.3		314.9
Buildings and improvements		990.9		955.1
Operating plant and equipment		8,313.6		7,933.8
Information processing		1,114.1		1,048.1
Furniture and fixtures		178.5		173.8
Under construction		431.1		496.0
Total property, plant and equipment		11,356.5		10,921.7
Less accumulated depreciation		6,257.6		5,690.3
Net property, plant and equipment		5,098.9		5,231.4
Other assets		100.9		89.4
Assets related to discontinued operations		-		45.5
Total Assets	$	17,438.6	$	18,343.7
Liabilities and Shareholders' Equity				
Current Liabilities:				
Current maturities of long-term debt	$	39.7	$	36.3
Accounts payable		496.2		576.1
Advance payments and customer deposits		205.3		186.2
Accrued taxes		180.5		114.1
Accrued dividends		43.0		46.0
Accrued interest		79.1		79.3
Other current liabilities		185.6		156.5
Liabilities related to discontinued operations		-		2.8
Total current liabilities		1,229.4		1,197.3
Long-term debt		2,743.9		2,697.4
Deferred income taxes		1,083.4		1,109.5
Other liabilities		700.2		677.6
Total liabilities		5,756.9		5,681.8
Shareholders' Equity:				

Preferred stock, Series C, $2.06, no par value, 10,028 and 10,307 shares issued and outstanding, respectively		0.3		0.3
Common stock, par value $1 per share, 1.0 billion shares authorized, 343,873,537 and 364,505,820 shares issued and outstanding, respectively		343.9		364.5
Additional paid-in capital		3,031.3		4,296.8
Accumulated other comprehensive income (loss)		(26.1)		9.5
Retained earnings		8,332.3		7,990.8
Total shareholders' equity		11,681.7		12,661.9
Total Liabilities and Shareholders' Equity	$	17,438.6	$	18,343.7

See the accompanying notes to the unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	2007	2006	2007	2006
Revenues and sales:				
Service revenues	$ 1,971.6	$ 1,734.1	$ 3,851.7	$ 3,383.3
Product sales	203.5	211.1	401.9	405.2
Total revenues and sales	2,175.1	1,945.2	4,253.6	3,788.5
Costs and expenses:				
Cost of services (excluding depreciation of $197.0, $169.8, $385.8 and $330.6, respectively, included below)	640.2	574.0	1,251.2	1,116.8
Cost of products sold	288.6	283.3	576.1	556.0
Selling, general, administrative and other	479.5	434.5	949.4	860.2
Depreciation and amortization	352.3	309.6	701.8	608.9
Integration expenses and other charges	36.0	-	42.3	10.8
Total costs and expenses	1,796.6	1,601.4	3,520.8	3,152.7
Operating income	378.5	343.8	732.8	635.8
Equity earnings in unconsolidated partnerships	16.4	15.4	31.4	28.3
Minority interest in consolidated partnerships	(8.9)	(11.5)	(18.6)	(25.4)
Other income, net	5.6	21.0	13.3	31.8
Interest expense	(47.4)	(86.4)	(94.1)	(171.1)
Gain on disposal of assets	-	176.6	56.5	176.6
Income from continuing operations before income taxes	344.2	458.9	721.3	676.0
Income taxes	145.7	170.5	292.5	253.4
Income from continuing operations	198.5	288.4	428.8	422.6
Income (loss) from discontinued operations (net of income tax expense of $1.8, $97.2, $1.7 and $214.7, respectively)	(2.8)	140.5	(3.0)	303.7
Net income	195.7	428.9	425.8	726.3
Preferred dividends	-	-	-	-
Net income applicable to common shares	$ 195.7	$ 428.9	$ 425.8	$ 726.3
Earnings per share:				
Basic:				
Income from continuing operations	$ .58	$ .74	$1.22	$1.09

Income (loss) from discontinued operations	(.01)	.36	(.01)	.78
Net income	$ .57	$1.10	$1.21	$1.87
Diluted:				
Income from continuing operations	$ .57	$ .74	$1.21	$1.08
Income (loss) from discontinued operations	(.01)	.36	(.01)	.78
Net income	$ .56	$1.10	$1.20	$1.86

See the accompanying notes to the unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Six Months Ended June 30, 2007	2006
Cash Flows from Operating Activities:		
Net income	$ 425.8	$ 726.3
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss (income) from discontinued operations	3.0	(303.7)
Depreciation and amortization expense	701.8	608.9
Provision for doubtful accounts	86.8	113.4
Non-cash portion of gain on disposal of assets	(56.5)	(176.6)
Change in deferred income taxes	47.1	21.2
Other, net	(16.2)	(4.3)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	(120.8)	(136.1)
Inventories	12.2	71.0
Accounts payable	(81.7)	(68.2)
Other current liabilities	133.8	(155.9)
Other, net	(22.6)	(53.7)
Net cash provided from operating activities	1,112.7	642.3
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(477.8)	(441.2)
Additions to capitalized software development costs	(17.2)	(17.0)
Purchases of property, net of cash acquired	(6.2)	(676.4)
Proceeds from the sale of investments	188.7	199.9
Proceeds from the return on investments	24.8	22.2
Other, net	0.6	11.4
Net cash used in investing activities	(287.1)	(901.1)
Cash Flows from Financing Activities:		
Dividends paid on common and preferred stock	(90.5)	(297.2)
Repayments of long-term debt	(36.3)	(0.7)
Repurchases of common stock	(1,360.3)	-
Cash payments to effect conversion of convertible notes	-	(59.8)
Distributions to minority investors	(21.1)	(20.3)
Excess tax benefits from stock option exercises	5.2	5.7
Long-term debt issued	100.0	-
Common stock issued	53.0	88.6
Net cash used in financing activities	(1,350.0)	(283.7)
Cash Flows from Discontinued Operations:		
Cash provided from (used in) operating activities	(1.2)	599.5
Cash provided from investing activities	47.7	1,492.0

Cash provided from financing activities		-		1.0
Net cash provided from discontinued operations		46.5		2,092.5
Effect of exchange rate changes on cash and short-term investments		-		(5.9)
Increase (decrease) in cash and short-term investments		(477.9)		1,544.1
Cash and Short-term Investments:				
Beginning of the period		934.2		982.4
End of the period	$	456.3	$	2,526.5

See the accompanying notes to the unaudited interim consolidated financial statements.

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2006	$ 0.3	$ 364.5	$ 4,296.8	$ 9.5	$ 7,990.8	$ 12,661.9
Cumulative effect adjustment to adopt recognition and measurement provisions of FASB Interpretation No. 48 (See Note 2)	-	-	-	-	3.2	3.2
Net income	-	-	-	-	425.8	425.8
Other comprehensive loss, net of tax (See Note 10)						
Unrealized holding losses on investments, net of reclassification adjustments	-	-	-	(37.5)	-	(37.5)
Defined benefit pension plans	-	-	-	1.8	-	1.8
Other postretirement benefit plan	-	-	-	0.1	-	0.1
Comprehensive income	-	-	-	(35.6)	425.8	390.2
Employee plans, net	-	1.2	51.6	-	-	52.8
Issuance of restricted stock	-	0.2	-	-	-	0.2
Amortization of stock-based compensation	-	-	15.4	-	-	15.4
Tax benefit for non-qualified stock options	-	-	5.8	-	-	5.8
Repurchases of stock	-	(22.0)	(1,338.3)	-	-	(1,360.3)
Dividends:						
Common - $.25 per share	-	-	-	-	(87.5)	(87.5)
Preferred	-	-	-	-	-	-
Balance at June 30, 2007	$ 0.3	$ 343.9	$ 3,031.3	$ (26.1)	$ 8,332.3	$ 11,681.7

See the accompanying notes to the unaudited interim consolidated financial statements.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General:

Basis of Presentation– The consolidated financial statements as of June 30, 2007 and December 31, 2006 and for the three and six month periods ended June 30, 2007 and 2006 of ALLTEL Corporation (“Alltel” or the “Company”) are unaudited. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission (“SEC”) rules and regulations. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods presented.

Classification of Operations Following the Spin-off of the Wireline Telecommunications Business– On July 17, 2006, Alltel completed the spin-off of its wireline telecommunications business to its stockholders and the merger of that wireline business with Valor Communications Group, Inc. (“Valor”). The spin-off included 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 new wireline company formed in the merger of Alltel’s wireline operations and Valor is named Windstream Corporation (“Windstream”). In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”, the results of operations, assets, liabilities, and cash flows of the wireline telecommunications business have been presented as discontinued operations for all periods presented. See Note 9 for a further discussion of the spin-off of the wireline telecommunications business.

Following the spin-off, Alltel provides wireless voice and data communications services to more than 12 million customers in 35 states. Through roaming arrangements with other carriers, Alltel is able to offer its customers wireless services covering more than 95 percent of the U.S. population. Alltel manages its wireless business and retained portion of communications support services as a single operating segment, and accordingly, Alltel’s continuing operations consist of a single reportable business segment, wireless communications services. Unless otherwise noted, the footnote disclosures accompanying these unaudited interim consolidated financial statements exclude information related to the spun-off wireline telecommunications business.

2. Accounting Changes:

Changes in Accounting Principle– In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109” (“FIN 48”), which clarified the accounting for uncertainty in income taxes recognized in an enterprise’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Effective January 1, 2007, Alltel adopted the provisions of FIN 48. As a result of the implementation of FIN 48, the Company recognized an approximate $3.2 million decrease in its reserves for uncertain tax positions, the offsetting effects of which resulted in a corresponding increase to the January 1, 2007 balance of retained earnings. The Company’s gross unrecognized tax benefits totaled $93.7 million at January 1, 2007. Approximately $37.4 million of the total amount of unrecognized tax benefits (net of federal tax benefits on state issues) relates to tax positions that would, if recognized, affect Alltel’s effective tax rate in future periods. As of January 1, 2007, Alltel believed that it

was reasonably possible that approximately $50.0 to $60.0 million of gross unrecognized tax benefits for uncertain tax positions, related to both income inclusion and tax deductibility issues, would reverse in the following twelve months. Of that amount, approximately $2.0 million relates to payments to be made to taxing authorities, $14.6 million relates to an Internal Revenue Service ("IRS") initiative described below and the balance relates to the lapsing of various statutes of limitations.

Alltel's only significant tax jurisdiction is the U.S. federal tax jurisdiction. In 2006, Alltel elected to participate in an IRS initiative undertaken to address certain implications of FIN 48. In connection with that initiative, on January 30, 2007, Alltel entered into a Memorandum of Understanding with the IRS to settle two issues. As a result of this action, in the first quarter of 2007, Alltel reduced its gross unrecognized tax benefits by $14.6 million and its gross deferred tax assets by $0.8 million. The corresponding effects of the reduction in unrecognized tax benefits (including interest and any related tax benefits) of $13.8 million resulted in an increase to additional paid-in capital of $7.7 million, a decrease in goodwill of $4.0 million and an increase to current income taxes payable of $2.1 million. As of June 30, 2007, no other material changes in Alltel's unrecognized tax benefits have occurred subsequent to the Company's adoption of FIN 48 on January 1, 2007.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. Accounting Changes, Continued:

During the fourth quarter of 2006, Alltel entered into a final settlement with the IRS with respect to its federal income tax returns for the tax years 1997 through 2003, however, the statutes of limitations remain open through September 15, 2007 for the years 2002 and 2003. The audits and related statutes of limitations applicable to Alltel's federal income tax returns for the tax years 2004 through 2006 also remain open. The IRS recently began its audits of the Company's 2004 and 2005 federal income tax returns. Alltel's open tax years for state income tax jurisdictions range from 1997 to 2006.

Consistent with Alltel's past practices, interest charges on potential assessments and any penalties assessed by taxing authorities are classified as income tax expense within the Company's consolidated statements of income. The Company has accrued $28.7 million for the payment of interest and $0.6 million for the payment of penalties related to its gross unrecognized tax benefits as of January 1, 2007.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supercedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. On March 25, 2005, the SEC staff issued Staff Accounting Bulletin ("SAB") 107, which summarized the staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provided additional guidance regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the employee's requisite service period.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) using the modified prospective application method and applied the provisions of SAB 107 in its adoption of SFAS No. 123(R). Operating results for prior periods were not restated. Under the modified prospective transition method, Alltel is required to recognize compensation cost for all stock option awards granted after January 1, 2006 and for all existing awards for which the requisite service had not been rendered as of the date of adoption. Compensation expense for the unvested awards outstanding as of January 1, 2006 is recognized over the remaining requisite service period based on the fair value of the awards on the date of grant, as previously calculated by Alltel in developing its pro forma disclosures in accordance with the provisions of SFAS No. 123.

The effect of adopting SFAS No. 123(R) consisted of compensation expense for stock options issued by Alltel and resulted in pretax charges of $5.4 million and $10.2 million, which decreased net income $4.1 million and $7.7 million, or $.01 per share and $.02 per share, for the three and six months ended June 30, 2006, respectively. (See Note 5 for a further discussion of the Company's stock-based compensation plans.)

3. Acquisitions:

On October 3, 2006, Alltel completed the purchase of Midwest Wireless Holdings of Mankato, Minnesota ("Midwest Wireless") for $1,083.5 million in cash. The final purchase price included $8.3 million of working capital adjustments. In this transaction, Alltel acquired wireless properties, including 850 MHz licenses and Personal Communications Services ("PCS") spectrum covering approximately 2.0 million potential customers ("POPs"), network assets and approximately 450,000 customers in select markets in Minnesota, Iowa and Wisconsin. Given the close proximity to year-end that this acquisition was completed, the value of certain assets and liabilities were based on preliminary valuations and subject to adjustment as additional information was obtained. During 2007, Alltel

recorded employee termination benefits of $6.9 million, including involuntary severance and related benefits to be provided to 154 former Midwest Wireless employees. Alltel also recorded contract termination costs of $2.2 million primarily related to the cancellation of a third party billing services agreement. The employee benefit and contract termination costs were recognized in accordance with Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination" ("EITF 95-3"), as liabilities assumed in the business combination. As of June 30, 2007, Alltel had paid $5.3 million in employee termination benefits, and 17 of the scheduled employee terminations had been completed.

During the second quarter of 2006, Alltel purchased for $217.5 million in cash wireless properties covering approximately 727,000 POPs in Illinois, Texas and Virginia. On March 16, 2006, Alltel purchased from Palmetto MobileNet, L.P. for $456.3 million in cash the remaining ownership interests in ten wireless partnerships that cover approximately 2.0 million POPs in North and South Carolina. Prior to this transaction, Alltel owned a 50 percent interest in each of the ten wireless partnerships. During the first quarter of 2006, Alltel also acquired for $2.6 million in cash the remaining ownership interest in a wireless property in Wisconsin in which the Company owned a majority interest.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. Acquisitions, Continued:

During 2007, Alltel adjusted the purchase price allocations related to its 2006 acquisitions primarily for the recognition of employee benefit and contract termination costs associated with the Midwest Wireless acquisition discussed above. These adjustments to the purchase price allocation resulted in a reduction to the preliminary values assigned to acquired net assets of $7.7 million with an offsetting increase to goodwill compared to the corresponding values that had been previously recorded in the Company's consolidated balance sheet as of December 31, 2006.

Unaudited pro forma financial information related to the 2006 acquisitions has not been presented because the acquisitions, individually or in the aggregate, were not material to Alltel's consolidated results of operations for all periods presented. During the first six months of 2007, the Company incurred integration expenses related to its 2006 acquisitions, principally consisting of costs for branding, signage and computer system conversions. (See Note 7 for a further discussion of the integration expenses recorded by Alltel during the three and six month periods ended June 30, 2007.)

On August 1, 2005, Alltel and Western Wireless Corporation ("Western Wireless") completed the merger of Western Wireless into a wholly-owned subsidiary of Alltel. As a result of the merger, Alltel added approximately 1.3 million domestic wireless customers, adding operations in nine new states, including California, Idaho, Minnesota, Montana, Nevada, North Dakota, South Dakota, Utah and Wyoming, and expanding its wireless operations in Arizona, Colorado, New Mexico and Texas. 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. On the date of closing, Alltel repaid approximately $1.3 billion of term loans representing all borrowings outstanding under Western Wireless' credit facility. During 2005, Alltel repurchased all of the issued and outstanding 9.25 percent senior notes due July 15, 2013 of Western Wireless, representing an aggregate principal amount of $600.0 million. Alltel also assumed $115.0 million of 4.625 percent convertible subordinated notes due 2023 that were issued by Western Wireless in June 2003 (the "Western Wireless notes"). Upon closing of the merger, each $1,000 principal amount of Western Wireless notes became convertible into shares of Alltel common stock and cash based on the mixed-election exchange ratio. During 2006, an aggregate principal amount of $113.0 million of the Western Wireless notes were converted.

During the first quarter of 2007, Alltel adjusted the purchase price allocation related to the Western Wireless acquisition to adjust certain income tax liabilities primarily related to the international operations. The effects of these adjustments resulted in a reduction in goodwill of $31.2 million. During the first quarter of 2006, Alltel completed the integration of the domestic operations acquired from Western Wireless. In connection with this integration, the Company incurred integration expenses, principally consisting of costs for branding, signage, retail store redesigns and computer system conversions. (See Note 7 for a discussion of integration expenses recorded by Alltel during the first quarter of 2006). Employee termination benefits of $23.8 million, including involuntary severance and related benefits to be provided to 337 former Western Wireless employees, and employee retention bonuses of $7.4 million payable to approximately 1,150 former Western Wireless employees were recorded during 2005. These employee benefit costs were recognized in accordance with EITF 95-3 as liabilities assumed in the business combination. As of June 30, 2007, Alltel had paid $31.2 million in employee termination and retention benefits, and all of the scheduled

employee terminations had been completed.

4. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable tangible and intangible assets is recorded as goodwill. As of January 1, 2007, Alltel completed the annual impairment reviews of its goodwill and other indefinite-lived intangible assets and determined that no write-down in the carrying value of these assets was required.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

4. Goodwill and Other Intangible Assets, Continued:

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 were as follows:

(Millions)		
Balance at December 31, 2006	$	8,447.0
Acquired during the period		1.8
Other adjustments		(27.5)
Balance at June 30, 2007	$	8,421.3

The carrying values of indefinite-lived intangible assets other than goodwill were as follows:

(Millions)	June 30, 2007	December 31, 2006
Cellular and Personal Communications Services licenses		