

ALLTEL CORP  
Form 10-K  
February 10, 2005

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-4996

**ALLTEL CORPORATION** (Exact name of registrant as specified in its charter) DELAWARE 34-0868285 (State 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

Securities registered pursuant to Section 12(b) of the Act: Title of each class Name of each exchange on which registered

Preferred Stock New York and Pacific

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

NONE (Title of Class)

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 and all amendments to such reports during the preceding 12 months and (2) has not been delinquent in the filing of such reports.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein.

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act).

Aggregate market value of voting stock held by non-affiliates as of June 30, 2004 \$15,601,010,955

Common shares outstanding, January 31, 2005 302,475,315

DOCUMENTS INCORPORATED BY REFERENCE Document Incorporated Into Proxy statement for the 2005 Annual Meeting of Shareholders

**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**THE COMPANY**

**GENERAL**

ALLTEL Corporation ("ALLTEL" or the "Company") is a customer-focused communications company. The Company's web site address is [www.alltel.com](http://www.alltel.com). ALLTEL files with, or furnishes to, the Securities and Exchange Commission.

**FORWARD-LOOKING STATEMENTS**

This Form 10-K may include certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Actual future events and results may differ materially from those expressed in these forward-looking statements as a result of various factors. In addition to these factors, actual future performance, outcomes and results may differ materially because of other more

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**THE COMPANY (continued)**

**ACQUISITIONS**

**Pending Acquisitions to be Completed During 2005:**

On January 9, 2005, ALLTEL entered into an Agreement and Plan of Merger (the "Merger Agreement") with Western Wireless. On November 26, 2004, ALLTEL and Cingular Wireless LLC ("Cingular"), a joint venture between SBC Communications and Cingular, completed the acquisition of Cingular Wireless. Following completion of the acquisitions discussed above, ALLTEL's domestic communications operations will serve the United States.

**Acquisitions Completed During the Past Five Years:**

On December 1, 2004, ALLTEL completed the purchase of certain wireless assets from United States Cellular Corporation. On August 29, 2003, the Company purchased for \$22.8 million in cash a wireless property with a potential service area of approximately 100,000 square miles.

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**THE COMPANY (continued)**

**ACQUISITIONS (Continued)**

On August 1, 2002, ALLTEL completed its purchase of local telephone properties serving approximately 589,000 wire

On August 1, 2002, ALLTEL also completed its purchase of substantially all of the wireless properties owned by Cent

On October 3, 2000, ALLTEL purchased wireless properties in New Orleans, Baton Rouge and three rural service area

On January 31, 2000, ALLTEL, Bell Atlantic Corporation ("Bell Atlantic") and GTE Corporation ("GTE") signed agre

**DISPOSITIONS**

In December 2003, ALLTEL sold to Convergys Information Management Group ("Convergys") for \$37.0 million in ca

On April 1, 2003, ALLTEL completed the sale of the financial services division of its information services subsidiary,

In January 2003, ALLTEL completed the termination of its business venture with Bradford & Bingley Group. The bus

During 2002, the Company sold its majority ownership interest in a Pennsylvania cellular partnership to Verizon for a

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**THE COMPANY (continued)**

**DISPOSITIONS (Continued)**

During 2001, the Company sold 20 PCS licenses in six states to Verizon Wireless for a total cash purchase price of \$41

During 2000, the Company sold its PCS operations in Birmingham and Mobile, Alabama and PCS licenses in nine oth

**MANAGEMENT**

The Company's staff at its headquarters and regional offices supervise, coordinate and assist subsidiaries in managemen

**EMPLOYEES**

At December 31, 2004, the Company had 18,598 employees. Within the Company's work force, approximately 1,526 e

**ORGANIZATIONAL STRUCTURE AND OPERATING SEGMENTS**

The Company has focused its communications business strategy on growing its customer base through strategic acquis

ALLTEL is organized based on the products and services that it offers. Under this organizational structure, the Compan

**WIRELESS OPERATIONS**

As of December 31, 2004, the Company provided wireless communications service to more than 8.6 million customers

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELESS OPERATIONS (continued)**

ALLTEL has offered PCS service in Jacksonville, Florida, since March 1998. As previously discussed, in connection w

During 2004, ALLTEL continued to upgrade it wireless network infrastructure and invest in state-of-the-art code divis

**PRODUCT OFFERINGS AND PRICING**

Wireless revenues are derived primarily from monthly access and airtime charges, roaming and long-distance charges a

ALLTEL strives to address the needs of a variety of customer segments, stimulate usage, increase penetration, and imp



**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELESS OPERATIONS (continued)**

**TECHNOLOGY**

Since inception, mobile wireless technologies have seen significant improvements in both speed and reliability. The firm  
ALLTEL will maintain its first generation analog services until the FCC no longer requires it or as long as non-CDMA  
Third generation digital wireless technologies increase voice capacity, allow high-speed wireless packet data services and

**REGULATION**

The Company is subject to regulation by the FCC as a provider of Commercial Mobile Radio Services ("CMRS"). The firm  
The Telecommunications Act of 1996 ("96 Act"), provides wireless carriers numerous opportunities to provide an alternative  
The Company holds FCC authorizations for Cellular Radiotelephone Service ("CRS"), Personal Communications Service ("PCS")  
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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELESS OPERATIONS (continued)**

**REGULATION (continued)**

Minority, non-controlling interests in an FCC license generally may be transferred or assigned without prior FCC approval  
All of the Company's PCS licenses are for 10 MHz-wide broadband PCS systems. PCS licenses are granted for 10-year terms  
Cellular systems operate on one of two 25 MHz-wide frequency blocks that the FCC allocates and licenses for CMRS  
In an effort to promote more efficient number utilization, the FCC adopted rules requiring CMRS providers to participate in  
CMRS providers in the top 100 markets were required by the FCC to implement by November 24, 2003 (and, for all other  
An appeal by the United States Telecommunications Association ("USTA"), along with certain rural telephone companies  
Wireless service providers are required by the FCC to provide enhanced 911 emergency service ("E-911") in a two-phase  
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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELESS OPERATIONS (continued)**

**REGULATION (continued)**

In phase two, CMRS carriers like ALLTEL have opted for a handset-based solution must determine, for originated calls. To ensure affordable access to telecommunications services throughout the United States, the FCC and many states con During 2004, the Company sought ETC certification by the FCC and various state commissions. In September 2004, th The FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF pr  
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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELESS OPERATIONS (continued)**

**REGULATION (continued)**

for which the support is intended". If adopted, these changes would adversely affect the availability of USF to ALLTEL. The FCC mandated that, effective October 1, 2004, the Universal Service Administrative Company ("USAC") must be. In October 2003, the FCC issued an order adopting rules that allow CMRS licensees to lease spectrum to others. The F The Communications Assistance for Law Enforcement Act ("CALEA") requires wireless and wireline carriers to ensur Under FCC and Federal Aviation Administration regulations, wireless carriers must comply with certain regulations re  
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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS**

As previously noted, the Company's wireline segment consists of ALLTEL's ILEC, CLEC and Internet access operatio Local service operations provide lines from telephone exchange offices to customer premises for the origination and te Network access and interconnection services are provided by ALLTEL by connecting the equipment and facilities of it  
**COMPETITION**

Many of the Company's ILEC operations have begun to experience competition in their local service areas. Sources of To address competition, ALLTEL is focusing its efforts on marketing and selling additional products and services to its Although DSL services have been a source of revenue and access line growth for the Company in 2004, 2003 and 2002  
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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**COMPETITION (continued)**

challenging existing regulatory definitions. As further discussed below under the caption "Network Access Services

**LOCAL SERVICE REGULATION**

Prior to 1996, ALLTEL's wireline subsidiaries provided local telephone service under exclusive franchises granted by

The 96 Act substantially modified certain aspects of the states' and the FCC's jurisdictions in the regulation of local ex

The 96 Act also requires all local exchange telephone companies to compensate one another for the transport and termi

Except for certain of its subsidiaries in Nebraska, Ohio and the recently acquired property in Kentucky, the Company's

In 1996, the FCC issued regulations implementing the local competition provisions of the 96 Act. These regulations est

In June 2002, the U.S. Court of Appeals for the Second Circuit found that the 96 Act did not create an "implicit immun

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**LOCAL SERVICE REGULATION (continued)**

The federal universal service program is under legislative, regulatory and industry participant scrutiny as a result of the

In May 2001, the FCC adopted the Rural Task Force Order that established an interim universal service mechanism tha

On November 8, 2002, the FCC requested that the Joint Board review certain of the FCC's rules relating to the high-co

As previously discussed under "Wireless Operations Regulation", the FCC mandated that, effective October 1, 2004,

On December 20, 2001, the FCC released a notice of proposed rulemaking initiating the first triennial review of the FC

On March 2, 2004, the D.C. Circuit Court overturned key portions of the FCC's Triennial Review Order. The D.C. Cir

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**LOCAL SERVICE REGULATION (continued)**

On March 31, 2004, the FCC commissioners urged carriers to begin private commercial negotiations to resolve issues s

On September 13, 2004, the FCC released its Interim UNE Order requiring incumbent ILECs to maintain the status quo

On September 15, 2003, the FCC launched its first comprehensive review of the rules that establish wholesale pricing of interstate long distance service. Section 251(b) of the Communications Act of 1934 (the "34 Act"), as amended, requires, in part, that local exchange carriers file their rates. Periodically, the Company's local exchange subsidiaries receive requests from wireless communications providers for rates for use in their networks. Most states in which ALLTEL's ILEC subsidiaries operate have adopted alternatives to rate-of-return regulation, either

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**LOCAL SERVICE REGULATION (continued)**

The following summary sets forth a description of the alternative regulation plan for each of the states in which the Company's regulated wireline subsidiaries operate. ALLTEL's regulated Alabama wireline subsidiary has operated since 1996 under a Public Service Commission ("PSC") alternative regulation plan. ALLTEL's regulated Arkansas wireline subsidiary has operated since 1997 under an alternative regulation plan established by statute. ALLTEL's regulated Florida wireline subsidiary operates under alternative regulation established by Florida statute. ALLTEL's regulated Georgia wireline subsidiaries operate under an alternative regulation plan established by statute. ALLTEL has two regulated operating subsidiaries in Kentucky. The subsidiary acquired from Verizon is subject to alternative regulation established by statute. ALLTEL's regulated Missouri wireline subsidiary is subject to alternative regulation election established by statute.

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**LOCAL SERVICE REGULATION (continued)**

ALLTEL's regulated Nebraska operations are subject to alternative regulation established by statute. (Nebraska law requires alternative regulation.) ALLTEL's regulated North Carolina subsidiary has operated since 1998 under alternative regulation plan approved by the Public Service Commission. ALLTEL's regulated Ohio wireline subsidiaries began in 2004, to operate under an alternative regulation plan established by statute. ALLTEL's regulated Pennsylvania subsidiary has operated under the Alternative Form of Regulation and Network Access Services Regulation. ALLTEL's regulated South Carolina operations are subject to alternative regulation established by statute. Local exchange rates are subject to alternative regulation established by statute. The Company has two operating subsidiaries in Texas. These subsidiaries are subject to alternative regulation established by statute.

**NETWORK ACCESS SERVICES REGULATION**

The Company's local exchange subsidiaries currently receive compensation from other telecommunications providers, A number of carriers have begun offering voice telecommunications services utilizing Internet protocol as the underlying

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**NETWORK ACCESS SERVICES REGULATION (continued)**

Although the FCC's rulemaking regarding IP-enabled services remains pending, the FCC has adopted three orders established in 2001. On October 8, 2004, the FCC granted in part and denied in part a petition filed by Core Communications requesting that the FCC modify its rules regarding inter-carrier compensation. In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rulemaking, the FCC is required to evaluate the appropriate framework for broadband access services. During the first quarter of 2002, the FCC initiated a rulemaking to evaluate the appropriate framework for broadband access services.

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**WIRELINE OPERATIONS (continued)**

**NETWORK ACCESS SERVICES REGULATION (continued)**

The Ninth Circuit Court ruling was scheduled to become effective April 8, 2004, but the Ninth Circuit Court stayed the ruling. On October 11, 2001, the FCC adopted rate-of-return access charge reform and initiated a further round of rulemaking regarding access charges.

**TECHNOLOGY**

The Company believes the local exchange business is in transition from circuit switched technology, which forms the backbone of the local exchange, to packet switched technology. ALLTEL's backbone fiber network provides the basis for the transport of data traffic. ALLTEL has deployed almost 14,000 miles of fiber optic cable.

**CLEC OPERATIONS**

ALLTEL has authority to provide competitive local exchange services in 17 states. As of December 31, 2004, the Company has provided competitive local exchange services in 17 states. Generally, CLECs are required to obtain certificates of public convenience and necessity. In addition, CLECs are required to provide service to all requesting parties.

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**COMMUNICATIONS SUPPORT SERVICES**

Communications support services consist of the Company's long-distance and network management services, product support services, and other services.

**LONG-DISTANCE AND NETWORK MANAGEMENT OPERATIONS**

Long-distance telecommunications services are provided on both a facilities-based and resale basis by ALLTEL subsidiaries. Network management services are currently marketed to business customers in select areas. These services are ancillary to the Company's primary telecommunications services.

**PRODUCT DISTRIBUTION**

The Company's product distribution subsidiary, ALLTEL Communications Products, Inc. ("Communications Products"), provides a variety of telecommunications products. Communications Products experiences substantial competition throughout its sales territories from other distribution companies.

**DIRECTORY PUBLISHING**

ALLTEL Publishing Corporation ("ALLTEL Publishing") coordinates advertising, sales, printing, and distribution for telecommunications companies. ALLTEL Publishing is a wholly owned subsidiary of the Company.

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 1. Business**

**COMMUNICATIONS SUPPORT SERVICES (continued)**

**TELECOMMUNICATIONS INFORMATION SERVICES**

As previously discussed, in December 2003, the Company sold to Convergys certain assets and related liabilities, including certain telecommunications information services.

**INVESTMENTS**

On April 1, 2003, in connection with the sale of the Company's financial services division previously discussed, ALLTEL sold certain investments.

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**ALLTEL Corporation**

**Form 10-K, Part I**

**Item 2. Properties**

The Company's properties do not provide a basis for description by character or location of principal units. All of the Company's principal units are located in the United States.

**WIRELINE PROPERTY**

The Company's wireline subsidiaries own property in their respective operating territories which consists primarily of land, buildings, and equipment. Certain properties of the wireline subsidiaries are pledged as collateral on \$5.1 million of long-term debt.

**OTHER PROPERTY**

Other properties in service consist primarily of property, plant and equipment used in providing wireless communications services.

**Item 3. Legal Proceedings**

The Company is party to various other legal proceedings arising from the ordinary course of business. Although the ultimate outcome of these proceedings is uncertain, to the knowledge of ALLTEL's management, no material legal proceedings, either private or governmental, currently pending or threatened.

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

No matters were submitted to the security holders for a vote during the fourth quarter of 2004.

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**ALLTEL Corporation**

**Form 10-K, Part II**

**Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters**

(a) The outstanding shares of ALLTEL's Common Stock are listed and traded on the New York Stock Exchange and

As of January 31, 2005, the approximate number of stockholders of common stock including an estimate for those h

**Item 6. Selected Financial Data**

For information pertaining to Selected Financial Data of ALLTEL Corporation, refer to pages F-37 and F-38 of the Fin

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

For information pertaining to Management's Discussion and Analysis of Financial Condition and Results of Operations

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

For information pertaining to the Company's market risk disclosures, refer to page F-34 of the Financial Supplement, w

**Item 8. Financial Statements and Supplementary Data**

For information pertaining to Financial Statements and Supplementary Data of ALLTEL Corporation, refer to pages F-

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**ALLTEL Corporation**

**Form 10-K, Part II**

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

No reportable information under this item.

**Item 9(A). Controls and Procedures**

(a) Evaluation of disclosure controls and procedures. The term "disclosure controls and procedures" (defined in SEC Rule 13a-

**Item 9(B). Other Information**

No reportable information under this item.

**Form 10-K, Part III**

**Item 10. Directors and Executive Officers of the Registrant**

For information pertaining to Directors of ALLTEL Corporation refer to "Election of Directors" in ALLTEL's Proxy S

Name Age

Position Scott T. Ford 42 President and Chief Executive Officer Kevin L. Beebe 45 Group Pr

There are no arrangements between any officer and any other person pursuant to which he was selected as an officer. S

**ALLTEL Corporation**  
**Form 10-K, Part III**

**Item 10. Directors and Executive Officers of the Registrant (continued)**

ALLTEL has a code of ethics that applies to all employees and members of the Board of Directors. ALLTEL's code of

**Item 11. Executive Compensation**

For information pertaining to Executive Compensation, refer to "Management Compensation" in ALLTEL's Proxy Stat

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

For information pertaining to beneficial ownership of ALLTEL securities, refer to "Security Ownership of Certain Ben

Set forth below is additional information as of December 31, 2004, about shares of the Company's common stock that

by security holders (1) 15,502.9 \$56.21 16,819.4 Equity compensation plans not approved

by security holders Totals 15,502.9 \$56.21 16,819.4

(1) Includes the ALLTEL Corporation 1991 Stock Option Plan, ALLTEL Corporation 1994 Stock Option Plan for E

(2) Does not include 419,492 stock options with a weighted-average exercise price of \$31.57, which were assumed b

**Item 13. Certain Relationships and Related Transactions**

For information pertaining to Certain Relationships and Related Transactions, refer to "Certain Transactions" in ALLT

**Item 14. Principal Accountant Fees and Services**

For information pertaining to fees paid to the Company's principal accountant and the Audit Committee's pre-approval

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**ALLTEL Corporation Form 10-K, Part IV**

**Item 15. Exhibits, Financial Statement Schedules**

(a) The following documents are filed as a part of this report:

1. Financial Statements:

The following Consolidated Financial Statements of ALLTEL Corporation and subsidiaries for the year ended Decem

Separate condensed financial statements of ALLTEL Corporation have been omitted since the Company meets the test

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly

Registrant

By /s/ Scott T. Ford Date: February 10, 2005 Scott T. Ford, President and Chief Executive Officer

Chief Financial Officer

(Principal Financial Officer)

\*Scott T. Ford, President, Chief Executive Officer and Director

By /s/

\*Joe T. Ford, Chairman and Director

\*John R. Belk, Director

\*William H. Crown, Director

\*Dennis E. Foster, Director

\*Lawrence L. Gellerstedt III, Director

\*Emon A. Mahony, Jr., Director

\*John P. McConnell, Director

\*Josie C. Natori, Director

\*Gregory W. Penske, Director

\*Frank E. Reed, Director

\*Warren A. Stephens, Director

\*Ronald Townsend, Director

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**Report of Independent Registered Public Accounting Firm on  
Financial Statement Schedule**

To the Board of Directors of ALLTEL Corporation:

Our audits of the consolidated financial statements, of management's assessment of the effectiveness of ALLTEL Corp

/s/ PricewaterhouseCoopers LLP

Little Rock, Arkansas,

February 10, 2005

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ALLTEL CORPORATION

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(Dollars in Millions)

Column A

Column B

Column C

Column D

Column E

Notes:

(A) Accounts charged off net of recoveries of amounts previously written off. (B) During 2004, the Company recorded a net charge of \$1.2 million. See Note 9 on pages F-66 to F-68 of the Financial Supplement, which is incorporated herein by reference, for additional information. 29

EXHIBIT INDEX

Number and Name (2)(a) Agreement and Plan of Merger, dated as of January 9, 2005, by and among ALLTEL Corporation and its subsidiaries.

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name (10)(b)(1) Agreement by and between ALLTEL Corporation and Joe T. Ford effective as of January 9, 2005.

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name (10)(c)(8) Change in Control Agreement by and between the Company and Sharilyn S. Gasparini.

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name (10)(f)(10) ALLTEL Corporation 1999 Nonemployee Directors Stock Compensation Plan (a)

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name (10)(g)(10) ALLTEL Corporation 2001 Equity Incentive Plan (incorporated herein by reference)

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name (10)(k)(8) Amendment No. 7 to ALLTEL Corporation Pension Plan (January 1, 2001 Restatement)

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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EXHIBIT INDEX, Continued

Number and Name (10)(o)(4) Amendment No. 3 to ALLTEL Corporation 401(k) Plan (January 1, 2001 Restatement)

\* Incorporated herein by reference as indicated. (a) Filed herewith.

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**ALLTEL CORPORATION**

**FINANCIAL SUPPLEMENT**

**TO ANNUAL REPORT ON FORM 10-K  
FOR THE YEAR ENDED DECEMBER 31, 2004**

**ALLTEL CORPORATION**

**INDEX TO FINANCIAL SUPPLEMENT**

**TO ANNUAL REPORT ON FORM 10-K**

**FOR THE YEAR ENDED DECEMBER 31, 2004    Management's Discussion and Analysis of Financial Cond**

for the years ended December 31, 2004, 2003 and 2002    F-43 Consolidated Balance Sheets

as of December 31, 2004 and 2003    F-44 Consolidated Statements of Cash Flows

for the years ended December 31, 2004, 2003 and 2002    F-45 Consolidated Statements of Shareholders' Equity

for the years ended December 31, 2004, 2003 and 2002    F-46 Notes to Consolidated Financial Statements    F-47    F-7

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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 wireline and wireless services.

Wireless customer growth was strong as ALLTEL added more than 600,000 net customers during the year, most of which were new customers.

Wireless service revenues increased 7 percent from 2003 driven by an 8 percent increase in retail revenues, reflecting growth in the wireless segment.

Wireless segment income for 2004 increased 2 percent from a year ago, reflecting the growth in retail revenues not offset by an increase in operating expenses.

In its wireline business, ALLTEL added more than 90,000 high-speed data customers, increasing ALLTEL's DSL customer base.

ALLTEL maintained its strong financial position while returning more than \$1 billion in capital to shareholders. Dividends were paid to shareholders during the year.

As further discussed under "Pending Acquisitions to be Completed in 2005", ALLTEL positioned its wireless business for growth through strategic acquisitions.

During 2005, the Company will continue to face significant challenges resulting from competition in the telecommunications market.

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**ACQUISITIONS**

Pending Acquisitions to be Completed During 2005

On January 9, 2005, ALLTEL entered into an Agreement and Plan of Merger (the "Merger Agreement") with Western Wireless, Inc. ("Western Wireless").

On November 26, 2004, ALLTEL and Cingular Wireless LLC ("Cingular"), a joint venture between SBC Communications and Cingular, entered into an Agreement and Plan of Merger.

Acquisitions Completed During 2004, 2003 and 2002

On December 1, 2004, ALLTEL completed the purchase of certain wireless assets from United States Cellular Corporation. On August 29, 2003, ALLTEL purchased for \$22.8 million in cash a wireless property with a potential service area covering approximately 100,000 wireline customers.  
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On August 1, 2002, ALLTEL completed its purchase of local telephone properties serving approximately 589,000 wireline customers. The accounts and results of operations of the acquired wireline and wireless properties discussed above are included in the following table.  
F-4

Service revenues increased \$218.2 million, or 3 percent, in 2004, primarily reflecting growth in ALLTEL's wireless customer base. The above increases in service revenues in 2004 were partially offset by lower wireless airtime, retail roaming and wireless product sales. Service revenues increased \$727.2 million, or 11 percent, in 2003. The acquisitions of wireless and wireline properties in 2003 resulted in an increase in service revenues of \$150.0 million, or 2 percent. Product sales increased \$48.0 million, or 6 percent, in 2004 and \$140.3 million, or 21 percent, in 2003. The increase in product sales in 2004 was primarily due to the sale of wireless devices.  
F-5

Cost of services increased \$100.6 million, or 4 percent, in 2004 and \$234.6 million, or 12 percent, in 2003. The increase in cost of services in 2004 was primarily due to higher wireless network-related costs and increased wireless regulatory fees, cost of services for 2003 also increased by \$100.0 million, or 4 percent. Cost of products sold decreased \$32.0 million, or 3 percent, in 2004 and increased \$152.2 million, or 17 percent, in 2003. Selling, general, administrative and other operating expenses increased \$26.1 million, or 2 percent, in 2004 and \$201.1 million, or 10 percent, in 2003. Pension expense, which is included in both cost of services and selling, general, administrative and other expenses, decreased \$10.0 million, or 1 percent, in 2004 and \$152.2 million, or 14 percent, in 2003. Depreciation and amortization expense increased \$52.0 million, or 4 percent, in 2004 and \$152.2 million, or 14 percent, in 2003.  
F-6

Operating income increased \$23.6 million, or 1 percent, in 2004 and \$178.3 million, or 10 percent, in 2003. The increase in operating income in 2003 primarily reflected the nonacquisition-related growth in revenues and sales and Restructuring and Other Charges

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

In January 2004, the Company announced its plans to reorganize its operations and support teams. During February 2004, the Company recorded a \$2.3 million reduction in the liabilities associated with various restructurings. F-7

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

During the second quarter of 2003, the Company recorded a restructuring charge of \$8.5 million consisting of severance and other charges. Co

A summary of the restructuring and other charges recorded in 2002 was as follows:

During the evaluation of its existing CLEC operations, ALLTEL determined that a business model that relied heavily on leased facilities was not sustainable. The \$12.6 million in lease and contract termination costs recorded in 2002 consisted of \$6.2 million, representing the expense of terminating contracts. F-8

In connection with the purchase of wireline properties in Kentucky from Verizon and wireless properties from CenturyLink, the Company exchanged certain used equipment. In conjunction with a product replacement program initiated by a vendor in 2001, the Company exchanged certain used equipment. As of December 31, 2004, the remaining unpaid liability related to the Company's integration and restructuring activities was \$12.6 million. As indicated in the table above, non-operating income, net increased \$26.1 million, or 816 percent, in 2004 and non-operating income, net increased \$17.9 million, or 100 percent, in 2003. Equity earnings in unconsolidated partnerships in 2003 included \$17.9 million of additional income resulting from the sale of equity interests. F-9

Interest Expense

Interest expense decreased \$26.1 million, or 7 percent, in 2004 and increased \$23.5 million, or 7 percent, in 2003. The

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

In 2003, ALLTEL sold to Convergys certain assets and related liabilities, including selected customer contracts and ca

In 2002, the Company recorded a pretax gain of \$22.1 million from the sale of a wireless property in Pennsylvania to V

Income Taxes

Income tax expense decreased \$15.3 million, or 3 percent, in 2004 primarily due to tax benefits associated with the rev

F-10

Primarily due to the tax benefits associated with the reversal of income tax contingency reserves and the allowance of a

Net Income and Earnings per Share from Continuing Operations

Net income from continuing operations increased \$73.2 million, or 8 percent, in 2004 and \$103.4 million, or 12 percent

Discontinued Operations

On April 1, 2003, ALLTEL completed the sale of the financial services division of its information services subsidiary,

In January 2003, ALLTEL completed the termination of its business venture with Bradford & Bingley Group. The busi

The following table includes certain summary income statement information related to the financial services operations

The income tax benefit recorded in 2004 included the reversal of \$15.1 million of federal income tax contingency reser

F-11

The depreciation of long-lived assets related to the financial services division ceased as of January 28, 2003, the date o

Included in operating expenses for 2002 was a \$42.3 million charge associated with discontinuing the Company's busin

Cumulative Effect of Accounting Change

Except for certain wireline subsidiaries as further discussed below, the Company adopted Statement of Financial Acco

ALLTEL has evaluated the effects of SFAS No. 143 on its operations and has determined that, for telecommunications

In accordance with federal and state regulations, depreciation expense for the Company's wireline operations has histor

Average Common Shares Outstanding

The average number of common shares outstanding decreased one percent in 2004 compared to a slight increase in av

F-12

**RESULTS OF OPERATIONS BY BUSINESS SEGMENT**

Communications-Wireless Operations

(Dollars in millions, customers in thousands)

2004

2003

2002

Edgar Filing: ALLTEL CORP - Form 10-K

Revenues and sales:

Service revenues

\$  
4,791.2

\$  
4,466.5

\$  
3,999.2

Product sales

286.9

261.9

161.0

Total revenues and sales

5,078.1

4,728.4

4,160.2

Costs and expenses:

Cost of services

1,543.6

1,367.8

1,246.1

Cost of products sold

573.7

536.7

Edgar Filing: ALLTEL CORP - Form 10-K

430.6

Selling, general, administrative and other

1,201.8

1,154.9

958.0

Depreciation and amortization

738.8

671.0

577.6

Total costs and expenses

4,057.9

3,730.4

3,212.3

Segment income

\$  
1,020.2

\$  
998.0

\$  
947.9

Customers

8,626.5

8,023.4

7,601.6

Average customers

8,295.9

7,834.5

7,095.5

Edgar Filing: ALLTEL CORP - Form 10-K

Gross customer additions (a)

2,812.7

2,856.8

3,157.0

Net customer additions (a)

603.1

421.8

1,032.5

Market penetration

13.8%

13.3%

12.9%

Postpay customer churn

1.74%

2.09%

2.23%

Total churn

Edgar Filing: ALLTEL CORP - Form 10-K

2.23%

2.59%

2.50%

Retail minutes of use per customer per month (b)

494

375

309

Retail revenue per customer per month (c)

\$44.39

\$43.39

\$42.90

Average revenue per customer per month (d)

\$48.13

\$47.51

\$46.97

Cost to acquire a new customer (e)

\$315

\$308

\$304

Notes to Communications-Wireless Operations Table:

- (a) Includes the effects of acquisitions and dispositions. Excludes reseller customers for all periods presented. (b) F
  - (d) Average revenue per customer per month is calculated by dividing wireless service revenues by average customer
- F-13

During 2004, the total number of wireless customers served by ALLTEL increased by more than 600,000 customers, o  
The level of customer growth in 2005 will be dependent upon the Company's ability to attract new customers in an inc  
The Company continues to focus its efforts on lowering postpay customer churn (average monthly rate of customer dis  
Wireless revenues and sales increased \$349.7 million, or 7 percent, in 2004 and \$568.2 million, or 14 percent, in 2003.  
F-14

received FCC approval for five non-rural ETC applications and obtained approval of its petitions from state commissions. Service revenue growth in 2004 and 2003 attributable to increased access revenues from customer growth, additional services. Primarily driven by growth in average monthly retail minutes of use, increased sales of higher-priced postpay rate plans. Product sales increased \$25.0 million, or 10 percent, in 2004 and \$100.9 million, or 63 percent, in 2003. The increase in product sales. Cost of services increased \$175.8 million, or 13 percent, in 2004 and \$121.7 million, or 10 percent, in 2003. The increase in cost of services. Cost of products sold increased \$37.0 million, or 7 percent, in 2004 and \$106.1 million, or 25 percent, in 2003. The increase in cost of products sold.

customers to newer wireless technologies as part of ALLTEL's customer retention efforts, partially offset by the effects of other factors. Selling, general, administrative and other expenses increased \$46.9 million, or 4 percent, in 2004 and \$196.9 million, or 16 percent, in 2003. Depreciation and amortization expense increased \$67.8 million, or 10 percent, in 2004 and \$93.4 million, or 16 percent, in 2003. Primarily as a result of growth in revenues and sales discussed above, wireless segment income increased \$22.2 million, or 10 percent, in 2004 and \$196.9 million, or 16 percent, in 2003. Cost to acquire a new customer is used to measure the average cost of adding a new customer and represents sales, marketing and other expenses.

F-16

Set forth below is a summary of the restructuring and other charges related to the wireless operations that were not included in the accompanying financial statements.

Regulatory Matters-Wireless Operations

ALLTEL is subject to regulation by the FCC as a provider of Commercial Mobile Radio Services ("CMRS"). The Telecommunications Act of 1996 requires that CMRS providers in the top 100 markets were required by the FCC to implement by November 24, 2003 (and, for all other markets, by November 24, 2004). Wireless service providers are required by the FCC to provide enhanced 911 emergency service ("E-911") in a two-phase rollout. The FCC has issued orders regarding the implementation of E-911. The FCC has also issued orders regarding the implementation of E-911. The FCC has also issued orders regarding the implementation of E-911.

In phase two, CMRS carriers like ALLTEL have opted for a handset-based solution must determine, for originated calls, how to ensure affordable access to telecommunications services throughout the United States, the FCC and many state commissions. To ensure affordable access to telecommunications services throughout the United States, the FCC and many state commissions. During 2004, the Company sought ETC certification by the FCC and various state commissions. In September 2004, the FCC issued an order regarding the implementation of E-911. The FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF program. The FCC, in conjunction with the Federal/State Joint Board on Universal Service, is considering changes to the USF program.

The FCC mandated that, effective October 1, 2004, the Universal Service Administrative Company ("USAC") must be certified by the FCC. In October 2003, the FCC issued an order adopting rules that allow CMRS licensees to lease spectrum to others. The FCC also issued an order regarding the implementation of E-911. The Communications Assistance for Law Enforcement Act ("CALEA") requires wireless and wireline carriers to ensure that their networks are capable of providing law enforcement agencies with the ability to intercept and record communications. The FCC has issued orders regarding the implementation of CALEA. The FCC has also issued orders regarding the implementation of CALEA.

Notes:

(a) Average revenue per customer per month is calculated by dividing total wireline revenues by average access lines. Wireline operations consist of ALLTEL's Incumbent Local Exchange Carrier ("ILEC"), CLEC and Internet operations.

The Company expects the number of access lines served by its wireline operations to continue to be adversely affected by the decline in revenue. To slow the decline of revenue during 2005, the Company will continue to emphasize sales of enhanced services and bundled services. Local service revenues decreased \$21.1 million, or 2 percent, in 2004 and increased \$118.9 million, or 12 percent, in 2005. Network access and long-distance revenues decreased \$7.6 million, or 1 percent, in 2004 and increased \$112.0 million, or 12 percent, in 2005. Miscellaneous revenues primarily consist of charges for Internet services, directory advertising, customer premise equipment, and other services.

F-20

In addition to the effects of the acquisition, miscellaneous revenues in 2003 also reflected growth in revenues derived from... Primarily due to the DSL customer growth and increased sales of enhanced products and services, average revenue per... Cost of services decreased \$32.9 million, or 4 percent, in 2004 and increased \$92.1 million, or 14 percent, in 2003. Cost of products sold decreased slightly in 2004 and increased \$4.3 million, or 17 percent, in 2003. The decrease in 200... Selling, general, administrative and other expenses decreased \$15.1 million, or 6 percent, in 2004 and increased \$8.2 million... Depreciation and amortization expense decreased \$10.0 million, or 2 percent, in 2004 and increased \$60.9 million, or 1... Wireline segment income increased \$42.1 million, or 5 percent, in 2004 and \$90.9 million, or 11 percent, in 2003. The

F-21

Set forth below is a summary of the restructuring and other charges related to the wireline operations that were not included in... Regulatory Matters-Wireline Operations

Except for the Kentucky properties acquired in 2002 and the Nebraska operations acquired in 1999, ALLTEL's ILEC subsidiaries... Although the Company believes that the application of SFAS No. 71 continues to be appropriate, it is possible that changes... Most states in which ALLTEL's ILEC subsidiaries operate have adopted alternatives to rate-of-return regulation, either... A number of carriers have begun offering voice telecommunications services utilizing Internet protocol as the underlying... F-22

traditional telephony services, and the distinctions between different types of IP-enabled services. The FCC indicated that although the FCC's rulemaking regarding IP-enabled services remains pending, the FCC has adopted three orders establishing a new framework for inter-carrier compensation. On October 8, 2004, the FCC granted in part and denied in part a petition filed by Core Communications requesting that the FCC establish a new framework for inter-carrier compensation. In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rulemaking, the federal universal service program is under legislative, regulatory and industry participant scrutiny as a result of the FCC's actions. In May 2001, the FCC adopted the Rural Task Force Order that established an interim universal service mechanism that will be replaced by a permanent mechanism.

F-23

telephone companies and to determine what changes, if any, should be made to the existing high-cost support mechanism. On November 8, 2002, the FCC requested that the Joint Board review certain of the FCC's rules relating to the high-cost support mechanism. As previously discussed under "Regulatory Matters - Wireless Operations", the FCC mandated that, effective October 1, 2003, the Joint Board review certain of the FCC's rules relating to the high-cost support mechanism. On December 20, 2001, the FCC released a notice of proposed rulemaking initiating the first triennial review of the FCC's rules relating to the high-cost support mechanism. On March 2, 2004, the D.C. Circuit Court overturned key portions of the FCC's Triennial Review Order. The D.C. Circuit Court's decision was affirmed by the Supreme Court. On September 13, 2004, the FCC released its Interim UNE Order requiring incumbent ILECs to maintain the status quo until a permanent UNE rule is adopted.

F-24

Review proceeding and permanent UNE rules on ALLTEL's ILEC operations cannot be determined, however it is not expected that the FCC will adopt permanent UNE rules on ALLTEL's ILEC operations. On September 15, 2003, the FCC launched its first comprehensive review of the rules that establish wholesale pricing of broadband services. During the first quarter of 2002, the FCC initiated a rulemaking to evaluate the appropriate framework for broadband access services. Section 251(b) of the Communications Act of 1934 (the "34 Act"), as amended, requires, in part, that local exchange carriers provide broadband access services to other carriers. Because certain of the regulatory matters discussed above are under FCC or judicial review, resolution of these matters will be dependent on the outcome of the review proceedings.

F-25

Communications support services revenues and sales decreased \$35.2 million, or 4 percent, in 2004 and increased \$33.8 million in 2003. Sales of telecommunications and data products increased \$13.8 million in 2004, reflecting increased sales to non-affiliated companies. The increase in revenues and sales in 2003 primarily reflected growth in sales of telecommunications and data products. Primarily due to the decrease in revenues and sales noted above, communications support services segment income decreased \$10.5 million in 2004 and increased \$10.5 million in 2003.

Set forth below is a summary of the restructuring and other charges related to the communications support services operating segment.

Segment Capital Requirements

The primary uses of cash for ALLTEL's operating segments are capital expenditures for property, plant and equipment. Capital expenditures for 2005 will be primarily incurred for further deployment of digital wireless technology, including network equipment.

(a) Computed as the sum of long-term debt including current maturities, redeemable preferred stock and total shareholder equity.

Cash Flows from Operations

Cash provided from operations continued to be ALLTEL's primary source of funds. Cash provided from operations in 2004 was \$1,125.4 million, compared to \$1,125.4 million in 2003.

Cash Flows from Investing Activities

Capital expenditures continued to be ALLTEL's primary use of capital resources. Capital expenditures were \$1,125.4 million in 2004, compared to \$1,125.4 million in 2003. During 2004, cash outlays for the purchase of property, net of cash acquired, were \$185.1 million. In 2004, ALLTEL purchased \$185.1 million of property. Cash flows from investing activities included \$7.5 million in 2002 of advance lease payments received from American

Cash flows from investing activities for 2003 included proceeds from the sale of assets of \$46.1 million, principally co  
Cash flows from investing activities also included proceeds from the return on or sale of investments of \$88.6 million i

Cash Flows from Financing Activities

Dividend payments remained a significant use of the Company's capital resources. Common and preferred dividend pa  
F-28

ALLTEL's maximum borrowing capacity under its commercial paper program is \$1.5 billion. ALLTEL classifies com  
Under the commercial paper program, commercial paper borrowings are fully supported by the available borrowings u  
Retirements of long-term debt amounted to \$277.3 million in 2004, \$763.4 million in 2003 and \$265.8 million in 2002  
As previously discussed, to fund the cost of the acquisition of wireline properties in Kentucky and wireless properties f  
On January 22, 2004, ALLTEL's Board of Directors adopted a stock repurchase plan authorizing the Company to repu  
F-29

Cash flows used in financing activities also included distributions to ALLTEL's minority investors in wireless markets

Liquidity and Capital Resources

The Company believes it has sufficient cash and short-term investments on hand (\$484.9 million at December 31, 2004). ALLTEL's commercial paper and long-term credit ratings with Moody's Investors Service ("Moody's"), Standard & Poor's. Factors that could affect ALLTEL's short and long-term credit ratings would include, but not be limited to, a material default. The revolving credit agreement contains various covenants and restrictions including a requirement that, as of the end of the period, At December 31, 2004, current maturities of long-term debt were \$225.0 million and included a \$200.0 million, 6.75 percent

Pension Plans

ALLTEL maintains a qualified defined benefit pension plan, which covers substantially all employees. Prior to January 1, 2004, F-30

Annual pension expense for 2005 was calculated based upon a number of actuarial assumptions, including an expected return on plan assets. The discount rate selected is based on a review of current market interest rates of high-quality, fixed-rate debt securities. As of December 31, 2004, ALLTEL had cumulative unrecognized actuarial losses of \$226.9 million, compared to \$18.0 million in 2003. ALLTEL made a \$100.0 million contribution to its qualified pension plan in December 2004. ALLTEL does not expect to make any contributions in 2005.

Other Postretirement Benefits

The Company provides postretirement healthcare and life insurance benefits for eligible employees. Retired employees are eligible for healthcare benefits. Annual postretirement expense for 2005 was calculated based upon a number of actuarial assumptions, including a healthcare cost trend rate of 7.5 percent. F-31

The healthcare cost trend rate is based on the Company's actual medical claims experience and future projections of medical costs. On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") became law.

Off-Balance Sheet Arrangements

The Company does not use securitization of trade receivables, affiliation with special purpose entities, variable interest entities, or other off-balance sheet arrangements. As defined by the Securities and Exchange Commission's rules and regulations, the Company is a party to off-balance sheet arrangements.

Guarantees

As further discussed in Note 14 to the consolidated financial statements, in conjunction with the sale of the financial services assets to Convergys, ALLTEL agreed to indemnify Convergys for any damages resulting from the sale of assets to Convergys. F-32

Obligation to Sell Shares of ALLTEL Common Stock

As previously discussed, to fund the cost of the acquisitions completed in August 2002, ALLTEL sold 27.7 million equity shares.

Contractual Obligations and Commitments

Set forth below is a summary of ALLTEL's material contractual obligations and commitments as of December 31, 2004.

(a) Excludes \$(13.1) million of unamortized discounts and the fair value of interest rate swap agreements of \$67.1 million. Under the Company's long-term debt borrowing agreements, acceleration of principal payments would occur upon payment of certain events.  
F-33

Market Risk

The Company is exposed to market risk from changes in marketable equity security prices, interest rates, and foreign exchange rates.

Equity Price Risk

Changes in equity prices primarily affect the fair value of ALLTEL's investments in marketable equity securities. Fair value is determined based on the closing price of the securities on the reporting date.

Interest Rate Risk

The Company's earnings are affected by changes in variable interest rates related to ALLTEL's issuance of short-term debt. As of December 31, 2004 and 2003, the Company had no borrowings outstanding under its commercial paper program.

Foreign Exchange Risk

The Company's business operations in foreign countries are not material to the Company's consolidated operations, financial statements, or cash flows.

Critical Accounting Policies

ALLTEL prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. Service revenues for the Company's communications business are recognized based upon minutes of use processed and billed to customers.  
F-34

on historical minutes of use processed. Changes in estimates for revenues are recognized in the period in which they are earned. In evaluating the collectibility of its trade receivables, ALLTEL assesses a number of factors including a specific customer's credit history. The calculation of the annual costs of providing pension and postretirement benefits are based on certain key actuarial assumptions. The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying assets. In accordance with SFAS No. 142, ALLTEL tests its goodwill and other indefinite-lived intangible assets for impairment. The Company's estimates of income taxes and the significant items resulting in the recognition of deferred tax assets are based on current tax laws and regulations.  
F-35

Legal Proceedings

ALLTEL is party to various legal proceedings arising in the ordinary course of business. Although the ultimate resolution of these proceedings is uncertain, the Company does not believe that the outcome of these proceedings will have a material effect on the Company's financial position, results of operations, or cash flows.

Recently Issued Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment". The Company has adopted this standard as of January 1, 2005.

Forward-Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes, and future filings of the Company may include, forward-looking statements. Actual future events and results may differ materially from those expressed in these forward-looking statements as a result of various factors. In addition to these factors, actual future performance, outcomes and results may differ materially because of other, more fully discussed risks. See "Risk Factors" in the Company's 2004 Annual Report on Form 10-K.

**SELECTED FINANCIAL DATA**

The following table presents certain selected consolidated financial data as of and for the years ended December 31:

Notes to Selected Financial Information:

See Note 12 to the consolidated financial statements for a discussion of the Company's discontinued information services operations.

Notes to Selected Financial Information, Continued:

- D. Net income for 2001 included pretax gains of \$347.8 million from the sale of PCS licenses, a pretax gain of \$9.5 million from the sale of WorldCom common stock, and a pretax gain of \$1.2 million from the sale of WorldCom common stock.
- E. Net income for 2000 included pretax gains of \$1,345.5 million from the exchange of wireless properties with BellSouth Corporation, a pretax gain of \$1.2 million from the sale of WorldCom common stock, and a pretax gain of \$1.2 million from the sale of WorldCom common stock.
- F. Net income for 1999 included a pretax gain of \$43.1 million from the sale of WorldCom common stock. The gain was reduced by a tax expense of \$1.2 million.

**MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

ALLTEL Corporation's management is responsible for the integrity and objectivity of all financial information included in this report. PricewaterhouseCoopers LLP, an independent registered public accounting firm, has audited these consolidated financial statements. The Audit Committee of the Board of Directors, which oversees ALLTEL's financial reporting process on behalf of the Board of Directors, has reviewed the report. Dated February 10, 2005 Scott T. Ford

President and  
Chief Executive Officer Jeffery R. Gardner  
Executive Vice President-  
Chief Financial Officer  
F-39

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for  
Management performed an assessment of the effectiveness of the Company's internal control over financial reporting a  
Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of Dec  
Dated February 10, 2005 Scott T. Ford

President and  
Chief Executive Officer Jeffery R. Gardner  
Executive Vice President-  
Chief Financial Officer  
F-40

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of ALLTEL Corporation:

We have completed an integrated audit of ALLTEL Corporation's 2004 consolidated financial statements and of its internal

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash

As described in Note 2 to the financial statements, the Company changed its method of accounting for asset retirement

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting

F-41

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. A  
/s/ PricewaterhouseCoopers LLP  
Little Rock, AR  
February 10, 2005  
F-42

**CONSOLIDATED STATEMENTS OF INCOME**

For the years ended December 31, (Millions, except per share amounts) 2004 2003 2002 **Revenue**  
The accompanying notes are an integral part of these consolidated financial statements.  
F-43

**CONSOLIDATED BALANCE SHEETS**

December 31,  
(Dollars in millions, except per share amounts) **Assets** 2004 2003 **Current Assets:** Cash and  
The accompanying notes are an integral part of these consolidated balance sheets.  
F-44

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the years ended December 31, (Millions) 2004 2003 2002 **Cash Provided from Operations**  
The accompanying notes are an integral part of these consolidated financial statements.  
F-45

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

(Millions) Unrealized Holding Foreign  
The accompanying notes are an integral part of these consolidated financial statements.  
F-46

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies:

Description of Business ALLTEL Corporation ("ALLTEL" or the "Company"), a Delaware corporation, is a custom

Basis of Presentation ALLTEL prepares its consolidated financial statements in accordance with accounting principl  
Service revenues consist of wireless access and network usage revenues, local service, network access, Internet access,

Regulatory Accounting The Company's wireline subsidiaries, except for certain operations acquired in Kentucky in 2

Transactions with Certain Affiliates ALLTEL Communications Products, Inc. sells equipment to wireline subsidiarie

Advertising Advertising costs are expensed as incurred. Advertising expense totaled \$202.5 million in 2004, \$200.3  
F-47

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies, Continued:

Cash and Short-term Investments Cash and short-term investments consist of highly liquid investments with original

Accounts Receivable Accounts receivable consist principally of trade receivables from customers and are generally u

Inventories Inventories are stated at the lower of cost or market value. Cost is determined using either an average ori

Goodwill and Other Intangible Assets Goodwill represents the excess of cost over the fair value of net identifiable ta

The Company's indefinite-lived intangible assets consist of its cellular and Personal Communications Services ("PCS")

Investments Investments in unconsolidated partnerships are accounted for using the equity method. Investments in ec

Investments were as follows at December 31: (Millions) 2004 2003 Investments in unconsolidated part

F-48

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **1. Summary of Significant Accounting Policies, Continued:**

Investments in unconsolidated partnerships include the related excess of the purchase price paid over the underlying net assets.

**Property, Plant and Equipment** Property, plant and equipment are stated at original cost. Wireless plant consists of ce  
The Company capitalizes interest in connection with the acquisition or construction of plant assets. Capitalized interest  
**Capitalized Software Development Costs** Software development costs incurred in the application development stage  
**Impairment of Long-Lived Assets** Long-lived assets and intangible assets subject to amortization are reviewed for im  
**Derivative Instruments** The Company uses derivative instruments to obtain a targeted mixture of variable and fixed-i

F-49

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **1. Summary of Significant Accounting Policies, Continued:**

**Mandatorily Redeemable Financial Instruments** At December 31, 2003, twelve of the Company's consolidated non-v  
**Preferred Stock** Cumulative preferred stock is issuable in series. The Board of Directors is authorized to designate th  
**Unrealized Holding Gain on Investments** Equity securities of certain publicly traded companies owned by ALLTEL  
**Foreign Currency Translation Adjustment** For the Company's foreign operations, assets and liabilities are translated f  
**Revenue Recognition** Communications revenues are primarily derived from usage of the Company's networks and fa

F-50

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **1. Summary of Significant Accounting Policies, Continued:**

Costs in excess of the deferred activation revenues were expensed as incurred. Upon adoption of EITF Issue No. 00-2, ALLTEL Publishing recognizes directory publishing and advertising revenues and related directory costs when the directory is published. Telecommunications information services revenues are recognized in accordance with the American Institute of Certified Public Accountants' Revenue Recognition. For all other operations, revenue is recognized when products are delivered to and accepted by customers or when services are rendered. Stock-Based Compensation The Company's stock-based compensation plans are more fully discussed in Note 7. ALLTEL's pro forma amounts presented above may not be representative of the future effects on reported net income and earnings per share.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **1. Summary of Significant Accounting Policies, Continued:**

Income Taxes Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are measured using enacted tax rates. Earnings Per Share Basic earnings per share of common stock was computed by dividing net income applicable to common shareholders by the weighted average number of shares outstanding. As more fully discussed in Note 5, the Company issued equity units in 2002, which obligates the holder to purchase ALLTEL common stock.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **1. Summary of Significant Accounting Policies, Continued:**

except during periods when the average market price of a share of ALLTEL common stock is above the threshold applicable to the Company. Recently Issued Accounting Pronouncements On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123R, which requires the use of fair value for equity-based compensation.

### **2. Accounting Changes:**

Change in Accounting Estimate The Company is routinely audited by federal, state and foreign taxing authorities. Change in Accounting Principle Except for certain wireline subsidiaries as further discussed below, ALLTEL adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 142. In accordance with federal and state regulations, depreciation expense for ALLTEL's wireline operations has historically been calculated on a straight-line basis.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **2. Accounting Changes, Continued:**

and measurement principles of an asset retirement obligation under SFAS No. 143. In December 2002, the Federal Co

### **3. Acquisitions:**

On December 1, 2004, ALLTEL completed the purchase of certain wireless assets from United States Cellular Corporation. The accompanying consolidated financial statements include the accounts and results of operations of the acquired wireless assets.  
F-54

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **3. Acquisitions, Continued:**

On August 29, 2003, the Company purchased for \$22.8 million in cash a wireless property with a potential service area of approximately 100,000 square miles.  
On April 1, 2003, the Company paid \$7.5 million in cash to increase its ownership interest from 43 percent to approximately 50 percent.  
On February 28, 2003, ALLTEL purchased for \$72.0 million in cash wireless properties with a potential service area of approximately 100,000 square miles.  
The accompanying consolidated financial statements include the accounts and results of operations of the acquired wireless assets.  
F-55

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**3. Acquisitions, Continued:**

On August 1, 2002, ALLTEL purchased substantially all of the wireless assets owned by CenturyTel, Inc. ("CenturyTel"). On August 1, 2002, ALLTEL also completed the purchase of local telephone properties serving approximately 589,000 customers. During 2002, ALLTEL also purchased a wireline property in Georgia and acquired additional ownership interests in wireless service providers. The following table summarizes the fair value of the assets acquired and liabilities assumed for the various business combinations. F-56

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**3. Acquisitions, Continued:**

The purchase prices paid for each of the transactions discussed above were based on estimates of future cash flows of the acquired entities. Unaudited pro forma financial information related to the Company's 2004 and 2003 acquisitions has not been presented. The following unaudited pro forma consolidated results of operations of the Company for the year ended December 31, 2004 and 2003 are presented. The pro forma amounts represent the historical operating results of the properties acquired from CenturyTel and Verizon. F-57

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**4. Goodwill and Other Intangible Assets:**

The changes in the carrying amount of goodwill by business segment were as follows:

The carrying value of indefinite-lived intangible assets other than goodwill were as follows at December 31:

Intangible assets subject to amortization were as follows at December 31: 2004 Gross Accumulated Net Carrying (Millions)

Intangible assets subject to amortization are amortized on a straight-line basis over their estimated useful lives, which are as follows:

F-58

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Debt:**

Long-term debt was as follows at December 31: (Millions) 2004 2003 Issued by ALLTEL Corporation

Notes:

(a)

Interest rate will be reset on or after February 17, 2005. (b) Repayment of subsidiary's debt obligation guaranteed

Commercial Paper The Company has established a commercial paper program with a maximum borrowing capacity of \$1.5 billion

Revolving Credit Agreement The Company has a five-year \$1.5 billion unsecured line of credit under a revolving credit agreement

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**5. Debt, Continued:**

Equity Units During 2002, the Company issued and sold 27.7 million equity units in an underwritten public offering of common stock

Maturities and sinking fund requirements for the four years after 2005 for long-term debt outstanding as of December 31, 2004

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**6. Financial Instruments and Investments:**

The carrying amount of cash and short-term investments approximates fair value due to the short term nature of the investments. The fair value of investments was based on quoted market prices and the carrying value of investments for which there are no quoted market prices.

**7. Stock-Based Compensation Plans:**

Under the Company's stock-based compensation plans, ALLTEL may grant fixed and performance-based incentive awards. See Note 7 for more information.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**7. Stock-Based Compensation Plans, Continued:**

Set forth below is certain information related to stock options outstanding under ALLTEL's stock-based compensation plans. The following is a summary of stock options outstanding as of December 31, 2004:

**8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions:**

The Company maintains a qualified defined benefit pension plan, which covers substantially all employees other than certain executives. See Note 8 for more information.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions, Continued:**

As a component of determining its annual pension cost, ALLTEL amortizes unrecognized gains or losses that exceed a certain threshold. A summary of plan assets, projected benefit obligation and funded status of the plans were as follows at December 31:

	December 31, 2004	December 31, 2003
Plan assets	\$1,000.0 million	\$916.2 million
Projected benefit obligation	\$188.0 million	\$134.2 million
Funded status	\$812.0 million	\$782.0 million

Employer contributions and benefits paid in the above table included amounts contributed directly to or paid directly from the plans. The accumulated benefit obligation for all defined benefit pension plans was \$916.2 million and \$802.0 million at December 31, 2004 and 2003, respectively.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions, Continued:**

Actuarial assumptions used to calculate the projected benefit obligations were as follows for the years ended December 31, 2004 and 2003: In developing the expected long-term rate of return assumption, ALLTEL evaluated historical investment performance. The asset allocation at December 31, 2004 and 2003 and target allocation for 2005 for the Company's qualified defined pension plan were as follows: Primarily due to cash contributions funded to the qualified pension plan by ALLTEL in late December of each year that the Company's qualified defined pension plan was as follows: Information regarding the healthcare cost trend rate was as follows for the years ended December 31: 2004, 2003, and 2002. For the year ended December 31, 2004, a one percent increase in the assumed healthcare cost trend rate would increase the projected benefit obligations by approximately \$1.5 million.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**8. Employee Benefit Plans and Postretirement Benefits Other Than Pensions, Continued:**

Estimated future employer contributions and benefit payments were as follows as of December 31, 2004: The expected employer contribution for pension benefits consists solely of amounts necessary to fund the expected benefit payments. Under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, (the "Act") beginning in 2006, the Company will be required to contribute to a qualified defined contribution plan. ALLTEL has a non-contributory defined contribution plan in the form of profit-sharing arrangements for eligible employees.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **9. Restructuring and Other Charges:**

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

In January 2004, the Company announced its plans to reorganize its operations and support teams. Also, during February

During the first quarter of 2004, ALLTEL also recorded a \$2.3 million reduction in the liabilities associated with various

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

During the second quarter of 2003, the Company recorded a restructuring charge of \$8.5 million consisting of severance

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **9. Restructuring and Other Charges, Continued:**

A summary of the restructuring and other charges recorded in 2002 was as follows:

During the evaluation of its existing CLEC operations, ALLTEL determined that a business model that relied heavily on

The \$12.6 million in lease and contract termination costs recorded in 2002 consisted of \$6.2 million, representing the

In connection with the purchase of wireline properties in Kentucky from Verizon and wireless properties from Century

In conjunction with a product replacement program initiated by a vendor in 2001, the Company exchanged certain used

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **9. Restructuring and Other Charges, Continued:**

The following is a summary of activity related to the liabilities associated with the Company's restructuring and other charges. As of December 31, 2004, the remaining unpaid liability related to the Company's restructuring activities consisted of \$

### **10. Gain on Disposal of Assets, Write-Down of Investments and Other:**

In December 2003, the Company sold to Convergys Information Management Group, Inc. ("Convergys") certain assets

Income tax expense was as follows for the years ended December 31:  
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(Millions) 2004 2003 2002

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. Income Taxes, Continued:**

Deferred income tax expense for all three years primarily resulted from temporary differences between depreciation expense and the tax depreciation. As more fully discussed in Note 2 to the consolidated financial statements, during the third quarter of 2004, the IRS conducted an audit of ALLTEL's tax returns. The significant components of the net deferred income tax liability were as follows at December 31: (Millions)

At December 31, 2004 and 2003, total deferred tax assets were \$202.7 million and \$381.3 million, respectively, and total deferred tax liabilities were \$181.3 million and \$381.3 million, respectively.

**12. Discontinued Operations:**

Pursuant to a definitive agreement dated January 28, 2003, on April 1, 2003, ALLTEL sold the financial services division. F-69

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**12. Discontinued Operations, Continued:**

of \$323.9 million. The after-tax proceeds from the sale were used primarily to reduce borrowings outstanding under the

Notes: (a) Included in operating expenses for 2002 was a \$42.3 million charge associated with discontinuing the C  
The following table includes certain summary cash flow statement information related to the financial services operations.

Notes: (a) Included \$260.9 million in estimated tax payments related to sale of the financial services operations.  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### **13. Other Comprehensive Income:**

Other comprehensive income consists of unrealized holding gains (losses) on investments in equity securities and foreign

### **14. Commitments and Contingencies:**

Litigation The Company is party to various legal proceedings arising from the ordinary course of business. Although  
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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**14. Commitments and Contingencies, Continued:**

Lease Commitments Minimum rental commitments for all non-cancelable operating leases, consisting principally of operating leases. Rental expense totaled \$184.8 million in 2004, \$139.3 million in 2003 and \$115.7 million in 2002.

**15. Agreement to Lease Cell Site Towers:**

In 2000, ALLTEL signed a definitive agreement with American Tower Corporation ("American Tower") to lease to American Tower Corporation.

**16. Business Segments:**

ALLTEL disaggregates its business operations based upon differences in products and services. Wireless operations in the United States and International. F-72

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Business Segments, Continued:**

(Millions) For the year ended December 31, 2004

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Business Segments, Continued:** A reconciliation of the total business segments to the applicable amounts in  
Notes:

(1)

See "Transactions with Certain Affiliates" in Note 1 for a discussion of intercompany revenues and sales not eliminated.  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**16. Business Segments, Continued:** Supplemental information pertaining to the Communications Support Services  
**17. Quarterly Financial Information (Unaudited):** For the year ended December 31,  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**17. Quarterly Financial Information (Unaudited), Continued:** For the year ended D  
Notes to Quarterly Financial Information: A. During the fourth quarter of 2004, the Company recorded a \$0.9 million  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**18. Subsequent Event Pending Merger With Western Wireless Corporation:** On January 9, 2005, ALLTEL er  
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