ALLTEL CORP
Form 10-Q
November 08, 2006

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 September 30, 2006
OR
o 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 October 31, 2006: 373,632,068

The Exhibit Index is located on page 44.

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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) 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)		September 30, 2006		December 31, 2005
Assets				
Current Assets:				
Cash and short-term investments	$	3,086.0	$	982.4
Accounts receivable (less allowance for doubtful accounts of $64.0 and $70.6, respectively)		835.1		761.8
Inventories		156.2		195.2
Prepaid expenses and other		86.1		92.1
Assets related to discontinued operations		3.6		565.4
Total current assets		4,167.0		2,596.9
Investments		367.4		356.4
Goodwill		7,805.6		7,429.3
Other intangibles		1,858.8		1,861.4
Property, Plant and Equipment:				
Land		294.4		280.3
Building and improvements		906.1		901.1
Operating plant and equipment		7,577.0		7,362.9
Information processing		1,025.2		1,126.5
Furniture and fixtures		165.6		143.6
Under construction		417.7		344.3
Total property, plant and equipment		10,386.0		10,158.7
Less accumulated depreciation		5,436.0		5,056.0
Net property, plant and equipment		4,950.0		5,102.7
Other assets		113.5		248.2
Assets related to discontinued operations		67.9		6,418.2
Total Assets	$	19,330.2	$	24,013.1
Liabilities and Shareholders' Equity				
Current Liabilities:				
Current maturities of long-term debt	$	222.6	$	183.0
Accounts payable		464.5		500.0
Advance payments and customer deposits		186.8		170.8
Accrued taxes		276.3		141.3
Accrued dividends		66.1		147.8
Accrued interest		56.1		98.3
Current deferred income taxes		-		349.6
Other current liabilities		165.3		206.7
Liabilities related to discontinued operations		2.5		492.5
Total current liabilities		1,440.2		2,290.0
Long-term debt		2,711.6		5,544.1
Deferred income taxes		1,114.5		1,142.3
Other liabilities		706.3		796.9
Liabilities related to discontinued operations		-		1,224.3
Total liabilities		5,972.6		10,997.6

Shareholders' Equity:				
Preferred stock, Series C, $2.06, no par value, 10,307 and 11,122 shares issued and outstanding, respectively		0.3		0.3
Common stock, par value $1 per share, 1.0 billion shares authorized, 378,879,586 and 383,605,936 shares issued and outstanding, respectively		378.9		383.6
Additional paid-in capital		5,119.5		5,339.3
Unrealized holding gain on investments		38.0		22.3
Foreign currency translation adjustment		-		(2.8)
Retained earnings		7,820.9		7,272.8
Total shareholders' equity		13,357.6		13,015.5
Total Liabilities and Shareholders' Equity	$	19,330.2	$	24,013.1

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

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Millions, except per share amounts)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues and sales:				
Service revenues	$ 1,795.4	$ 1,614.1	$ 5,178.7	$ 4,274.0
Product sales	211.9	178.9	617.1	461.3
Total revenues and sales	2,007.3	1,793.0	5,795.8	4,735.3
Costs and expenses:				
Cost of services (excluding depreciation of $168.6, $151.3, $501.3, and $417.5, respectively, included below)	610.1	524.4	1,726.9	1,405.4
Cost of products sold	293.8	250.3	849.8	660.2
Selling, general, administrative and other	438.3	399.1	1,298.5	1,088.9
Depreciation and amortization	307.1	266.2	916.0	699.3
Integration expenses and other charges	-	14.3	10.8	14.3
Total costs and expense	1,649.3	1,454.3	4,802.0	3,868.1
Operating income	358.0	338.7	993.8	867.2
Equity earnings in unconsolidated partnerships	17.3	10.4	45.6	36.4
Minority interest in consolidated partnerships	(11.7)	(20.6)	(37.1)	(57.8)
Other income, net	37.3	15.2	69.1	144.1
Interest expense	(63.8)	(78.9)	(234.9)	(232.9)
Gain (loss) on exchange or disposal of assets and other	(50.5)	30.5	126.1	218.8
Income from continuing operations before income taxes	286.6	295.3	962.6	975.8
Income taxes	121.3	111.1	374.7	358.1
Income from continuing operations	165.3	184.2	587.9	617.7
Income from discontinued operations (net of income taxes of $7.9, $128.2, $222.6 and $300.3, respectively)	21.9	176.9	325.6	458.5
Net income	187.2	361.1	913.5	1,076.2
Preferred dividends	0.1	-	0.1	0.1
Net income applicable to common shares	$ 187.1	$ 361.1	$ 913.4	$ 1,076.1
Earnings per share:				
Basic:				

Income from continuing operations	$.43	$.51	$1.52	$1.89
Income from discontinued operations	.06	.48	.84	1.40
Net income	$.49	$.99	$2.36	$3.29
Diluted:				
Income from continuing operations	$.43	$.50	$1.51	$1.88
Income from discontinued operations	.05	.48	.84	1.39
Net income	$.48	$.98	$2.35	$3.27

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Millions)	Nine Months Ended September 30, 2006	2005
Cash Provided from Operations:		
Net income	$ 913.5	$ 1,076.2
Adjustments to reconcile net income to net cash provided from operations:		
Income from discontinued operations	(325.6)	(458.5)
Depreciation and amortization expense	916.0	699.3
Provision for doubtful accounts	179.9	131.1
Non-cash portion of (gain) loss on exchange or disposal of assets and other	(80.1)	(232.7)
Non-cash portion of integration expenses and other charges	-	10.0
Change in deferred income taxes	6.2	19.0
Other, net	(6.3)	9.5
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	(245.9)	(217.6)
Inventories	39.6	10.0
Accounts payable	(35.3)	(6.3)
Other current liabilities	(320.4)	(44.7)
Other, net	(49.7)	7.3
Net cash provided from operations	991.9	1,002.6
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(718.6)	(681.3)
Additions to capitalized software development costs	(24.0)	(35.4)
Additions to investments	(0.7)	(0.9)
Purchases of property, net of cash acquired	(676.5)	(1,135.8)
Proceeds from the sale of assets	-	36.2
Proceeds from the sale of investments	200.5	353.9
Proceeds from the return on investments	36.7	30.9
Other, net	10.5	19.6
Net cash used in investing activities	(1,172.1)	(1,412.8)
Cash Flows from Financing Activities:		
Dividends on common and preferred stock	(447.1)	(345.2)
Repayments of long-term debt	(1,012.2)	(2,655.6)
Repurchases of common stock	(709.0)	-
Conversion of convertible debt	(59.8)	-
Distributions to minority investors	(27.7)	(44.8)
Excess tax benefits from stock option exercises	5.4	-
Long-term debt issued	-	927.7
Common stock issued	191.5	1,442.8
Net cash used in financing activities	(2,058.9)	(675.1)
Cash Flows from Discontinued Operations:		
Cash provided from operating activities	604.2	974.9
Cash provided from (used in) investing activities	3,744.6	(227.5)
Cash used in financing activities	(0.2)	(71.5)

Net cash provided from discontinued operations		4,348.6		675.9
Effect of exchange rate changes on cash and short-term investments		(5.9)		(1.5)
Increase (decrease) in cash and short-term investments		2,103.6		(410.9)
Cash and Short-term Investments:				
Beginning of the period		982.4		477.2
End of the period	$	3,086.0	$	66.3

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

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

(Millions)	Preferred Stock	Common Stock	Additional Paid-In Capital	Unrealized Holding Gain On Investments	Foreign Currency Translation Adjustment	Retained Earnings	Total
Balance at December 31, 2005	$ 0.3	$ 383.6	$ 5,339.3	$ 22.3	$ (2.8)	$ 7,272.8	$ 13,015.5
Net income	-	-	-	-	-	913.5	913.5
Other comprehensive income, net of tax: (See Note 13)							
Unrealized holding gains on investments, net of reclassification adjustments	-	-	-	15.7	-	-	15.7
Foreign currency translation adjustment, net of reclassification adjustments	-	-	-	-	2.8	-	2.8
Comprehensive income	-	-	-	15.7	2.8	913.5	932.0
Employee plans, net	-	4.4	186.9	-	-	-	191.3
Issuance of restricted stock	-	0.3	-	-	-	-	0.3
Amortization of unearned compensation (See Note 2)	-	-	29.6	-	-	-	29.6
Tax benefit for non-qualified stock options	-	-	8.0	-	-	-	8.0
Repurchases of common stock	-	(12.8)	(696.2)	-	-	-	(709.0)
Conversion of convertible notes (See Note 3)	-	3.4	36.7	-	-	-	40.1
Spin-off of wireline telecommunications business	-	-	215.2	-	-	-	215.2
Dividends:							
Common - $.895 per share	-	-	-	-	-	(365.3)	(365.3)
Preferred	-	-	-	-	-	(0.1)	(0.1)
Balance at September 30, 2006	$ 0.3	$ 378.9	$ 5,119.5	$ 38.0	$ -	$ 7,820.9	$ 13,357.6

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General:

Basis of Presentation - The consolidated financial statements as of September 30, 2006 and December 31, 2005 and for the three and nine month periods ended September 30, 2006 and 2005 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 12 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 11 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 December 2004, the Financial Accounting Standards Board ("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). 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 will be 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. Operating results for prior periods have not been restated.

Upon adoption of SFAS No. 123(R), Alltel elected to continue to value its share-based payment transactions using a Black-Scholes valuation model, which was previously used by the Company for purposes of preparing the pro forma disclosures under SFAS No. 123. Under the provisions of SFAS No. 123(R), stock-based compensation expense recognized during the period is based on the portion of the share-based payment awards that is ultimately expected to vest. Accordingly, stock-based compensation expense recognized in the three and nine months ended September 30, 2006 has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Pre-vesting forfeitures were estimated to be 5.1 percent based on Alltel's historical experience. In the Company's pro forma information required under SFAS No. 123, Alltel accounted for forfeitures as they occurred. Compensation expense for stock option awards granted after January 1, 2006 will be expensed using a straight-line single option method, which is the same attribution method that was used by Alltel for purposes of its pro forma disclosures under SFAS No. 123.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. Accounting Changes, Continued:

Stock-based compensation expense recognized for the three and nine months ended September 30, 2006 was as follows:

(Millions, except per share amounts)	Three Months Ended	Nine Months Ended
Compensation expense related to stock options issued by Alltel	$ 4.5	$ 14.7
Compensation expense related to stock options converted to Alltel stock options in connection with the acquisition of Western Wireless Corporation	0.5	1.5
Compensation expense related to restricted stock awards	7.1	13.4
Compensation expense before income taxes	12.1	29.6
Income tax benefit	(4.2)	(9.6)
Compensation expense, net of tax	$ 7.9	$ 20.0
Earnings per share effects of compensation expense, net of tax		
Basic earnings per share	$.02	$.05
Diluted earnings per share	$.02	$.05

Comparatively, stock-based compensation expense recognized for the three and nine months ended September 30, 2005 was $1.6 million and $4.8 million, consisting solely of expense related to restricted stock awards. Stock-based compensation expense is included in selling, general, administrative and other expenses within Alltel's unaudited interim consolidated statements of income. Of the total pretax stock-based compensation expense presented in the table above, amounts allocated to discontinued operations totaled $1.6 million and $4.0 million for the three and nine months ended September 30, 2006, respectively, compared to $0.5 million and $1.8 million, respectively, for the same periods of 2005. As presented in the table above, the effect of adopting SFAS No. 123(R) consisted of compensation expense for stock options issued by Alltel and resulted in pretax charges of $5.0 million and $16.2 million, which decreased net income $3.2 million and $10.9 million or $.01 per share and $.03 per share for the three and nine months ended September 30, 2006, respectively.

Prior to adopting the provisions of SFAS No. 123(R), the Company recorded estimated compensation cost for employee stock options based upon the intrinsic value of the option on the date of grant consistent with the recognition and measurement principles of APB Opinion No. 25. Because Alltel had established the exercise price of its employee stock options based on the fair market value of the Company's stock at the date of grant, the stock options had no intrinsic value upon grant, and accordingly, Alltel did not record compensation expense for employee stock options prior to adopting SFAS No. 123(R). The following table illustrates the effects on net income and earnings per share had the Company applied the fair value recognition provisions of SFAS No. 123 to its stock-based employee compensation plans for the three and nine months ended September 30, 2005:

(Millions, except per share amounts)	Three Months Ended	Nine Months Ended
Net income as reported	$ 361.1	$ 1,076.2
Add stock-based compensation expense included in net income, net of related tax effects	1.1	3.1
Deduct stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(5.5)	(18.5)

Pro forma net income		$ 356.7	$ 1,060.8
Basic earnings per share:	As reported	$.99	$3.29
	Pro forma	$.98	$3.25
Diluted earnings per share:	As reported	$.98	$3.27
	Pro forma	$.97	$3.22

See Note 6 for a further discussion of the Company's stock-based compensation plans.

Effective January 1, 2005, the Company changed its accounting for operating leases with scheduled rent increases. Previously, Alltel had not recognized the scheduled increases in rent expense on a straight-line basis in accordance with the provisions of SFAS No. 13, "Accounting for Leases", and FASB Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases". The effect of this change, which is included in cost of services, was not material to Alltel's 2005 or previously reported consolidated results of operations, financial position or cash flows.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. Acquisitions:

During the second quarter of 2006, Alltel purchased for $217.6 million in cash wireless properties covering approximately 727,000 potential customers ("POPs") in Illinois, Texas and Virginia. During the third quarter of 2006, Alltel completed the purchase price allocations for these transactions based upon a fair value analysis of the net tangible and identifiable intangible assets acquired and assigned the excess of the aggregate purchase price over the fair market value of the tangible net assets acquired of $216.2 million to customer list ($33.6 million), cellular licenses ($43.0 million) and goodwill ($139.6 million). Of the total amount of goodwill and other identified intangible assets recorded in connection with these transactions, the Company expects approximately $75.5 million will be deductible for income tax purposes.

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 second quarter of 2006, Alltel completed the purchase price allocation for this transaction based upon a fair value analysis of the net tangible and identifiable intangible assets acquired and assigned the excess of the aggregate purchase price over the fair market value of the tangible net assets acquired of $409.1 million to customer list ($39.9 million), cellular licenses ($41.4 million) and goodwill ($327.8 million). During the first quarter of 2006, Alltel also acquired the remaining ownership interest in a wireless property in Wisconsin in which the Company owned a majority interest. In connection with this acquisition, the Company paid $2.6 million in cash and assigned the excess of the aggregate purchase price over the fair market value of the tangible net assets acquired of $1.0 million to goodwill. The Company expects the goodwill and other identified intangible assets recorded in connection with these first quarter 2006 acquisitions to be deductible for income tax purposes.

The customer lists recorded in connection with the transactions discussed above are being amortized over a five-year period using the sum-of-the-years digits method. The cellular licenses recorded in connection with these transactions are classified as indefinite-lived intangible assets and are not subject to amortization. For the acquisitions completed in the second quarter of 2006, Alltel paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets acquired because the acquisitions expanded the Company's wireless operations into new markets in Illinois, Texas and Virginia and added a combined 128,000 new customers to Alltel's wireless customer base. For the acquisitions completed in the first quarter of 2006, Alltel paid a premium (i.e. goodwill) over the fair value of the net tangible and identifiable intangible assets acquired in order to gain full control over the day-to-day operations of the wireless markets in North Carolina, South Carolina and Wisconsin. In addition, Alltel will no longer incur certain general and administrative expenses, such as audit and legal fees, attributable to managing its relationship with the other partners.

The following table summarizes the fair value of the assets acquired and liabilities assumed for the various business combinations completed during 2006:

(Millions)		
Fair value of assets acquired:		
Current assets	$	11.7
Property, plant and equipment		30.6
Goodwill		468.4
Cellular licenses		84.4
Customer lists		73.5
Total assets acquired		668.6

Liabilities assumed:		
Current liabilities		(25.7)
Deferred income taxes established on acquired assets		(25.1)
Total liabilities assumed		(50.8)
Minority interest liability acquired		58.7
Net cash paid	$	676.5

Unaudited pro forma financial information related to the Company's 2006 acquisitions has not been presented because these acquisitions, individually or in the aggregate were not material to the Company's consolidated results of operations for the interim periods ended September 30, 2006.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. Acquisitions, Continued:

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 wireless 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 the third quarter of 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.

As part of the acquisition, Alltel 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 January and February 2006, an aggregate principal amount of $100.0 million of the Western Wireless notes were converted. As a result of the conversion, Alltel issued 3.4 million shares of its common stock and paid approximately $59.8 million in cash to holders of the Western Wireless notes.

During the first nine months of 2006, Alltel adjusted the purchase price allocation related to the Western Wireless acquisition to reflect the resolution of a pre-acquisition contingency concerning universal service fund support that Western Wireless had received as an Eligible Telecommunications Carrier ("ETC") in the State of Kansas and to adjust certain income tax liabilities related to the international operations. The effects of these adjustments resulted in a reduction in goodwill of $77.5 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 8 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 Emerging Issues Task Force Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination", as liabilities assumed in the business combination. As of September 30, 2006, Alltel had paid $28.9 million in employee termination and retention benefits, and 325 of the scheduled employee terminations had been completed.

As a condition of receiving approval for the merger from the U.S. Department of Justice ("DOJ") and Federal Communications Commission ("FCC"), Alltel agreed to divest certain wireless operations of Western Wireless in 16 markets in Arkansas, Kansas and Nebraska, as well as the "Cellular One" brand. On December 19, 2005, Alltel completed an exchange of wireless properties with United States Cellular Corporation ("U.S. Cellular") that included a substantial portion of the divestiture requirements related to the Company's merger with Western Wireless. During December 2005, Alltel completed the sale of the Cellular One brand and in March 2006, Alltel completed the sale of the remaining market in Arkansas. During 2005, Alltel completed the sales of Western Wireless' international operations in Georgia, Ghana and Ireland. During the second quarter of 2006, Alltel completed the sales of the Western Wireless international operations in Austria, Bolivia, Côte d'Ivoire, Haiti and Slovenia. Accordingly, the acquired international operations and interests of Western Wireless and the domestic markets required to be divested by Alltel have been classified as discontinued operations in the accompanying unaudited interim consolidated financial statements. (See Note 12).

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. Acquisitions, Continued:

Under terms of the agreement with U.S. Cellular, Alltel acquired two rural markets in Idaho that are adjacent to the Company's existing operations and received $48.2 million in cash in exchange for 15 rural markets in Kansas and Nebraska formerly owned by Western Wireless. During the second quarter of 2006, Alltel completed the purchase price allocation for this exchange based upon a fair value analysis of the tangible and identifiable intangible assets acquired and the wireless property interests relinquished. The excess of the aggregate purchase price over the fair market value of the tangible net assets acquired of $100.1 million was assigned to customer list, cellular licenses and goodwill. The customer list recorded in connection with this transaction is being amortized over a five-year period using the sum-of-the-years digits method. The cellular licenses are classified as indefinite-lived intangible assets and are not subject to amortization. The finalization of the purchase price allocation resulted in a reduction to the preliminary values assigned to cellular licenses ($1.5 million), customer list ($0.5 million), and acquired net tangible assets ($2.2 million) with an increase to goodwill ($4.2 million) compared to the corresponding values that had been previously recorded in the Company's consolidated balance sheet as of December 31, 2005.

The following unaudited pro forma consolidated results of operations of Alltel for the three and nine months ended September 30, 2005 assume that the Western Wireless acquisition occurred as of January 1, 2005:

(Millions, except per share amounts)	Three Months Ended	Nine Months Ended
Revenues and sales	$1,886.4	$5,331.3
Income from continuing operations	$ 189.2	$ 636.4
Combined earnings per share from continuing operations:		
Basic earnings per share	$.50	$1.67
Diluted earnings per share	$.49	$1.64
Net income	$ 353.1	$1,055.0
Combined earnings per share:		
Basic earnings per share	$.93	$2.77
Diluted earnings per share	$.91	$2.72

The pro forma amounts represent the historical operating results of the properties acquired from Western Wireless with appropriate adjustments that give effect to depreciation and amortization and interest expense. The pro forma amounts give effect to spin-off of the wireline telecommunications business completed on July 17, 2006 (see Note 12) and also reflect the May 17, 2005 issuance of approximately 24.5 million shares of Alltel common stock to settle the purchase contract obligation related to the Company's outstanding equity units (see Note 5). The pro forma amounts also include the effects of non-acquisition-related special charges and unusual items, as more fully discussed in Notes 9 and 10 below. The pro forma amounts are not necessarily indicative of the operating results that would have occurred if the Western Wireless properties had been operated by Alltel during the periods presented. In addition, the pro forma amounts do not reflect potential cost savings related to full network optimization and the redundant effect of selling, general and administrative expenses.

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 assets is recorded as goodwill. As of January 1, 2006, 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. The changes in the carrying amount of goodwill for the nine months ended September 30, 2006 were as follows:

(Millions)		
Balance at December 31, 2005	$	7,429.3
Acquired during the period		468.4
Allocated to assets held for sale during the period		(18.8)
Other adjustments		(73.3)
Balance at September 30, 2006	$	7,805.6

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

4. Goodwill and Other Intangible Assets, Continued:

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

(Millions)	September 30, 2006	December 31, 2005
Cellular licenses	$ 1,453.7	$ 1,392.3
Personal Communications Services licenses	79.1	79.1
	$ 1,532.8	$ 1,471.4

Intangible assets subject to amortization were as follows:

	September 30, 2006		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 756.6	$ (434.6)	$ 322.0
Roaming agreement	6.1	(2.1)	4.0
	$ 762.7	$ (436.7)	$ 326.0

	December 31, 2005		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 691.6	$ (307.0)	$ 384.6
Roaming agreement	6.1	(0.7)	5.4
	$ 697.7	$ (307.7)	$ 390.0

Amortization expense for intangible assets subject to amortization was $39.2 million and $131.6 million for the three and nine month periods ended September 30, 2006, compared to $32.4 million and $60.8 million for the same periods of 2005. Amortization expense for intangible assets subject to amortization is estimated to be $167.1 million in 2006, $128.9 million in 2007, $92.2 million in 2008, $48.2 million in 2009 and $20.1 million in 2010. See Note 3 for a discussion of the acquisitions completed during the first nine months of 2006 that resulted in the recognition of goodwill and other intangible assets.

5. Equity Units:

During 2002, the Company issued and sold 27.7 million equity units in an underwritten public offering and received net proceeds of $1.34 billion. Each equity unit consisted of a corporate unit, with a $50 stated amount, comprised of a purchase contract and a $50 principal amount senior note. The purchase contract obligated the holder to purchase, and obligated Alltel to sell, on May 17, 2005, a variable number of newly-issued common shares of Alltel common stock for $50. Upon settlement of the purchase contract obligation, Alltel received cash proceeds of approximately $1,385.0 million and delivered approximately 24.5 million shares of Alltel common stock in the aggregate to the holders of the equity units. The proceeds from the stock issuance were utilized to finance certain obligations associated with Alltel’s merger with Western Wireless, as further discussed in Note 3. The $50 principal amount senior notes are payable on May 17, 2007 and accrued interest through February 17, 2005 at an initial annual rate of 6.25 percent. On February 17, 2005, Alltel completed a remarketing of the senior notes that reset the annual interest rate on the notes to 4.656 percent for periods subsequent to February 17, 2005. As further discussed in Note 10 below, through the completion of a debt exchange and cash tender offer, Alltel retired $1,349.4 million of the outstanding equity unit notes during the third quarter of 2006.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

6. Stock-Based Compensation:

Under the Company's stock-based compensation plans, Alltel may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, and other equity securities to officers and other management employees. The maximum number of shares of the Company's common stock that may be issued to officers and other management employees under all stock compensation plans in effect at September 30, 2006 was 30.0 million shares.

Stock Options - Fixed stock options granted under the stock-based compensation plans generally become exercisable over a period of one to five years after the date of grant. Under Alltel's stock option plan for non-employee directors (the "Directors' Plan"), the Company grants fixed, non-qualified stock options to directors for up to 1.0 million shares of common stock. Under the Directors' Plan, directors receive a one-time option grant to purchase 10,000 shares of common stock when they join the Board. Directors are also granted each year, on the date of the annual meeting of stockholders, an option to purchase a specified number of shares of common stock (currently 6,500 shares). Options granted under the Directors' Plan become exercisable the day immediately preceding the date of the first annual meeting of stockholders following the date of grant. For all plans, the exercise price of the option equals the market value of Alltel's common stock on the date of grant. For fixed stock options, the maximum term for each option granted is 10 years. The Company's practice has been to issue new shares of common stock upon the exercise of stock options.

As a result of the spin-off, the number of shares underlying outstanding stock options and the related per share exercise price held by employees and directors remaining with Alltel and stock options held by employees of Windstream that were vested as of the spin-off date were adjusted pursuant to the terms of the applicable Alltel equity incentive plans in order to account for the change in the market value of Alltel's common stock resulting from the distribution by multiplying the number of shares subject to such options by 1.221808 and dividing the exercise price by that same amount. Because the adjustment to the number of shares and exercise prices maintained both the aggregate fair market value of stock underlying the stock options and the relationship between the per share exercise price and the related per share market value both before and after consummation of the spin-off, no additional compensation expense resulting from the modification of the stock option awards was recognized. Unvested stock options held by employees of Windstream were cancelled.

The weighted average fair value of stock options granted during the nine months ended September 30, 2006 adjusted to reflect the effects of the spin-off discussed above was $15.19 per share using the Black-Scholes option-pricing model and the following weighted average assumptions:

Expected life	5.9 years
Expected volatility	22.9%
Dividend yield	0.8%
Risk-free interest rate	4.5%

The expected life assumption was determined based on the Company's historical stock option exercise experience using a rolling 10-year average for three separate groups of employees that exhibited similar historical exercise behavior. Alltel believes that its historical experience is the best estimate of future exercise patterns currently available. The expected volatility assumption was based on a combination of the implied volatility derived from publicly traded options to purchase Alltel common stock and the Company's historical common stock volatility. Implied volatility was derived from two-year traded options, while historical volatility was calculated using the weighted average of historical daily price changes of the Company's common stock over the most recent period equal to the expected life of the stock option on the date of grant. Alltel believes that estimating expected volatility based on a combination of implied and historical volatility is more representative of future stock price trends than using historical volatility alone.

The expected dividend yield was based on the Company's approved annual dividend rate in effect at the date of grant adjusted to reflect the expected reduction in Alltel's dividend rate from $1.54 to $.50 per share following the completion of the spin-off of the Company's wireline operations to Alltel's shareholders (see Note 12). Future increases to the dividend rate were not included in the development of the dividend yield assumption because Alltel's board of directors has not approved any increase to the dividend rate following completion of the spin-off.

The risk-free interest rate was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

6. Stock-Based Compensation, Continued:

Activity under all of the Company's stock options plans for the nine months ended September 30, 2006 was as follows:

	(Thousands) Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2005	17,316.5	$53.94
Granted	1,357.1	63.25
Exercised	(2,207.8)	40.12
Forfeited	(96.0)	58.93
Expired	(13.8)	31.83
Outstanding immediately prior to the spin-off	16,356.0	56.57
Adjustment in shares resulting from spin-off	3,631.0	-
Granted	10.0	57.46
Exercised	(2,209.3)	46.20
Forfeited	(859.5)	42.40
Outstanding at September 30, 2006	16,928.2	$46.51
Exercisable at end of period	12,521.8	$46.76

The total intrinsic value of stock options exercised during the nine months ended September 30, 2006 was $74.6 million, and Alltel received $191.3 million in cash from the exercise of stock options. The total intrinsic value of stock options outstanding and exercisable as of September 30, 2006 was $110.6 million. At September 30, 2006, the number of Alltel stock options outstanding and exercisable held by employees of the wireline business who transferred to Windstream was 145,942, and such options had a total intrinsic value of $1.3 million.

The following is a summary of stock options outstanding and exercisable as of September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	(Thousands) Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share	(Thousands) Number of Shares	Weighted Average Exercise Price Per Share
$ 6.20 - $12.04	77.1	4.6 years	$ 7.69	44.0	$ 8.77
$21.78 - $26.49	453.6	1.6 years	26.10	403.2	26.05
$27.72 - $30.89	1,347.6	1.0 years	28.23	1,347.6	28.23
$35.29 - $41.15	2,304.5	6.4 years	39.85	1,260.5	39.69
$41.58 - $47.84	4,250.9	6.4 years	44.89	2,629.2	44.93
$50.79 - $55.85	8,311.6	4.7 years	53.34	6,664.4	53.74
	182.9	3.3 years	59.18	172.9	59.28

$57.46 - $59.84					
	16,928.2	5.0 years	$46.51	12,521.8	$46.76

Non-vested stock options as of September 30, 2006 and changes during the nine months ended September 30, 2006 adjusted to reflect the effects of the spin-off discussed above were as follows:

	(Thousands) Number of Shares	Weighted Average Price Per Share
Non-vested at December 31, 2005	5,051.4	$51.94
Granted	1,357.1	63.25
Vested	(2,068.9)	52.40
Forfeited	(38.5)	52.80
Non-vested immediately prior to the spin-off	4,301.1	55.28
Adjustment in shares resulting from spin-off	954.9	-
Granted	10.0	57.46
Forfeited	(859.6)	42.40
Non-vested at September 30, 2006	4,406.4	$45.82

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

6. Stock-Based Compensation, Continued:

At September 30, 2006, the total unamortized compensation cost for non-vested stock option awards amounted to $38.9 million and is expected to be recognized over a weighted average period of 3.4 years. Unrecognized compensation expense for stock options was included in additional paid-in capital in the accompanying consolidated balance sheet and statement of shareholders' equity.

Restricted Stock - During 2006, 2005 and 2004, Alltel granted to certain senior management employees and non-employee directors restricted stock awards which had an aggregate fair value on the date of grant of $18.6 million, $11.1 million and $8.5 million, respectively. The cost of the restricted stock awards is determined based on the fair market value of the shares at the date of grant reduced by the $1.00 par value per share charged to the employee and is expensed ratably over the vesting period. The restricted shares granted to employees in 2006 will vest in equal increments over a three-year period following the date of grant, except for awards representing 96,000 shares, which will vest in increments of 40%, 30% and 30% over a five-year period beginning three years after the date of grant. The restricted shares granted to employees in 2005 vest three years from the date of grant, except that one-third of the restricted shares may vest after each of the first two-year anniversaries from the grant date if Alltel achieves a certain targeted total stockholder return compared to its peer group during the three-year period preceding each of those two years. The restricted shares granted to employees in 2004 will vest in equal increments over a three-year period following the date of grant. Restricted shares granted to non-employee directors vest one year from the date of grant.

Alltel restricted stock awarded pursuant to Alltel's equity incentive plans and held by employees and directors at the time of the spin-off of the wireline business continued to represent shares of Alltel common stock. In addition, the holders of these restricted shares received approximately 1.034 shares of Windstream restricted stock for each share of restricted Alltel common stock held. The Windstream restricted shares received by Alltel employees became fully vested on August 3, 2006. Compensation expense resulting from the accelerated vesting of the Windstream restricted stock totaled $3.6 million. As of the spin-off date, employees of the wireline business who transferred to Windstream held 58,884 shares of unvested Alltel restricted stock, which also became fully vested on August 3, 2006. The incremental expense resulting from the accelerated vesting of these restricted stock awards was not material and has been included in discontinued operations.

Non-vested restricted stock activity for the nine months ended September 30, 2006 was as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Non-vested at December 31, 2005	302,530	$52.52
Granted	303,083	61.34
Vested	(111,811)	50.87
Forfeited	(6,250)	53.26
Non-vested at September 30, 2006	487,552	$58.37

At September 30, 2006, unrecognized compensation expense for the restricted shares amounted to $14.5 million and was included in additional paid-in capital in the accompanying consolidated balance sheet and statement of shareholders' equity. The unrecognized compensation expense for the non-vested restricted shares at September 30, 2006 is expected to be recognized over a weighted average period of 2.3 years.

7. Employee Benefit Plans and Postretirement Benefits Other Than Pensions:

The Company maintains a qualified defined benefit pension plan, which covers substantially all employees. In December 2005, the qualified defined benefit pension plan was amended such that future benefit accruals for all eligible nonbargaining employees ceased as of December 31, 2005 (December 31, 2010 for employees who had attained age 40 with two years of service as of December 31, 2005). The Company also maintains a supplemental executive retirement plan that provides unfunded, non-qualified supplemental retirement benefits to a select group of management employees. In addition, Alltel has entered into individual retirement agreements with certain retired executives providing for unfunded supplemental pension benefits. Alltel funds the accrued costs of these plans as benefits are paid.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The components of pension expense, including provision for executive retirement agreements, were as follows for the three and nine month periods ended September 30:

	Three Months Ended		Nine Months Ended	
(Millions)	2006	2005	2006	2005
Benefits earned during the year	$ 2.3	$ 8.7	$ 14.1	$ 25.4
Interest cost on benefit obligation	3.0	14.7	32.3	43.9
Special termination benefits	-	-	9.0	-
Settlement and curtailment losses	0.3	-	3.8	-
Amortization of prior service cost	0.3	0.1	0.8	0.4
Recognized net actuarial loss	1.0	7.7	16.2	23.0
Expected return on plan assets	(3.4)	(20.8)	(45.3)	(62.2)
Net periodic benefit expense	$ 3.5	$ 10.4	$ 30.9	$ 30.5

Of the total pension expense presented in the table above, amounts allocated to discontinued operations totaled $20.0 million for the nine months ended September 30, 2006, compared to $3.4 million and $10.3 million, respectively, for the three and nine months ended September 30, 2005, respectively. As further discussed in Note 12, on July 17, 2006, Alltel completed the spin-off of its wireline telecommunications business to its stockholders and merger of that wireline business with Valor. Two former executive officers of Alltel, who were eligible to receive supplemental retirement benefits payable under the Company's supplemental executive retirement plan, joined Windstream. As a result, the supplemental executive retirement plan was amended to provide for the immediate pay out of the accrued supplemental retirement benefits earned by the two executives at the time the spin-off was consummated. The special termination benefits paid to the two executives and the corresponding settlement and curtailment losses have been included in the amount of pension expense allocated to discontinued operations for the nine months ended September 30, 2006.

In connection with the spin-off, Alltel transferred to Windstream the portion of the Alltel defined benefit pension plan which represented the accumulated benefit obligation and fair value of plan assets attributable to the active and retired employees of the wireline business who transferred to Windstream. The amount of plan assets and accumulated benefit obligation transferred to Windstream was determined by an independent actuary and totaled $850.4 million and $753.9 million, respectively. The assumptions used to estimate the accumulated benefit obligation were as follows: (1) discount rate of 6.3%, (2) long-term rate of return on plan assets of 8.5% and (3) rate of future compensation increases of 3.5%.

Alltel disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute $20.5 million for retirement benefits in 2006 consisting solely of amounts necessary to fund the expected benefit payments related to the unfunded supplemental retirement plans, a substantial portion of which were the payments to the two executives discussed above. Through September 30, 2006, Alltel had contributed $19.5 million to fund the supplemental retirement plans. Alltel does not expect that any contribution to the qualified defined pension plan calculated in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 will be required in 2006. Future discretionary contributions to the plan will depend on various factors, including future investment performance, changes in future discount rates and changes in the demographics of the population participating in Alltel's qualified pension plan.

The Company provides postretirement healthcare and life insurance benefits for eligible employees. Employees share in the cost of these benefits. The Company funds the accrued costs of these plans as benefits are paid. The components of postretirement expense were as follows for the three and nine month periods ended September 30:

	Three Months Ended		Nine Months Ended	
(Millions)	2006	2005	2006	2005
Benefits earned during the year	$ 0.1	$ 0.1	$ 0.3	$ 0.3
Interest cost on benefit obligation	0.1	3.5	6.8	10.5
Amortization of transition obligation	-	0.2	0.4	0.6
Amortization of prior service cost	-	0.5	0.9	1.5
Recognized net actuarial loss	-	1.7	3.2	5.1
Expected return on plan assets	-	-	-	-
Net periodic benefit expense	$ 0.2	$ 6.0	$ 11.6	$ 18.0

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

Of the total postretirement expense presented in the table above, amounts allocated to discontinued operations totaled \$10.3 million for the nine months ended September 30, 2006, compared to \$4.8 million and \$14.8 million, for the three and nine months ended September 30, 2005, respectively. In connection with the spin-off, Alltel transferred to Windstream the portion of the Alltel postretirement benefit plan which represented the accumulated benefit obligation attributable to the active and retired employees of the wireline business who transferred to Windstream. The amount of the accumulated benefit obligation transferred to Windstream was determined by an independent actuary and totaled \$221.8 million. The assumed discount rate used to estimate the accumulated benefit obligation was 6.3%.

8. Integration Expenses and Other Charges:

A summary of the integration expenses and other charges recorded during the nine months ended September 30, 2006 is as follows:

(Millions)		
Rebranding and signage costs	$	8.3
Computer system conversion and other integration expenses		2.5
Total integration expenses and other charges	$	10.8

In the first quarter of 2006, the Company incurred \$10.8 million of integration expenses related to its acquisition of Western Wireless. These expenses consisted of \$8.3 million of rebranding and signage costs and \$2.5 million of system conversion and other integration costs. The system conversion and other integration expenses included internal payroll and employee benefit costs, contracted services, relocation expenses and other programming costs incurred in converting Western Wireless' customer billing and operational support systems to Alltel's internal systems, a process which was completed during March 2006. The integration expenses and other charges decreased net income \$6.6 million for the nine months ended September 30, 2006.

A summary of the integration and other charges recorded during the three and nine months ended September 30, 2005 was as follows:

(Millions)		
Relocation costs	$	0.3
Computer system conversion and other integration expenses		14.0
Total integration and other charges	$	14.3

In connection with the exchange of wireless assets with Cingular, the Company incurred \$11.9 million of integration expenses, primarily consisting of handset subsidies incurred to migrate the acquired customer base to CDMA handsets. Alltel also incurred \$2.4 million of integration expenses related to its acquisition of Western Wireless, primarily consisting of computer system conversion and other integration costs. These expenses included internal payroll and employee benefit costs, contracted services, relocation expenses and other programming costs incurred in converting Western Wireless' customer billing and operational