ALLTEL CORP
Form 10-K/A
June 16, 2008

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

FORM 10-K/A
(AMENDMENT NO. 1)

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

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

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

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

NONE
(Title of Class)

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

NONE
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
£ YES T NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

£ YES T NO

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.

T YES £ NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. T

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

Large accelerated filer £ Accelerated filer £ Non-accelerated filer T Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

£ YES T NO

The Registrant is a privately-held corporation, and accordingly, none of its voting stock is held by non-affiliates.

As of February 29, 2008, the number of shares of the Registrant's common stock, par value $0.01 per share, outstanding were 454,000,122.

Explanatory Note

Alltel Corporation ("Alltel" or the "Company') is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2007 originally filed on March 20, 2008 to include a revised Financial Supplement which is incorporated by reference into Items 6, 7, 7A and 8 of Part II and Item 15 of Part IV. The Financial Supplement was revised in response to comments received by Alltel from the staff of the Division of Corporation Finance of the Securities and Exchange Commission ("SEC") in connection with the staff's review of the Company's 2007 Form 10-K.

Revisions to the Financial Supplement include the following:

- Revised Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") to eliminate the comparison of the combined operating results of the Predecessor and Successor for the fiscal year 2007 to fiscal year 2006. The revised MD&A includes a comparison of the operating results of the Predecessor for the period January 1, 2007 to November 15, 2007 to the year ended December 31, 2006 and a comparison of the operating results for the years ended December 31, 2006 and 2005 to one another. In addition, the revised MD&A also includes a freestanding discussion of the Company's operating results for the Successor period of November 16, 2007 to December 31, 2007 focused on those factors that materially affected Alltel's operating results in the Successor period and/or are expected to have a continuing significant impact on the Company's future results of operations. To supplement its discussion and analysis on a historical basis, the Company has also included a discussion comparing its operating results for the year ended December 31, 2007, prepared on a pro forma basis as if Alltel's acquisition by Atlantis Holdings LLC ("Atlantis Holdings") had occurred on January 1, 2007, to its operating results for the year ended December 31, 2006, prepared on a pro forma basis as if the Company's acquisition by Atlantis Holdings had occurred on January 1, 2006.

- In its discussion of covenant compliance included in MD&A and Note 2 to its audited consolidated financial statements, Alltel had used the terms "Adjusted EBITDA" and "Consolidated EBITDA" interchangeably, when discussing the requirements of its senior secured credit facilities to maintain a specific leverage ratio. Because that requirement is based on Consolidated EBITDA, not Adjusted EBITDA, Alltel has eliminated any reference to Adjusted EBITDA in the revised Financial Supplement.

- Revised the unaudited pro forma results of operations for the years ended December 31, 2007 and 2006 included in Note 2 to the audited financial statements to agree to the pro forma amounts presented in the revised MD&A.

- Included in both the MD&A and Note 21 to the audited financial statements a subsequent event disclosure relating to the pending acquisition of Alltel by Verizon Wireless announced on June 5, 2008.

A subsequent event disclosure relating to the pending acquisition of Alltel has also been included in Item 1.

For the convenience of the reader, this Amendment No. 1 sets forth the entire Form 10-K of Alltel as of December 31, 2007. Except for the revised disclosures discussed above and changes to page numbers and cross-references, there are no other significant changes to Alltel's original Form 10-K filing that have been modified by this Amendment. Except for the disclosures relating to the pending acquisition of Alltel as discussed above, this Amendment No. 1 does not reflect events occurring after the filing of the Company's original Form 10-K or modify or update any of the other disclosures included in the original Form 10-K filing. Forward looking statements made in the original Form 10-K filing have not been revised to reflect events, results or developments that have become known to the Company after the date of the original filing and such forward looking statements should be read in their historical context. Accordingly, this Amendment No. 1 on Form 10-K/A should be read in conjunction with Alltel's other filings with the SEC.

Currently dated certifications of Alltel's Chief Executive Officer and Chief Financial Officer as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed herewith.

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Forward-Looking Statements

Throughout this Form 10-K, Alltel Corporation and its subsidiaries are referred to as “Alltel”, “the Company”, “we”, “our”, o “us”.

This Form 10-K 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”, “may”, “will”, “projects and variations of these words and similar 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; failure of our suppliers, contractors and third-party retailers to provide the agreed upon services; changes in communications technology; the effects of a high rate of customer churn; the risks associated with the integration of acquired businesses or any potential future acquired businesses; adverse changes in the terms and conditions of the wireless roaming agreements of Alltel; our ability to bid successfully for 700 MHz licenses; potential increased costs due to perceived health risks from radio frequency emissions; the effects of declines in operating performance, including impairment of certain assets; risks relating to the renewal and potential revocation of our wireless licenses; potential higher than anticipated inter-carrier costs; potential increased credit risk from first-time wireless customers; the potential for adverse changes in the ratings given to Alltel’s debt securities by nationally accredited ratings organizations; risks relating to our substantially increased indebtedness following the Merger and related transactions, including a potential inability to generate sufficient cash to service our debt obligations, and potential restrictions on the Company’s operations contained in its debt agreements; potential conflicts of interest and other risks relating to the Sponsors having control of the Company; loss of the Company’s key management and other personnel or inability to attract such management and other personnel; the effects of litigation, including relating to telecommunications technology patents and other intellectual property; the effects of federal and state legislation, rules, and regulations governing the communications industry; potential challenges to regulatory authorizations and approvals related to the Merger; potential unforeseen failure of the Company’s technical infrastructure and systems; and those additional factors under the caption “Risk Factors” in Item 1A.

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

Form 10-K, Part I

Item 1. Business

General

Alltel is incorporated in the state of Delaware and maintains its corporate headquarters in Little Rock, Arkansas. Alltel provides wireless voice and data communications services to approximately 12.8 million customers in 35 states. In terms of both the number of customers served and revenues earned, Alltel is the fifth largest provider of wireless services in the United States. On November 16, 2007, Alltel was acquired by Atlantis Holdings LLC, a Delaware limited liability company ("Atlantis Holdings" or "Parent") and an affiliate of private investment funds TPG Partners V, L.P. and GS Capital Partners VI Fund, L.P. (together the "Sponsors"). The acquisition was completed through the merger of Atlantis Merger Sub, Inc. ("Merger Sub"), a Delaware corporation and wholly-owned subsidiary of Parent, with and into Alltel (the "Merger"), with Alltel surviving the Merger as a privately-held, majority-owned subsidiary of Parent. Prior to consummation of the Merger, Alltel's common stock was publicly traded on the New York Stock Exchange ("NYSE") under the symbol "AT". Through consummation of the merger, Atlantis Holdings acquired all of Alltel's outstanding equity interests. On November 30, 2007, Alltel's $1.00 par value common stock and Alltel's $2.06 no par cumulative convertible preferred stock were deregistered under the Securities Exchange Act of 1934 ("Exchange Act") and are no longer listed on any stock exchange or quotation system.

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General (Continued)

The Company's web site address is www.alltel.com. Alltel files with, or furnishes to, the Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as various other information. Alltel makes available free of charge through the Investor Relations page of its web site its annual reports, quarterly reports and current reports, and all amendments to any of those reports, as soon as reasonably practicable after providing such reports to the SEC.

Pending Acquisition of Alltel

On June 5, 2008, Verizon Wireless, a joint venture of Verizon Communications and Vodafone, entered into an agreement with Alltel and Atlantis Holdings to acquire Alltel in a cash merger. Under terms of the merger agreement, Verizon Wireless will acquire the equity of Alltel for approximately $5.9 billion in cash and assume Alltel's outstanding long-term debt. Consummation of the merger is subject to certain conditions, including the receipt of regulatory approvals, including, without limitation, the approval of the FCC and the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. The transaction is currently expected to close by the end of 2008, subject to obtaining regulatory approvals.

Overview of Wireless Operations

Alltel is the owner and operator of the nation's largest wireless network as measured by square miles of coverage. Alltel provides a wide array of wireless communication services to individual and business customers, primarily in non-major metropolitan and rural markets. As of December 31, 2007, Alltel owns a majority interest in wireless operations in 116 Metropolitan Statistical Areas ("MSAs"), representing approximately 48.7 million potential customers or POPs, and a majority interest in 238 Rural Service Areas ("RSAs"), representing approximately 30.7 million POPs. In addition, Alltel owns a minority interest in 23 other wireless markets, including the Chicago, Illinois and Houston, Texas MSAs. As of December 31, 2007, Alltel's penetration rate (number of customers as a percentage of the total population in the Company's service areas) was 16.1 percent. Alltel manages its wireless business as a single operating segment, wireless communications services.

During 2007, Alltel continued to upgrade its wireless network infrastructure and invest in state-of-the-art code division multiple access ("CDMA") technology, including 1xRTT. The Company ended 2007 with 1xRTT data coverage of approximately 96 percent of its POPs. In addition, capital expenditures for 2007 included the Company's additional investment in wireless high-speed Evolution Data Optimized ("EV-DO") technology. Through December 31, 2007, Alltel had expanded 1x-EVDO coverage to include approximately 76 percent of its POPs. The Company also supplements its wireless service coverage area through roaming agreements with other wireless service providers that allow Alltel's customers to obtain wireless services in those U.S. regions in which Alltel does not maintain a network presence. We believe we are the leading independent roaming partner for the four national carriers in our markets. Through these roaming agreements, the Company is able to offer its customers wireless services covering approximately 95 percent of the U.S. population. Alltel continues to increase its network capacity and coverage area through new network construction, strategic acquisitions and affiliations with other wireless service providers.

Employees

At December 31, 2007, Alltel had 16,104 employees. None of the Company's employees are members of collective bargaining units.

Acquisitions Completed During the Past Five Years

On October 3, 2006, Alltel completed the purchase of Midwest Wireless Holdings of Mankato, Minnesota ("Midwest Wireless") for $1,083.5 million in cash. In this transaction, Alltel acquired wireless properties, including 850 MHz licenses and PCS spectrum covering approximately 2.0 million POPs, network assets and approximately 433,000 customers in select markets in southern Minnesota, northern and eastern Iowa, and western Wisconsin. As a condition of receiving approval from the U.S. Department of Justice ("DOJ") and the Federal Communications Commission ("FCC") for this acquisition, Alltel agreed to divest certain wireless operations in four rural markets in Minnesota. On April 3, 2007, Alltel completed the sale of these markets to Rural Cellular Corporation ("Rural Cellular").

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Acquisitions Completed During the Past Five Years (Continued)

During the second quarter of 2006, Alltel purchased for $218.2 million in cash wireless properties covering approximately 727,000 POPs in Illinois, Texas and Virginia.

On March 16, 2006, Alltel purchased from Palmetto MobileNet, L.P. for $456.3 million in cash the remaining ownership interests in ten wireless partnerships that cover approximately 2.3 million POPs in North and South Carolina. Prior to this transaction, Alltel owned a 50 percent interest in each of the ten wireless partnerships.

On August 1, 2005, Alltel and Western Wireless Corporation ("Western Wireless") completed the merger of Western Wireless with and into a wholly-owned subsidiary of Alltel. In the merger, each share of Western Wireless common stock was exchanged for 0.535 shares of Alltel common stock and $9.25 in cash unless the shareholder made an all-cash election, in which case the shareholder received $40 in cash. Western Wireless shareholders making an all-stock election were subject to proration and received approximately 0.539 shares of Alltel common stock and $9.18 in cash. In the aggregate, Alltel issued approximately 54.3 million shares of stock valued at $3,430.4 million and paid approximately $933.4 million in cash. Through its wholly-owned subsidiary that merged with Western Wireless, Alltel also assumed debt of approximately $2.1 billion. As a result of the merger, Alltel added approximately 1.3 million domestic wireless customers in 19 mid-western and western states that were contiguous to the Company's existing wireless properties. Alltel also added approximately 1.9 million international customers in eight countries.

As a condition of receiving approval for the merger from the DOJ and FCC, Alltel agreed to divest certain wireless operations of Western Wireless in 16 markets in Arkansas, Kansas and Nebraska, as well as the "Cellular One" brand. On December 19, 2005, Alltel completed an exchange of wireless properties with United States Cellular Corporation ("U.S. Cellular") that included a substantial portion of the divestiture requirements related to the merger. Under terms of the agreement with U.S. Cellular, Alltel acquired approximately 89,000 customers in two RSA markets in Idaho that are adjacent to the Company's existing operations and received $48.2 million in cash in exchange for 15 rural markets in Kansas and Nebraska owned by Western Wireless. In December 2005, Alltel sold the Cellular One brand to Dobson Cellular Systems, Inc. and in March 2006, Alltel sold the remaining market in Arkansas to AT&T Mobility LLC (formerly known as Cingular Wireless LLC) ("AT&T"). During the third and fourth quarters of 2005, Alltel completed the sale of Western Wireless' international operations in the countries of Georgia, Ghana and Ireland for $570.3 million in cash. During the second quarter of 2006, Alltel completed the sales of Western Wireless' international operations in the countries of Austria, Bolivia, Côte d'Ivoire, Haiti, and Slovenia for approximately $1.7 billion in cash.

On April 15, 2005, Alltel and AT&T exchanged certain wireless assets. Under the terms of the agreement, Alltel acquired former AT&T properties, including licenses, network assets and approximately 212,000 customers, in select markets in Kentucky, Oklahoma, Texas, Connecticut and Mississippi representing approximately 2.7 million POPs. Alltel also acquired 20 MHz of spectrum and network assets in Kansas and wireless spectrum in several counties in Georgia and Texas. In addition, Alltel and AT&T exchanged partnership interests, with AT&T receiving interests in markets in Kansas, Missouri and Texas, and Alltel receiving more ownership in majority-owned markets it manages in Michigan, Louisiana, and Ohio. Alltel also paid AT&T approximately $153.0 million in cash.

On February 28, 2005, Alltel completed the purchase of wireless properties, representing approximately 966,000 POPs in Alabama and Georgia for $48.1 million in cash. Through the completion of this transaction, Alltel added approximately 54,000 customers.

On December 1, 2004, Alltel completed the purchase of certain wireless assets from U.S. Cellular and TDS Telecommunications Corporation ("TDS Telecom") for $148.2 million in cash, acquiring wireless properties with a potential service area covering approximately 595,000 POPs in Florida and Ohio. The Company also purchased partnership interests in seven Alltel-operated markets in Georgia, Mississippi, North Carolina, Ohio and Wisconsin. Prior to this acquisition, Alltel owned an approximate 42 percent interest in the Georgia market, with a potential service area covering approximately 227,000 POPs, and Alltel owned a majority interest in the Mississippi, North Carolina, Ohio and Wisconsin markets. On November 2, 2004, the Company purchased for $35.6 million in cash wireless properties with a potential service area covering approximately 274,000 POPs in south Louisiana from SJI, a privately-held company. Through these transactions, Alltel added approximately 92,000 wireless customers.

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Acquisitions Completed During the Past Five Years (Continued)

On August 29, 2003, the Company purchased for $22.8 million in cash a wireless property with a potential service area covering approximately 205,000 POPs in an Arizona RSA. On February 28, 2003, the Company purchased for $64.6 million in cash wireless properties with a potential service area covering approximately 367,000 POPs in southern Mississippi, from Cellular XL Associates, a privately-held company. On February 28, 2003, the Company also purchased for $60.0 million in cash the remaining ownership interest in wireless properties with a potential service area covering approximately 355,000 POPs in two Michigan RSAs. Prior to this acquisition, Alltel owned approximately 49 percent of the Michigan properties. Through the completion of these transactions, Alltel added approximately 147,000 customers and expanded its wireless operations into new markets in Arizona, Michigan and Mississippi.

Dispositions Completed During the Past Five Years

On July 17, 2006, Alltel completed the spin-off of the Company's wireline telecommunications business to its stockholders and the merger of that wireline business with Valor Communications Group, Inc. ("Valor"). Pursuant to the plan of distribution and immediately prior to the effective time of the merger with Valor described below, Alltel contributed all of the assets of its wireline telecommunications business to ALLTEL Holding Corp. ("Alltel Holding" or "Spinco"), a wholly-owned subsidiary of the Company, in exchange for: (i) the issuance to Alltel of Spinco common stock to be distributed pro rata to Alltel's stockholders as a tax free stock dividend, (ii) the payment of a special dividend to Alltel in the amount of $2.3 billion, and (iii) the distribution by Spinco to Alltel of certain Spinco debt securities, consisting of $1,746.0 million aggregate principal amount of 8.625 percent senior notes due 2016 (the "Spinco Securities"). The Spinco Securities were issued at a discount, and accordingly, at the date of distribution to Alltel, the Spinco Securities had a carrying value of $1,703.2 million (par value of $1,746.0 million less discount of $42.8 million). In connection with the spin-off, Alltel also transferred to Spinco $260.8 million of long-term debt that had been issued by the Company's wireline subsidiaries. Alltel exchanged the Spinco Securities received in the spin-off transaction for certain of its outstanding debt securities.

Immediately after the consummation of the spin off, Alltel Holding merged with and into Valor, with Valor continuing as the surviving corporation. As a result of the merger, all of the issued and outstanding shares of Spinco common stock were converted into the right to receive an aggregate number of shares of common stock of Valor. Valor issued in the aggregate approximately 403 million shares of common stock to Alltel stockholders pursuant to the merger, or 1.0339267 shares of Valor common stock for each share of Spinco common stock outstanding as of the effective time of the merger. Upon completion of the merger, Alltel stockholders owned approximately 85 percent of the outstanding equity interests of the surviving corporation, which is named Windstream, and the stockholders of Valor owned the remaining 15 percent of such equity interests.

In December 2003, Alltel sold to Convergys Information Management Group ("Convergys") for $37.0 million in cash certain assets and related liabilities, including selected customer contracts and capitalized software development costs, associated with the Company's telecommunications information services operations.

On April 1, 2003, Alltel completed the sale of the financial services division of its information services subsidiary, ALLTEL Information Services, Inc., to Fidelity National Financial Inc. ("Fidelity National"), for $1.05 billion, received as $775.0 million in cash and $275.0 million in Fidelity National common stock. As part of this transaction, Fidelity National acquired Alltel's mortgage servicing, retail and wholesale banking and commercial lending operations, as well as the community/ regional bank division.

In January 2003, Alltel completed the termination of its business venture with Bradford & Bingley Group. The business venture, ALLTEL Mortgage Solutions, Ltd., a majority-owned consolidated subsidiary of Alltel, was created in 2000 to provide mortgage administration and information technology products in the United Kingdom.

Product Offerings and Pricing

Service revenues are derived primarily from monthly access and airtime charges, roaming and long-distance charges and charges for data services, customer calling and other enhanced service features. Prices of wireless services are not regulated by the FCC or by state regulatory commissions; however, as more fully discussed under the caption "Regulation" on page 8, states are permitted to regulate the terms and conditions of wireless services unrelated to either rates or market entry.

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Product Offerings and Pricing (Continued)

Alltel strives to address the needs of a variety of customer segments, stimulate usage, increase penetration, and improve customer retention rates through a diverse product offering and pricing strategy. To accomplish these objectives, the Company offers competitive local, statewide, and national service plans. These service plans include packages of daytime, night and weekend, and mobile-to-mobile minutes. Customers can choose lower monthly access plans with fewer minutes, while customers needing more minutes can choose slightly higher access plans with more minutes. Alltel also offers several family service plans, which give customers the option to share minutes by adding additional lines of service at discounted rates. These family service plans help target the growing number of families that have integrated wireless into their lives.

Alltel provides several voice features to enhance its wireless calling plans, including call waiting, call forwarding, caller identification, three-way calling, no-answer transfer, directory assistance call completion and voicemail. Depending on the customer's selection of rate plan, some or all of these features are included as an extra value to the plan, with the expectation of extending customer life.

The wireless industry has continued to offer higher recurring revenue plans which provide a large number of packaged minutes, unlimited night and weekend calling, long-distance within the United States, and free mobile-to-mobile calling as integral components of the plan. Certain of the national carriers recently have begun to offer unlimited rate plans, which for a monthly rate of $99.99 per month, provide customers with the ability to call for free anyone in the United States including landline numbers. Through reciprocal roaming agreements with other domestic wireless companies, Alltel is able to offer its customers competitively-priced rate plans that provide nationwide coverage. These roaming agreements provide Alltel's customers with the capability to use their wireless telephones while traveling outside the Company's service areas. In 2000, Alltel and Verizon Wireless signed a reciprocal roaming agreement, which expires in January 2010. During 2006, Alltel signed a 10-year roaming agreement with Sprint Nextel Corporation ("Sprint") and extended its Global System for Mobile Communications ("GSM") roaming agreement with AT&T until 2012. The Sprint roaming agreement provides for voice, 1xRTT and EV-DO roaming and expands on Alltel's existing roaming relationship with Sprint, while the AT&T roaming agreement provides for expansion of GSM roaming services into areas outside of Alltel's GSM footprint that had been acquired in the Western Wireless transaction. These roaming agreements allow customers of each of the companies to roam on each other's networks.

During 2006, Alltel launched "My Circle", an offering that allows customers on select plans to choose ten numbers they want to call for free – any number, any network. These numbers are shared by other lines on the account and can be changed daily by accessing an online account system. Calls to and from these numbers, whether to a wireless or landline number, are free for the customer. My Circle has helped differentiate Alltel in the market while allowing customers to have control over their wireless service. Additionally, My Circle promotes customer loyalty. Existing customers were allowed to take advantage of My Circle without having to extend their contracts. In 2007, Alltel expanded its My Circle offerings to include voice and data bundles which allows customers to add data and email offerings in addition to voice and messaging on their My Circle plan. Recently, Alltel also introduced different sizes of its My Circle offering that allow customers to choose five, ten or twenty numbers to call for free based on the price point of the rate plan they select.

The creation of voice/data bundle offerings have provided customers with additional choices and have allowed Alltel to increase the number of customers who utilize data services. During 2007, Alltel continued to see significant growth in data revenues driven primarily by the expansion of its 1xEV-DO data network and wireless Internet services and the introduction of Smart Choice Packs. Smart Choice Packs provide customers with smart phones (handset devices capable of combining voice functions with calendar, address book, email and Internet access) to choose from five voice and data bundle plans that include unlimited data, email and text messaging. Alltel's wireless Internet service provides customers with unlimited broadband access to the Internet using a mobile phone for tethering, a smart phone for Internet access, or a data card. Alltel also experienced growth in its data revenues as a result of multiple data service offerings launched during 2007 to encourage data use by customers, including Axcess Ringbacks, Celltop, Jump Music, Family Finder, and voicemail-to-text services. Axcess Ringbacks allows a customer to switch out the usual ringing sound a caller hears with thousands of different song choices. Celltop offers customers an easier way to access, manage and organize a wide range of information already available via their cell phone. Celltop is free-of-charge and currently offers 10 cells that come pre-installed and via download. Each cell is a category-specific half screen comprised of graphics and text that provides shortcuts for users to navigate through information and applications including call log, weather, news, baseball, basketball, football, rodeo, stocks, text messaging inbox and ringtones. Jump Music allows customers to transfer music files from their personal computers to their wireless phone. Family Finder gives parents the ability to monitor the location of their children via their mobile phone or home personal computer. Voicemail-to-text services instantly converts a voicemail message into text messages that are delivered to a customer's phone and permits the user to retrieve and respond to the message without having to dial into voicemail.

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Product Offerings and Pricing (Continued)

Alltel offers prepaid voice service under the product name, “U Personalized Prepaid”. Prepaid service offers an alternative to postpaid service. Paying in advance for service allows customers to control their payment expenses and avoid overage charges, because prepaid service is only active until the funds on the account are depleted. “U Personalized Prepaid” is sold in Alltel’s retail stores, authorized agent locations and Wal-Mart and Target stores. U Personalized Prepaid allows customers to select from a family of customizable rate plans, including options to pay by the minute, the day or the month. Alltel’s prepaid customers are also able to choose from many Axcess services, including text messaging, picture messaging and content downloads. As of December 31, 2007, prepaid customers represented approximately 11 percent of Alltel’s wireless customer base.

Primarily driven by improvements in data revenues and the effects of Universal Service Fund (“USF”) support received by Alltel as an Eligible Telecommunications Carrier (“ETC”), retail revenue per customer per month increased 3 percent to $48.40 in 2007, compared to $47.02 in 2006. Maintaining low postpay customer churn rates (average monthly rate of customer disconnects) is a primary goal of the Company, particularly as customer growth rates slow due to increased competition and higher penetration levels in the marketplace. Alltel experienced an average monthly postpay customer churn rate in its wireless service areas of 1.28 percent for the year ended December 31, 2007, compared to 1.57 percent and 1.77 percent for the years ended December 31, 2006 and 2005, respectively. To improve customer retention, Alltel continues to upgrade its telecommunications network in order to offer expanded network coverage and quality and to provide enhanced service offerings to its customers.

Marketing

Alltel’s marketing strategy is to create and execute products, services and communications that drive growth while optimizing its marketing return on investment and minimizing customer churn rates. The Company’s marketing campaigns emphasize that Alltel is a customer-focused communications company offering the nation’s largest wireless network—covering more of the country than any other wireless company. The Company builds consumer awareness and promotes the Alltel brand by strategically advertising and differentiating relevant customer benefits, calling plans, price promotions and new products. The Alltel brand works to establish an emotional connection with current and prospective customers by focusing on meeting the real needs of the customer. The Company’s marketing campaigns target customer segments by usage patterns including individuals, families, and businesses. Alltel uses segmented marketing to target new customers, especially those switching from other carriers, as well as retaining current customers.

Distribution

Alltel distributes its products and services in each of its markets through company-owned retail stores, company-owned retail kiosks, dealers and direct sales representatives. Alltel also distributes products utilizing direct fulfillment to customers who shop online at Alltel’s web store or by phone through Alltel’s sales action call centers. Using multiple distribution channels in each of its markets enables the Company to provide effective and extensive marketing of Alltel’s products and services and to reduce its reliance on any single distribution channel.

Alltel currently conducts its retail operations in more than 750 locations strategically located in neighborhood retail centers and shopping malls to capitalize on favorable demographics and retail traffic patterns. The Company's retail focus is to attract new customers through competitive phone and service offerings as well as to offer existing customers new and expanded services.

Alltel also contracts with large national retail stores to sell wireless products and services directly through their kiosks. The Company utilizes retail sales representatives at kiosks in large retailers to take advantage of high traffic generated by the retailers. Existing customers can purchase wireless telephone accessories, pay bills or inquire about Alltel's services and features while in retail stores or at kiosks. Through dedicated customer service at its retail stores and kiosks, the Company's goal is to build customer loyalty and increase the retention rate of new and existing customers.

Alltel's direct sales force focuses its efforts on selling and servicing larger business customers who have multiple lines of service. Direct sales representatives are trained to sell to and service the demands of larger wireless customers who often have special service and equipment requirements.

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Distribution (Continued)

The Company enters into dealer agreements with national and local retailers and discounters in its markets. In exchange for a commission payment, these dealers solicit customers for the Company's wireless services. The commission payment is subject to charge-back provisions if the customer fails to maintain service for a specified period of time. Similar to the Company's retail stores and kiosks, the majority of Alltel's dealers can also service existing customers by offering additional services, features, accessories, and taking bill payments. This arrangement increases store traffic and sales volume for the dealers and provides a valuable source of new customers for the Company. Alltel actively supports its dealers with regular training and promotional support, and dealers provide a valuable source of new customers for the Company.

Alltel provides consumers and business customers with the opportunity to shop for the majority of Alltel's products and services by phone or the internet via Alltel's web store, shopalltel.com. Phones and accessories purchased through these distribution channels are delivered directly to the customer. These channels provide customers with exclusive pricing where appropriate, and are able to respond quickly to market changes.

Competition

Substantial and increasing competition exists within the wireless communications industry. Cellular, Personal Communications Services ("PCS") and Enhanced Specialized Mobile Radio service providers may operate in the same geographic area, along with any number of resellers that buy bulk wireless services from one of the wireless providers and resell it to their customers. PCS services generally consist of wireless two-way communications services for voice, data and other transmissions employing digital technology. The entry of multiple competitors, including PCS providers, within the Company's wireless markets has made it increasingly difficult to attract new customers and retain existing ones. Competition for customers among wireless service providers is based primarily on the types of services and features offered, call quality, customer service, network coverage, and price. Pricing competition has lead to the introduction of lower priced plans, unlimited calling plans, plans that allow customers to add additional units at attractive rates, plans that offer a higher number of bundled minutes for a flat monthly fee, or a combination of these features. Alltel has responded to this growing competitive environment by capitalizing on its position as an incumbent wireless service provider by providing high capacity networks, strong distribution channels and superior customer service and by developing competitive rate plans and offering new products and services. Alltel's ability to compete successfully in the future will depend upon the Company's ability to anticipate and respond to changes in technology, customer preferences, new service offerings, demographic trends, economic conditions, and competitors' pricing strategies.

In the current wireless market, Alltel's ability to compete also depends on its ability to offer regional and national calling plans to its customers. As previously noted, the Company depends on roaming agreements with other wireless carriers to provide roaming capabilities in areas not covered by Alltel's network. These agreements are subject to renewal and termination if certain events occur, including if network quality standards are not maintained. If the Company were unable to maintain or renew these agreements, Alltel's ability to continue to provide competitive regional and nationwide wireless service to its customers could be impaired, which, in turn, would have an adverse effect on its operations. (See further discussion regarding the potential effects of competition under "Risk Factors" in Item 1A).

Technology

Since inception, mobile wireless technologies have seen significant improvements in speed, capacity, quality, and reliability. The first-generation of wireless technology was analog, while second-generation technologies employ digital signal transmission technologies. Third-generation technologies, which are currently being deployed in the United States, provide even greater data transmission rates and allow the provisioning of enhanced data services.

Alltel has maintained its first-generation analog services as mandated by the FCC, however, that requirement expired on February 18, 2008, and Alltel will begin phasing out analog services on April 1, 2008. Second-generation digital systems in the United States compress voice and data signals, enabling a single radio channel to simultaneously carry multiple signal transmissions. Compared to analog, CDMA digital technology provides expanded channel capacity and the ability to offer advanced services and functionality. In addition, digital technology improves call quality and offers improved customer call privacy.

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Alltel Corporation
Form 10-K, Part I

Item 1. Business