Letter of Comment No: 5852 File Reference: 1102-100

ALLTEL CORPORATION

One Allied Drive Little Rock, AR 72203-2177 P. O. Box 2177 501-905-8000

June 30, 2004

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference No. 1102-100

Dear Ms. Bielstein,

ALLTEL Corporation ("ALLTEL" or the "Company") appreciates this opportunity to comment on the Proposed Statement of Financial Accounting Standards, Share-Based Payment, an amendment of FASB Statements No. 123 and 95, ("Exposure Draft").

ALLTEL provides wireless, local telephone, long-distance, Internet and high-speed data services to over 12 million residential and business customers in 26 states. Currently, ALLTEL accounts for its equity-based compensation, primarily in the form of stock options granted to key employees and members of the Board of Directors, in accordance with the measurement and recognition provisions of Accounting Principles Board ("APB") Opinion No. 25, Accounting for Stock Issued to Employees. ALLTEL has not elected to adopt the measurement and recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, for the following reason. The Company did not agree with the Financial Accounting Standard Board's ("FASB") conclusions in SFAS No. 123 that the fair value of stock options should be measured only once at grant date and not subsequently adjusted to reflect the true value of the stock option to the employee (i.e., the intrinsic value of the option at the date of vesting). As a result of recent declines in the equity securities market that have adversely affected the market values of publicly traded telecommunications stocks, including ALLTEL's, more than 95 percent of the stock options granted by the Company during the past five years presently have exercise prices in excess of ALLTEL's current stock price (i.e., "underwater" options). Consequently, if the Company had adopted the measurement and recognition provisions of SFAS No. 123, ALLTEL would have recorded in its consolidated financial statements aggregate compensation expense, net of tax, of more than \$100.0 million during the past five year period, even though the stock options granted during that period have had no economic value to employees. ALLTEL believes that an accounting model that does not consider the underlying economics of a business transaction is inherently flawed.

ALLTEL supports the Exposure Draft's overall concepts that stock options and other forms of equity-based awards granted to employees represent compensation expense that should be recognized over the service period and such compensation expense should be measured at fair value. However, we remain strongly opposed to the Exposure Draft's conclusion that measurement of compensation expense should occur only at the date of grant. ALLTEL believes that the company's obligation to issue shares of stock under a stock option award becomes fixed and determinable not at the date of grant, but on the date of vesting, once the required service has been rendered by the employee. The concept of accounting for changes in value of stock options subsequent to grant date through the vesting period is consistent with the Board's views expressed in paragraph C20 of the Exposure Draft in which the Board explained that compensation cost related to options that expire worthless should not be reversed because "After an employee share option vests, the employer has benefited from the services received. Both the benefit and the risk of subsequent price changes are the employee's." ALLTEL believes that the fair value of equity-based compensation should be recalculated periodically through the date of vesting, with any changes in value recorded through earnings. At the date of vesting, the fair value of the stock option award can be precisely measured and would equate to the intrinsic value of the award (i.e., the difference between the stock price and exercise price), which is consistent with the W-2 income the employee would report if exercised on that date. Under this approach, no compensation expense would be recognized related to "underwater" options that vest, consistent with the underlying economics of the transaction (i.e., an employee was granted the option to purchase shares of stock at a set price in exchange for services

rendered). If the value of that option at the time the employee has completed his/her service commitment is zero because the exercise price exceeds the current market price of the stock, then the company's financial statements should reflect that economic fact that no compensation expense has been incurred. The accounting for stock-based compensation only at the date of grant, as required in the Exposure Draft, would imply that an employee has earned some measurable benefit for an "underwater" option, even though economically the employee has not. In the preface to the Exposure Draft, the Board notes that "Financial statements that do not faithfully represent the economic transactions affecting an issuer can distort the reported financial condition and operations of that issuer and can lead to the inappropriate allocation of resources." We believe that the Exposure Draft, as currently written, could require companies to recognize an expense that does not represent the related economic transaction.

If the FASB insists on measuring compensation expense related to equity-based awards only at the date of grant, then ALLTEL would strongly disagree with certain other provisions of the Exposure Draft including:

- the strong preferability shown for the lattice model of calculating fair value.
- the proposed treatment of excess tax benefits, both recognition in the income statement and treatment as a financing cash inflow.
- the transition provisions which do not provide for retroactive adoption.

Fair Value Calculation

Paragraph 19 of the Exposure Draft states that any option-pricing model that takes into consideration the six factors indicated may be used to value employee stock options. However, paragraphs B10 - B11 seem to imply that a lattice model must be used unless a company either does not have the requisite information readily available, or the company's compensation cost is not significant to its financial statements. Although we agree with the principles-based approach adopted by the Board in paragraph 19, we disagree with the strong preferability shown in paragraphs B10 - B11 for the lattice model. By including this strong preferability, the Board undermines the very flexibility and principles-based approach that it indicates in paragraph C61 that it was attempting to achieve. In addition, in paragraph C25, the Board expresses its hope that "required recognition of compensation cost based on the fair value of employee share options may lead to the development of improved commercially available valuation techniques." By expressing a strong preference for the use of the lattice model to value employee stock options, the Board may inadvertently discourage that very innovation. Finally, for "plain-vanilla" stock options, use of less complex models, including the Black-Scholes model, should be permitted. Therefore, we believe that the Board should revise the Exposure Draft to indicate that a company is required to use a fair value measurement model that adequately considers the complexities of the equity-based compensation that it has granted, without indicating a preference for any particular model. Although this approach may lead to less consistency in practice, given that a single company may choose to use a closed-form model like Black-Scholes for "plain vanilla" options while measuring the fair value of more exotic options using an open-form model like the lattice model, we believe that allowing this flexibility not only results in a more principles-based approach to valuing options, but also allows companies to focus their resources, both human and financial, where they are most needed.

Treatment of Excess Tax Benefits

The Exposure Draft, as currently written, provides for disparate treatment between excess tax benefits and additional tax expense generated upon the exercise or expiration of stock options and other equity-based compensation, by requiring excess tax benefits to be recognized as an addition to additional paid-in capital and as a financing cash inflow while recognizing additional tax expense in the income statement and as a reduction to operating cash flows. We believe that it is inappropriate to treat changes in a deferred tax asset differently based on whether the change results in a benefit or an expense to the company. In addition, we believe that if the Board continues to prohibit adjusting additional paid-in capital and the related compensation cost subsequent to vesting of equity-based compensation for changes in its fair value, then recognition of reductions in deferred tax assets in income is inappropriate. As previously noted in paragraph C20, the Board explained that compensation cost related to options that expire worthless should not be reversed because "After an employee share option vests, the employer has benefited from the services received. Both the benefit and the risk of subsequent price changes are the employee's." Recognizing additional compensation expense related to a reduction in a deferred tax asset caused by a decline in the market value of the stock underlying a stock option directly conflicts with the Board's conclusion in paragraph C20. We believe that the Board should be consistent in its approach to recognizing compensation cost subsequent to vesting, by retaining the income tax provisions in SFAS No. 123.

Transition Provisions

In the preface to the Exposure Draft, the Board noted that improving the comparability of reported financial information was a primary reason for issuing the Exposure Draft. However, the modified prospective transition model required by the Exposure Draft will not adequately alleviate that inconsistency in the near term. Because a number of public companies have adopted the fair value measurement and recognition provisions of SFAS No. 123 since the issuance of SFAS No. 148, which allowed retrospective adoption, any transition model other than full restatement will not achieve consistency between companies, and certainly not between years. In addition, by requiring expensing of equity-based compensation granted prior to the effective date of the Exposure Draft at the value determined under SFAS No. 123, consistency between years will not be achieved until all of those grants are fully vested.

Finally, in paragraph A4 of its Proposed Statement of Financial Accounting Standards, Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3 (the "Proposal"), the Board "concluded that including transition for new accounting pronouncements in the scope of this Statement would establish retrospective application as the presumed transition method for new accounting pronouncements" because this approach enhances comparability, described by the conceptual framework as one of the important qualitative characteristics of accounting information. We believe that, consistent with the guidance included in the Proposal, the Board should revise the Exposure Draft to require retrospective adoption. In addition, to the extent that the methodology for calculating the amount of expense to be recognized each period under the Exposure Draft differs from that required in SFAS No. 123 (for example, the treatment of grading vesting), we believe that companies should be required to restate the amounts calculated under SFAS No. 123 in accordance with the revised methodology.

We appreciate your consideration of our comments.

Sincerely,

/s/ Jeffery R. Gardner
Jeffery R. Gardner
Executive Vice President – Chief Financial Officer

/s/ Sharilyn S. Gasaway Sharilyn S. Gasaway Controller