ALLTEL CORP
Form DEF 14A
March 03, 2003

Table of Contents

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

Filed by the Registrant þ

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Section 240.14a-11c or Section 240.14a-12

ALLTEL CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TABLE OF CONTENTS

Table of Contents

[ALLTEL CORPORATION LOGO]
ALLTEL CORPORATION
One Allied Drive   Little Rock, Arkansas 72202
Telephone (501) 905-8000
www.alltel.com

March 3, 2003

Dear Stockholder:

The 2003 Annual Meeting of Stockholders of ALLTEL Corporation will be held on Thursday, April 24, 2003, for the purposes set forth in the accompanying notice. The matters to be voted upon are explained in the proxy statement included with the notice.

Please complete and return your proxy as promptly as possible or vote on the Internet or by telephone in accordance with the instructions set forth on the proxy card. Thank you for your assistance.

Sincerely,

Scott T. Ford
President and Chief Executive Officer

Table of Contents

ALLTEL CORPORATION

Notice of Annual Meeting of Stockholders
April 24, 2003

To the Stockholders of

ALLTEL Corporation:

Notice Is Hereby Given That the 2003 Annual Meeting of Stockholders of ALLTEL Corporation (ALLTEL) will be held in the ALLTEL Arena, One ALLTEL Arena Way (Washington Street Box Office Entrance), North Little Rock, Arkansas 72114, on Thursday, April 24, 2003, at 11:00 a.m. (local time), for the following purposes:

1. To elect directors to the class whose term will expire in 2006.

2. To transact such other business as may properly come before the meeting or any adjournment thereof, including a stockholder proposal related to ALLTEL s employment opportunity policy.

Appendix A to this proxy statement contains audited financial statements and certain other financial information required by the rules and regulations of the Securities and Exchange Commission (SEC). In addition, a copy of the Annual Report for the calendar year 2002 accompanies this proxy statement.

Only holders of Common Stock of record at the close of business on February 24, 2003, are entitled to notice of and to vote at the meeting or at any adjournment thereof; holders of unexchanged shares of companies previously acquired by ALLTEL are entitled to notice of the meeting and will be entitled to vote if they have exchanged those shares for ALLTEL shares by April 24, 2003.

By Order of the Board of Directors,

FRANCIS X. FRANTZ,
Secretary

Little Rock, Arkansas
March 3, 2003

WHETHER OR NOT YOU PLAN TO ATTEND THIS MEETING, PLEASE FILL IN, SIGN, DATE, AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD.

Table of Contents

ALLTEL Corporation
One Allied Drive
Little Rock, Arkansas 72202

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of ALLTEL Corporation (ALLTEL) to be used at its 2003 Annual Meeting of Stockholders to be held on Thursday, April 24, 2003, and at any adjournment or adjournments thereof. Shares represented by properly executed proxies will be voted at the meeting. If a choice is specified by a stockholder, the proxy will be voted in accordance with that choice. Any proxy may be revoked at any time if it has not already been exercised.

This Proxy Statement is being mailed to stockholders beginning on March 3, 2003.

The close of business on February 24, 2003, has been fixed as the record date for the determination of stockholders entitled to notice of and to vote at the meeting or any adjournment thereof. On the record date, there were outstanding and entitled to vote 311,085,338 shares of Common Stock; up to 129,817 additional shares of Common Stock would be entitled to vote in the event unexchanged shares of companies previously acquired by ALLTEL were exchanged for ALLTEL shares by April 24, 2003.

On all matters to be acted upon at the meeting, each share of Common Stock is entitled to one vote per share. Under Delaware law and ALLTEL s Restated Certificate of Incorporation, if a quorum is present at the meeting, the five nominees for election as directors for the term ending in 2006 who receive the greatest number of votes cast for the election of directors at the meeting by the shares present in person or by proxy and entitled to vote shall be elected directors for the term ending in 2006, and any other matters submitted to a vote of the stockholders, must be approved by the affirmative vote of the majority of shares present in person or by proxy and entitled to vote on the matter. In the election of directors, any action other than a vote for a nominee will have the practical effect of voting against the nominee. Abstention from voting will have the practical effect of voting against any of the other matters because the abstention results in one less vote for approval. Broker nonvotes on one or more matters will have no impact because they are not considered shares present for voting purposes.

ELECTION OF DIRECTORS

The ALLTEL Board of Directors presently consists of fourteen members divided into three classes, two of which consist of five members and one of which consists of four members. Messrs. Joe T. Ford, Dennis E. Foster, John P. McConnell and Fred W. Smith, and Ms. Josie C. Natori, currently members of the class whose term expires in 2003, are nominees for election at the 2003 Annual Meeting for the term ending in 2006. Following the election of directors at the 2003 Annual Meeting, the Board of Directors will consist of fourteen members divided into three classes, two of which will consist of five members (the class of 2005 and the class of 2006), and one of which will consist of four members (the class of 2004).

Unless otherwise directed, the persons named in the accompanying form of proxy will vote that proxy for the election of the five persons named below, with each to hold office for a term of three years until the 2006 Annual Meeting or until his or her successor is elected and qualified. In case any nominee is unable to serve (which is not anticipated), the persons named in the proxy may vote for another nominee of their choice. For each nominee and each director whose term expires in 2004 and 2005, there follows a brief listing of principal occupations for at least the past five years, other major affiliations, ALLTEL Board Committees, and age. The year in which each such person was initially elected as an ALLTEL director is also set forth below (which, in the case of each of Messrs. Joe T. Ford and Emon A. Mahony, is the year in which his directorship commenced with ALLTEL s predecessor company, Allied Telephone Company). Mr. Scott T. Ford is the son of Mr. Joe T. Ford.

Table of Contents

NOMINEES TERM ENDING 2006

[Joe T. Ford Photo]	**Joe T. Ford,** Chairman of the Board of ALLTEL; prior to July 1, 2002, Chairman and Chief Executive Officer of ALLTEL. Director of The Dial Corporation, Textron Inc., and EnPro Industries, Inc. Director of ALLTEL since 1960. Age 65.
[Foster Photo]	**Dennis E. Foster,** Retired; prior to June 30, 2000, Vice Chairman of the Board of ALLTEL; prior to July 1, 1998, President, Chief Executive Officer, and Director of 360° Communications Company. Director of Yellow Corp. and NiSource Inc. Director of ALLTEL since 1998. Member of Executive Committee. Age 62.
[McConnell Photo]	**John P. McConnell,** Chairman and Chief Executive Officer and Director of Worthington Industries, Inc., Columbus, Ohio (engaged in metal processing and manufacturing). Director of ALLTEL since 1994. Member of Compensation and Governance Committees. Age 49.
[Natori Photo]	**Josie C. Natori,** President and Chief Executive Officer of The Natori Company, New York, New York (upscale fashion house with offices in New York and Manila). Director of Manhattanville College, the Educational Foundation of Fashion Industries and The Philippine American Foundation. Trustee of Asia Society & Asian Cultural Council. Director of ALLTEL since 1995. Member of Governance Committee. Age 55.
[Smith Photo]	**Fred W. Smith,** Chairman of the Board of Trustees of the Donald W. Reynolds Foundation, Las Vegas, Nevada. Director of ALLTEL since 1999. Member of Audit Committee. Age 69.

Table of Contents

DIRECTORS TERM ENDING 2004

[Scott T. Ford Photo]	**Scott T. Ford,** President and Chief Executive Officer of ALLTEL; prior to July 1, 2002, President and Chief Operating Officer of ALLTEL; prior to July 1, 1998, President of ALLTEL. Director of ALLTEL since 1996. Chairman of Executive Committee. Age 40.
[Gellerstedt Photo]	**Lawrence L. Gellerstedt, III,** President and Chief Operating Officer of The Integral Group, Atlanta, Georgia; prior to January 1, 2001, Chairman of the Board of Children s Healthcare of Atlanta; prior to May 8, 1998, Chairman, Chief Executive Officer, President, and Director of American Business Products, Inc., Atlanta, Georgia; prior to March 30, 1998, Chairman and Director of Beers Construction Company, Atlanta, Georgia. Director of SunTrust Bank, Atlanta, and Rock Tenn Company. Director of ALLTEL since 1994. Chairman of Compensation Committee and member of Governance Committee. Age 46.
[Mahony Photo]	**Emon A. Mahony, Jr.,** Chairman of the Board of Arkansas Oklahoma Gas Corporation, Fort Smith, Arkansas; Vice President, Secretary, and Director of Mahony Corporation; Partner in EAM LLC. Director of ALLTEL since 1980. Chairman of Pension Trust Investment Committee and member of Executive Committee. Age 61.
[Townsend Photo]	**Ronald Townsend,** Communications Consultant, Jacksonville, Florida. Director of Bank of America Corporation, Winn Dixie Stores, and Rayonier. Director of ALLTEL since 1992. Chairman of Governance Committee and member of Pension Trust Investment Committee. Age 61.

DIRECTORS TERM ENDING 2005

[John R. Belk Photo]	**John R. Belk**, President of Finance, Systems & Operations of Belk, Inc., Charlotte, North Carolina (a department store retailer); prior to May 4, 1998, President and Chief Operating Officer of Belk Stores Services, Inc. Director of Ruddick Corporation and Bank of America. Director of ALLTEL since 1996. Member of Compensation and Audit Committees. Age 44.
[Goodman Photo]	**Charles H. Goodman**, Vice Chairman of Henry Crown and Company (a diversified investment company). Director of General Dynamics Corporation. Director of ALLTEL since 1998. Member of Audit, Pension Trust Investment, and Executive Committees. Age 69.
[Penske Photo]	**Gregory W. Penske,** President and Director of Penske Automotive Group Inc., El Monte, California; Director of Penske Corporation, Detroit, Michigan; Director of International Speedway Corp., Daytona Beach, Florida. Director of ALLTEL since 2000. Member of Compensation Committee. Age 40.
[Reed Photo]	**Frank E. Reed,** Retired; prior to July 1, 1998, non-management Chairman of the Board of Directors of 360° Communications Company; former President and Chief Executive Officer of Philadelphia National Bank. Director of Harleysville Group, Inc. Director of ALLTEL since 1998. Chairman of Audit Committee and member of Pension Trust Investment Committee. Age 67.
[Stephens Photo]	**Warren A. Stephens,** Chairman of the Board, President and Chief Executive Officer of Stephens Inc. Director of Dillards Inc. Director of ALLTEL since 2002. Member of Executive Committee. Age 46.

Table of Contents

BOARD AND BOARD COMMITTEE MATTERS

The Sarbanes-Oxley Act of 2002 and the related rules of the Securities and Exchange Commission (SEC) and proposed amendments to the New York Stock Exchange Rules have significantly changed the corporate governance requirements applicable to ALLTEL. These changes primarily affect the requirements related to corporate governance principles applicable to boards of directors, codes of ethics, and charters for committees of boards of directors.

ALLTEL s Board has had corporate governance principles since 1995, and ALLTEL has had a code of ethics and related compliance programs applicable to all officers, directors, and employees for a number of years. In addition, the Audit Committee of the Board has had a written charter since 2000. Nonetheless, the significant changes effected by the foregoing legislation and rules have necessitated amendments to ALLTEL s existing corporate governance principles and Audit Committee charter and the adoption of written charters for the Compensation Committee and the Governance Committee. Accordingly, at its regular meeting on January 23, 2003, the Board adopted Amended and Restated Corporate Governance Board Guidelines (the Amended Guidelines), an amended Audit Committee Charter, and original charters for the Compensation Committee and the Governance Committee. Copies of the Amended Guidelines and the Audit Committee Charter, the Compensation Committee Charter, and the Governance Committee Charter are attached to this proxy statement as Appendices B, C, D, and E, respectively. In connection with the adoption of the Amended Guidelines, the Board also adopted a resolution specifying that executive sessions of the non-management directors of ALLTEL would occur at the end of each regular meeting of the Board in January, April, July, September, and October of each year and that the non-management director presiding at those sessions would rotate (in order) among the Chairmen of the Audit Committee, the Compensation Committee, the Governance Committee, and the Pension Trust Investment Committee.

During 2002, there were seven meetings of ALLTEL s Board of Directors. All of the directors attended 75% or more of the meetings of the Board and Board Committees on which they served. The standing Committees of the Board are the Executive Committee, Audit Committee, Compensation and Equity Incentive Committee, Governance Committee, and Pension Trust Investment Committee. The Amended Guidelines and related Audit Committee Charter, Compensation Committee Charter, and Governance Committee Charter specify the functions of those Committees. The Audit Committee held six meetings during 2002, and the Compensation Committee and Governance Committee each held four meetings during 2002.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL

OWNERS AND MANAGEMENT

Set forth below is certain information, as of February 24, 2003, with respect to any person known to ALLTEL to be the beneficial owner of more than 5% of any class of ALLTEL s voting securities, all of which are shares of Common Stock:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	19,824,400 shares (sole voting and investment power)	6.4%

Set forth below is certain information, as of February 24, 2003, as to shares of each class of ALLTEL equity securities beneficially owned by each of the directors, each of the executive officers identified in the Summary Compensation Table on page 12, and by all directors and executive officers of ALLTEL as a group. Except as otherwise indicated by footnote, all shares reported below are shares of Common Stock, and the nature of the beneficial ownership is sole voting and investment power:

Table of Contents

	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (if 1% or more)
Directors	John R. Belk	48,921(a)	
	Dennis E. Foster	348,668(a)	
	Lawrence L. Gellerstedt, III	58,795(a)	
	Charles H. Goodman	7,957,402(a)(b)	2.56
	Emon A. Mahony, Jr.	97,131(a)(c)	
	John P. McConnell	50,766(a)	
	Josie C. Natori	48,140(a)	
	Gregory W. Penske	25,939(a)	
	Frank E. Reed	55,172(a)	
	Fred W. Smith	70,305(a)	
	Warren A. Stephens	14,250,277(a)(d)	4.58
	Ronald Townsend	26,172(a)	
Named Executive Officers	Joe T. Ford	1,711,936(e)	
	Scott T. Ford	802,112(e)	
	Kevin L. Beebe	468,787(e)	
	Jeffrey H. Fox	563,494(e)	
	Francis X. Frantz	415,173(e)	
	Michael T. Flynn	356,139(e)	
All Directors and Executive Officers as a Group		27,673,421(f)	8.90

(a) Includes shares that the indicated persons have the right to acquire (through the exercise of options) on or within 60 days after February 24, 2003, as follows: John R. Belk (45,000); Dennis E. Foster (308,545); Lawrence L. Gellerstedt, III (48,225); Charles H. Goodman (35,000); Emon A. Mahony, Jr. (46,000); John P. McConnell (47,000); Josie C. Natori (46,538); Gregory W. Penske (23,000); Frank E. Reed (41,660); Fred W. Smith (29,500); Warren A. Stephens (16,500); and Ronald Townsend (25,000).

(b) The nature of the beneficial ownership is shared voting and investment power with respect to all of the shares. Mr. Goodman disclaims beneficial ownership of all these shares, except 1,741 shares owned by him, 37,750 shares owned by a trust of which he is the trustee and principal beneficiary, and his pro rata share of 1,571,201 shares owned directly or indirectly by partnerships in which he is a partner.

(c) Includes 2,595 shares held by Mr. Mahony s spouse, with respect to which Mr. Mahony has shared investment power and no voting power.

(d) Mr. Stephens disclaims beneficial ownership of 14,114,937 of these shares, except to the extent of his pecuniary interest in them.

(e) Includes shares that the indicated persons have the right to acquire (through the exercise of options) on or within 60 days after February 24, 2003, as follows: Joe T. Ford (985,000); Scott T. Ford (750,000); Kevin L. Beebe (460,377); Jeffrey H. Fox (553,300); Francis X. Frantz (351,000); and Michael T. Flynn (339,676).

(f) Includes a total of 4,466,075 shares that members of the group have the right to acquire (through the exercise of options) on or within 60 days after February 24, 2003.

Table of Contents

COMPARATIVE STOCKHOLDER RETURN

Set forth below is a line graph showing a five-year comparison of cumulative total stockholder return on Common Stock; the Standard & Poor s 500 Stock Index; and an index of a group of peer issuers consisting of the following companies: American Management Systems, Incorporated, AT&T Corp., BellSouth Corporation, CenturyTel, Inc., Broadwing Communications Inc., Electronic Data Systems Corp., SBC Communications Inc., Sprint FON Group, Verizon Communications Inc., and Qwest Communications International Inc., respectively. The returns of the group of peer issuers have been weighted according to their respective stock market capitalizations as of the last trading day of 2002.

Comparison of Five-Year Cumulative Total Return*

[LINE GRAPH]

	ALLTEL	S&P 500	Peer Group
Dec-97	$ 100.00	$ 100.00	$ 100.00
Dec-98	148.62	128.34	143.76
Dec-99	208.39	155.15	156.07
Dec-00	160.60	141.14	129.45
Dec-01	162.21	124.42	117.14
Dec-02	137.62	97.08	86.47

* Assumes that $100 was invested on the last trading day of 1997 and that all dividends were reinvested.

Table of Contents

COMPENSATION COMMITTEE REPORT

ON EXECUTIVE COMPENSATION

This report provides information concerning determinations by the Compensation Committee (the Committee) of ALLTEL s Board of Directors for compensation reported for 2002 with respect to ALLTEL s Chief Executive Officer and other executive officers, including the officers named in the Summary Compensation Table on page 12. The Committee is comprised entirely of independent, non-employee directors, none of whom has any interlocking relationships as defined for proxy statement disclosure purposes.

The Committee reviewed compensation information from a group of 17 telecommunications and information services companies that compete in ALLTEL s principal lines of business and utilized regression analysis on that information to mitigate the impact of company size on compensation levels for the comparison group. This comparison group of 17 companies is not identical to the group of peer issuers identified in the Comparison of Five-Year Cumulative Total Return graph on page 7.

Base Salaries

The Committee reviews the base salaries of ALLTEL s executive officers annually and positions each officer s base salary in relation to the mean of the comparison group having considered each officer s performance during the prior year (without assigning a precise weighting to the foregoing components). In 2002, ALLTEL s relative competitiveness with the comparison group increased marginally from 2001 with the mean base salary for the officer group approximately 2% above the corresponding mean base salaries of the comparison group. The Committee did not increase the base salaries of any of ALLTEL s executive officers for 2002, nor did the Committee increase Mr. Scott T. Ford s salary when he succeeded Mr. Joe T. Ford as Chief Executive Officer on July 1, 2002.

Annual Incentives

ALLTEL s Performance Incentive Compensation Plan (the Incentive Plan) provides ALLTEL s executive officers with the opportunity to receive annual cash incentive payments (calculated as a percentage of each executive officer s base salary). The Incentive Plan is based exclusively on the achievement of an earnings per share objective from current businesses established by the Committee at the beginning of the year. The Committee establishes the criteria at three levels, minimum , mid-point , and target . For 2002, the mid-point primary earnings per share objective from current businesses was $3.15. The Committee positions each officer s mid-point total direct compensation (base salary plus Incentive Plan payment), so that each officer s total direct compensation is at the 60th percentile of total direct compensation of corresponding officers of the comparison group. As reflected in the Summary Compensation Table, Mr. Scott T. Ford received a $2,154,750 payment under the Incentive Plan for 2002, which reflects ALLTEL s achievement of the financial performance criteria between the mid-point and target levels.

Long Term Incentives

ALLTEL s long term incentives for executive officers include payments under the Long-Term Performance Incentive Compensation Plan (the Long-Term Incentive Plan) and stock option grants. The Long-Term Incentive Plan provides ALLTEL s executive officers with the opportunity to receive cash incentive payments based on a three-year measurement period (calculated as a percentage of each executive officer s average annual salary during that three-year period). The Long-Term Incentive Plan is based exclusively on the achievement of the minimum , mid-point , or target earnings per share objective from current businesses during that three-year period. The mid-point earnings per share objective from current businesses (averaged over a three year period) for the three-year period of 2000-2002 was $2.97. The Committee believes the design of the Long-Term Incentive Plan focuses ALLTEL s executive officers on ALLTEL s long-term financial success.

The Committee positions each officer s mid-point bonus opportunity under the Long-Term Incentive Plan so that each officer s net total compensation (base salary, Incentive Plan and Long-Term Incentive Plan payments and stock option grant) is at the 60th percentile of the net total compensation of the corresponding officers of the comparison group. As reflected in the Summary Compensation Table, Mr. Scott T. Ford received a $655,200 payment under the Long-Term Incentive Plan with respect to the three-year measurement period of 2000-2002, which reflects ALLTEL s achievement of the financial performance criteria between the minimum and mid-point levels.

ALLTEL s stock option plans allow ALLTEL s executive officers to receive options to purchase shares of Common Stock at the market price on the date of grant. The Committee believes that stock option grants encourage and reward effective management, assist in the retention of valued executive officers, and align shareholder and management interests. The Committee determined the respective number of options granted to each officer during 2002 by considering the competitiveness of each officer s net total compensation in relation to the 60th percentile of the net total compensation of corresponding officers of the comparison group and the Committee s subjective judgment of the value of that officer s contribution to ALLTEL (without assigning a precise weighting to the components comprising that contribution). As reflected in the Summary Compensation Table, Mr. Scott T. Ford received 300,000 options in 2002.

Deductibility Limits

Section 162(m) of the Internal Revenue Code generally does not allow a deduction for annual compensation in excess of $1,000,000 paid to ALLTEL s Chief Executive Officer or to any other ALLTEL officer or executive whose individual compensation during the year would be required to be disclosed in ALLTEL s annual proxy statement by reason of being among ALLTEL s four highest compensated officers for the year (other than the Chief Executive Officer). This limitation on deductibility does not apply to certain compensation, including compensation that is payable solely on account of the attainment of one or more performance goals. The Committee s policy is generally to preserve the federal income tax deductibility of compensation and to qualify eligible compensation for the performance-based exception in order for compensation not to be subject to the limitation on deductibility imposed by Section 162(m) of the Internal Revenue Code; the Committee may, however, approve compensation that may not be deductible if the Committee determines that the compensation is in the best interests of ALLTEL.

The Compensation Committee

Lawrence L. Gellerstedt, III, Chairman
John R. Belk
John P. McConnell
Gregory W. Penske

Table of Contents

AUDIT COMMITTEE REPORT

This report provides information concerning the Audit Committee of the Board of Directors. The Audit Committee s Amended and Restated Charter is attached to this proxy statement as Appendix C. The Audit Committee is comprised entirely of independent directors, as defined and required by currently applicable New York Stock Exchange (NYSE) listing standards.

In connection with its function to oversee and monitor ALLTEL s financial reporting process, the Audit Committee has reviewed and discussed with ALLTEL s management the audited financial statements for the year ended December 31, 2002; discussed with PricewaterhouseCoopers LLP, ALLTEL s independent auditors, the matters required to be discussed by Statement on Auditing Standards No. 61 (as amended by Statement on Auditing Standards No. 90); and received and reviewed the written disclosures and the letter from PricewaterhouseCoopers LLP required by Independence Standards Board Standard No. 1 and has discussed with PricewaterhouseCoopers LLP its independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements for the year ended December 31, 2002, be included in Appendix A and in ALLTEL s 2002 Annual Report on Form 10-K for filing with the SEC.

The Audit Committee

Frank E. Reed, Chairman
John R. Belk
Charles H. Goodman
Fred W. Smith

Table of Contents

MANAGEMENT COMPENSATION

Compensation of Directors

Non-management directors of ALLTEL receive $50,000 as an annual base fee and $1,500 for each Committee and Board meeting attended. Each non-management director of ALLTEL who chairs a Board Committee receives an additional annual fee of $5,000. Directors may elect to defer all or a part of their cash compensation under ALLTEL s deferred compensation plan for directors.

Under the 1999 Nonemployee Directors Stock Compensation Plan, a portion of each nonemployee director s annual base fee is paid in restricted shares of Common Stock that are subject to forfeiture if the nonemployee director ceases to be a director prior to the first day of the following year for any reason other than death, disability, or retirement. The number of restricted shares of Common Stock issued to each nonemployee director is determined by dividing the market price of a share of Common Stock on the first business day of the year into the portion of the annual retainer that is to be paid in restricted shares. In 2002, 50% of the annual retainer was paid by the issuance of 400 restricted shares. The Board of Directors may change the portion of the annual base fee payable in restricted shares of Common Stock, at least six months prior to the beginning of any year, and any nonemployee director may elect, at least six months prior to the beginning of any year, to receive restricted shares of Common Stock for a higher portion of the annual base fee than the portion fixed by the Board. Unless terminated earlier by the Board of Directors, the plan will continue until the 500,000 shares of Common Stock available under the plan have been issued and vested.

Under the 1994 Stock Option Plan for Nonemployee Directors, as amended (the Directors Plan), each nonemployee director automatically receives the initial grant of an option to purchase 10,000 shares of Common Stock on the date he or she first becomes a nonemployee director, at an exercise price equal to the closing market price of the Common Stock on that date. The Director Plan also provides for the automatic grant, following the conclusion of each annual meeting of stockholders, of an option to purchase 6,500 shares of Common Stock to each nonemployee director (other than a director who was elected at an annual meeting). The option price of options granted under the Directors Plan is the fair market value of the Common Stock on the date the option is granted and is payable in cash, already-owned Common Stock, or a combination of both. The options vest and become exercisable on the day immediately preceding the next annual meeting of stockholders following the date of grant or, if earlier, on the death or disability of the holder or the occurrence of a change of control . If a person ceases to be a nonemployee director, all vested options held by the person continue to be exercisable for a period of six months or the earlier expiration of the ten-year term of the option. Any options that have not vested by the time the person ceases to be a nonemployee director may not thereafter be exercised. The Director Plan will continue until the 1,000,000 shares of Common Stock available under the plan are issued, unless the plan is earlier terminated by the Board of Directors.

Table of Contents

Compensation of Named Executive Officers

The following table shows the compensation, for each of the last three years, of ALLTEL s Chief Executive Officer and of ALLTEL s other four most highly compensated executive officers who were serving as executive officers on December 31, 2002, and one additional executive officer who retired as an executive officer during 2002:

SUMMARY COMPENSATION TABLE

			Annual Compensation			Long-Term Compensation		
						Awards	Payouts	
Name	Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compen-sation ($)	Securities Underlying Options (#)	Long-Term Incentive Plan Payouts ($)	All Other Compen-sation ($)
Joe T. Ford	Chairman	2002	500,000(a)	1,316,250	71,967(b)	450,000	714,097	117,888(c)
	Chairman and CEO	2001	1,000,000	1,250,000		320,000	1,158,750	189,255
	Chairman and CEO	2000	825,000	1,237,500		625,000	778,750	118,520
Scott T. Ford	President and CEO	2002	850,000	2,154,750	72,910(b)	300,000	655,200	106,043(d)
	President and COO	2001	850,000	1,020,000	79,540	250,000	752,500	94,146
	President and COO	2000	700,000	945,000		575,000	525,000	79,580
Kevin L. Beebe	Group President Communications	2002	550,000	1,018,875		150,000	339,733	59,680(d)
	Group President Communications	2001	550,000	467,500		110,000	412,500	61,104
	Group President Communications	2000	500,000	1,562,500		425,000	325,000	105,158
Jeffrey H. Fox	Group President Information Services	2002	550,000	1,018,875		150,000	339,733	73,402(d)
	Group President Information Services	2001	550,000	467,500		110,000	412,500	78,441
	Group President Information Services	2000	500,000	562,500		425,000	371,250	78,909
Francis X. Frantz	Exec. Vice President and Secretary	2002	450,000	789,750		150,000	256,317	56,076(d)
	Exec. Vice President and Secretary	2001	450,000	360,000		110,000	330,000	55,899
	Exec. Vice President and Secretary	2000	400,000	420,000		325,000	267,500	49,749
Michael T. Flynn	Group President Chief Information Officer	2002	425,000	745,875		75,000	227,500	43,855(d)
	Group President Communications	2001	425,000	340,000		110,000	331,375	43,861
	Group President Communications	2000	400,000	390,000		150,000	282,500	40,889

(a) Mr. Ford retired as Chief Executive Officer on July 1, 2002. The amount of Mr. Ford s salary shown for 2002 includes only amounts payable through June 30, 2002.

(b) Includes compensation to Messrs. Joe T. Ford and Scott T. Ford related to personal usage of corporate aircraft in the respective amounts of $70,049 and $65,871.

(c) Includes the following amounts: employer contributions to the ALLTEL Profit Sharing Plan and ALLTEL Thrift Plan in the amount of $8,000; and allocated benefits under the ALLTEL Benefit Restoration Plan in the amount of $109,888.

12

Table of Contents

(d) Includes the following amounts for Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn: allocated benefits under the ALLTEL Benefit Restoration Plan in the respective amounts of $96,900, $49,200, $59,778, $37,600, and $35,855; aggregate employer contributions under the ALLTEL Profit Sharing Plan and ALLTEL Thrift Plan in the respective amounts of $8,000, $8,000, $6,000, $8,000, and $8,000; above-market earnings on deferred compensation in the respective amounts of $1,143, $2,480, $7,624, $-0-, and $-0- (payment of which is deferred until the deferred compensation is paid); and dollar amount of premiums paid under supplemental split dollar life insurance policies in the amount of $10,476 for Mr. Frantz.

OPTION GRANTS IN 2002

The following table shows information concerning stock option grants during 2002 to ALLTEL s executive officers named in the Summary Compensation Table on page 12:

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term			
					5%		10%	
Name	Number of Securities Underlying Options Granted (#)(a)	% of Total Options Granted to Employees in 2002	Exercise or Base Price ($/Sh)	Expiration Date	Stock Price ($)	Dollar Gains ($)	Stock Price ($)	Dollar Gains ($)
Joe T. Ford	450,000	14.71	56.07	1/23/12	91.33	15,867,955	145.43	40,212,513
Scott T. Ford	300,000	9.81	56.07	1/23/12	91.33	10,578,637	145.43	26,808,342
Kevin L. Beebe	150,000	4.90	56.07	1/23/12	91.33	5,289,318	145.43	13,404,171
Jeffery H. Fox	150,000	4.90	56.07	1/23/12	91.33	5,289,318	145.43	13,404,171
Francis X. Frantz	150,000	4.90	56.07	1/23/12	91.33	5,289,318	145.43	13,404,171
Michael T. Flynn	75,000	2.45	56.07	1/23/12	91.33	2,644,659	145.43	6,702,085
Dollar Gains of All ALLTEL Stockholders(b)						$10,972,310,817		$27,807,308,412

(a) These options become exercisable in five equal installments beginning on the first anniversary of the date of grant or sooner in the event ALLTEL experiences a change in control .

(b) Total dollar gains are based on the indicated assumed annual rates of appreciation in the option exercise price, calculated on the 311,182,950 shares of Common Stock outstanding as of December 31, 2002.

OPTION EXERCISES IN 2002 AND 2002 YEAR-END OPTION VALUES

The following table shows information concerning stock option exercises during 2002 by ALLTEL s executive officers named in the Summary Compensation Table on page 12:

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options at 2002 Year-End Exercisable/Unexercisable	Value of Unexercised In-the-Money Options at 2002 Year-End Exercisable/Unexercisable ($)
Joe T. Ford	140,000	5,384,400	781,500/1,443,500	10,743,750/1,856,250
Scott T. Ford	-0-	-0-	595,000/1,165,000	7,558,750/1,650,000
Kevin L. Beebe	2,124	86,022	346,917/ 733,000	2,848,715/ -0-
Jeffery H. Fox	-0-	-0-	466,300/ 760,500	6,112,025/1,443,750
Francis X. Frantz	-0-	-0-	276,000/ 599,000	3,432,500/ 825,000

Michael T. Flynn	-0-	-0-	284,676/ 359,000	3,897,473/ 825,000

Table of Contents

LONG-TERM INCENTIVE PLAN AWARDS IN 2002

The following table shows information concerning the awards made during 2002 under the ALLTEL Long-Term Incentive Plan with respect to the three-year measurement period 2002 through 2004 to ALLTEL s Chief Executive Officer and to ALLTEL s four other most highly-compensated executive officers named in the Summary Compensation Table on page 12 :

Name	Performance Period Until Payout	Estimated Future Payouts*		
		Minimum ($)	Mid-Point ($)	Target ($)
Scott T. Ford	3 years	552,500	1,105,000	1,657,500
Kevin L. Beebe	3 years	220,000	440,000	660,000
Jeffery H. Fox	3 years	220,000	440,000	660,000
Francis X. Frantz	3 years	180,000	360,000	540,000
Michael T. Flynn	3 years	170,000	340,000	510,000

* Awards will be paid upon completion of the 2004 year on the basis of ALLTEL s performance during the three year period 2002-2004 as determined by ALLTEL s attainment of prescribed corporate and unit performance targets. The Compensation Committee of the Board of Directors specified those corporate and unit performance targets and the award levels for the indicated executive officers (which are stated as a percentage of each executive officer s average base salary during the 2002-2004 period). The estimated future payouts shown above assume that each executive officer s average base salary during the 2002-2004 period would be the same as his base salary during 2002. Mr. Joe T. Ford will not receive an award under the Long-Term Incentive Plan with respect to the three-year measurement period 2002 through 2004.

OTHER COMPENSATION ARRANGEMENTS

Agreements with Mr. Joe T. Ford

Mr. Joe T. Ford, ALLTEL s Chairman, was employed as ALLTEL s Chief Executive Officer until July 1, 2002, whereupon he retired as Chief Executive Officer and thereafter continued to serve as Chairman of ALLTEL s Board of Directors. Mr. Ford s services as Chief Executive Officer and as Chairman are governed by written agreements between ALLTEL and Mr. Ford that are summarized below.

For his services as Chief Executive Officer during 2002 prior to his retirement, Mr. Ford received, in addition to his base salary, a bonus under the Incentive Plan for 2002 equal to the actual Incentive Plan payment that would have occurred had his employment as Chief Executive Officer continued through December 31, 2002, pro rated to reflect the portion of the year during which Mr. Ford served as Chief Executive Officer, and a bonus under the Long-Term Incentive Plan for 2002 equal to the actual Long-Term Incentive Plan payment that would have been payable had his employment as Chief Executive Officer continued through December 31, 2002, pro rated to reflect the portion of the Long-Term Incentive Plan measurement period ending in 2002 during which Mr. Ford served as Chief Executive Officer.

Since retiring as Chief Executive Officer, Mr. Ford is receiving a monthly retirement benefit of $208,333.33. This retirement benefit will continue for his lifetime and will be paid in lieu of payments under ALLTEL s defined benefit pension plan described below. If Mr. Ford is survived by his spouse, she will be entitled to receive for her lifetime 50% of the monthly retirement benefit payable to Mr. Ford. The Compensation Committee of ALLTEL s Board of Directors may, with Mr. Ford s consent, accelerate the payment of Mr. Ford s retirement benefit in an actuarially equivalent single-sum payment. Mr. Ford and his spouse will be entitled to receive lifetime post-retirement medical coverage on a non-contributory basis, together with reimbursement for any taxes imposed on Mr. Ford or his spouse with respect to those medical coverages or benefits.

Mr. Ford will continue to serve as Chairman of ALLTEL s Board of Directors until the earliest of his retirement from the Board of Directors under ALLTEL s Board of Directors retirement policy, his resignation as

Table of Contents

Chairman of the Board of Directors, his failure to be reelected to the Board of Directors at ALLTEL s 2003 Annual Meeting of Stockholders, or the termination by the Board of Directors of Mr. Ford s status as Chairman of the Board following ALLTEL s 2003 Annual Meeting of Stockholders. For his services as Chairman of the Board, Mr. Ford is being paid cash compensation of $20,833.33 per month, and, for purposes of determining the vesting of his stock options outstanding at the time of his retirement as Chief Executive Officer, Mr. Ford will be treated as if his employment with ALLTEL had continued during the period he continues to serve as Chairman of the Board. During his tenure as Chairman of the Board, Mr. Ford will receive reimbursement for country club membership on the same basis as in effect at the time of his retirement as Chief Executive Officer. Mr. Ford also will receive the following perquisites on the same basis as provided to senior executives of ALLTEL from time to time: physical exam reimbursement, tax/estate planning reimbursement, and corporate plane usage. The foregoing compensation to Mr. Ford for his services as Chairman of the Board will be in lieu of any director fees, director meeting fees, director options, director stock grants, or other amounts otherwise payable to a member of the Board of Directors.

Mr. Ford is eligible for reimbursement of any excise tax under Section 4999 of the Internal Revenue code (and for any excise, income, or employment tax resulting from that reimbursement, successively, so as to offset the Internal Revenue Code Section 4999 excise tax) imposed on any payments to Mr. Ford from ALLTEL.

Supplemental Retirement Benefit Agreement with Mr. Michael T. Flynn

ALLTEL is a party to an agreement with Mr. Flynn that provides for the following: Upon termination of employment for any reason other than death, Mr. Flynn is entitled to receive monthly retirement benefits in the form of a life annuity with a minimum of 120 monthly payments (although certain optional forms of payment are available). Benefit payments commence at the later of employment termination or attainment of age 55. If the benefit commences on or after attainment of age 60, the monthly payment is $7,344.67. If the benefit commences prior to age 60, the payments are reduced by ..5% for each month by which the commencement date precedes Mr. Flynn s 60th birthday. Certain benefits are payable to his surviving spouse if Mr. Flynn dies before payments commence. Benefits are reduced by certain benefits paid under other nonqualified benefit plans. If Mr. Flynn becomes employed by a competitor of ALLTEL within three years following his termination of employment, benefits are not payable after he becomes employed by the competitor.

ALLTEL is required to provide Mr. Flynn with a non-qualified defined contribution arrangement under which he received a one-time employer contribution credit in 1995 of $13,953 to a supplemental benefit account. The supplemental benefit account is credited with earnings and losses in the same manner as an account under the ALLTEL Corporation Profit-Sharing Plan. The supplemental benefit account is payable following his termination of employment.

If Mr. Flynn terminates employment prior to the time he is eligible for an unreduced early retirement benefit under the ALLTEL Pension Plan, he will receive a non-qualified subsidized early retirement benefit from ALLTEL determined as if he had an additional twenty-four years of vesting service. If Mr. Flynn dies before benefit payments commence, a benefit is payable to his surviving spouse.

Change in Control Agreements

ALLTEL is a party to agreements with each of Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn which provide that if, following a change in control , the executive s employment terminates within twelve months (unless the termination is as a result of death, by ALLTEL as a result of the executive s disability or for cause , or by the executive without good reason) or if, after remaining employed for twelve months, the executive s employment terminates during the following three-month period (unless the termination is a result of death or is by ALLTEL as a result of the executive s disability) (each of the foregoing events being referred to as a Payment Trigger), ALLTEL is required to pay the executive an amount equal to three times the sum of his base salary as in effect immediately prior to the change in control or Payment Trigger and the maximum amounts he could have received under the Incentive Plans for the period commencing coincident with or most recently prior to the period in which the change in control or Payment Trigger occurs, but reduced by any other cash severance

Table of Contents

paid to him. ALLTEL also is required to make an additional payment to the executive in the amount of any excise tax under Section 4999 of the Internal Revenue Code as a result of any payments or distributions by ALLTEL plus the amount of all additional income tax payable by him as a result of such additional payments. Payments under the agreements are covered by ALLTEL s grantor trust described below.

Defined Benefit Pension Plan

ALLTEL maintains a trusteed, noncontributory, defined benefit pension plan covering salaried and non-salaried employees under which benefits are not determined primarily by final compensation (or average final compensation). Under this pension plan, Messrs. Scott T. Ford, Beebe, Frantz, and Flynn would have each period of post-January 1, 1988, service credited at 1% of compensation, plus .4% of that part of his compensation that exceeds the Social Security Taxable Wage Base for such year. Service prior to 1988, if any, would be credited on the basis of a percentage of his highest consecutive five-year average annual base salary, equal to 1% for each year of service prior to 1982 and thereafter increasing by .05% each year until 1988, but only prospectively, i.e., with respect to service earned in such succeeding year; in addition, each of Messrs. Scott T. Ford, Beebe, Frantz and Flynn would receive an additional credit of .25% for each pre-1988 year of service after age 55, subject to a maximum of 10 years such credit, and would have added to his annual pension benefits an amount equal to .4% of the amount by which his pre-1988 career average annual base salary (three highest years) exceeds his Social Security covered compensation, multiplied by his years of pre-1988 credited service. Various benefit payment options are available on an actuarially equivalent basis, including joint and survivor benefits. Compensation included in the pension base includes cash awards under the Incentive Plans.

Assuming annual increases in compensation in future years of 5% per year, continuation in the position he held during 2002, and retirement at age 65, the estimated annual benefit under the pension plan for each of Messrs. Scott T. Ford, Beebe, Frantz, and Flynn is $1,900,732, $851,158, $472,154, and $302,283 respectively. (Messrs. Joe T. Ford and Fox, the only other executives included in the Summary Compensation Table on page 12, currently are not participants in and are not entitled to benefits under the pension plan.) Amounts shown are straight life annuity amounts and include amounts payable under the defined benefit portion of the ALLTEL Benefit Restoration Plan.

Benefit Restoration Plan

Federal laws place certain limitations on pensions that may be paid under federal income tax qualified plans. The ALLTEL Benefit Restoration Plan provides for the payment to certain employees outside tax-qualified plans of any amounts not payable under the tax-qualified plans by reason of limitations specified in the Internal Revenue Code. Currently, under the ALLTEL Benefit Restoration Plan, Messrs. Joe T. Ford, Scott T. Ford, Beebe, Fox, Frantz, and Flynn are eligible for accruals with respect to benefits not payable under ALLTEL s defined contribution plans, and Messrs. Scott T. Ford, Beebe, Frantz, and Flynn are eligible for accruals with respect to benefits not payable under ALLTEL s defined benefit pension plan. Amounts accrued, if any, under the defined contribution portion of these plans in 2002 for each of these executives are included in the Summary Compensation Table on page 12.

Supplemental Executive Retirement Plan

ALLTEL maintains a non-qualified supplemental executive retirement plan (the SERP) in which certain employees designated by the Board of Directors, including Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn, participate. The SERP provides with respect to Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn that, upon normal retirement at age 65 (or, if earlier, following a Payment Trigger that occurs after the participant s early retirement date), the executive will receive an annual benefit under the SERP, payable as a single life annuity, equal to 60% of (A) if a Payment Trigger has not occurred, the greater of (i) his base salary and payments to him under specified incentive compensation plans paid during the calendar year preceding his retirement, or (ii) his average annual base salary and payments to him under specified incentive compensation plans paid during the three calendar years preceding his retirement; or (B) if a Payment Trigger has occurred, the greater of (i) the amount determined under (A) above (as if a Payment Trigger had not occurred), or (ii) the sum of (a) his annual

Table of Contents

base salary in effect immediately prior to the change in control (as defined in the change in control agreements described above), the Payment Trigger, or his retirement date, whichever is greatest, plus (b) the maximum amounts payable to him under specified incentive compensation plans for the period coincident with or most recently prior to the change in control, the Payment Trigger, or his retirement date, whichever is greatest. The amount of the normal retirement benefit under the SERP is not determined based on years of service.

Each of Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn also is entitled to an early retirement benefit under the SERP if he retires before becoming entitled to the normal retirement benefit but after attaining the age of 60 with 15 or more years of service or age 55 with 20 or more years of service or after a Payment Trigger occurs (regardless of his years of service). The early retirement benefit is calculated the same as the normal retirement benefit, except that the percentage used in the calculation is 45% (increased ratably for the number of years of his service after the early retirement date, up to a maximum of 60%) rather than 60%.

If Messrs. Scott T. Ford, Beebe, Fox, Frantz, or Flynn dies after benefits commence, his surviving spouse will receive 50% of the amount that he was receiving prior to his death. If he dies while employed, his surviving spouse will receive 50% of the amount that he would have received if he had retired on the day before death. Following retirement, each of Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn (and his spouse and dependents) also is entitled to receive post-retirement medical benefits under the SERP together with reimbursement for any additional taxes incurred as a result of the benefits being taxed less favorably than they would have been if received by other retired employees. Payments to Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn under the SERP are covered by ALLTEL s grantor trust described below.

The retirement benefits payable under the SERP are reduced by certain benefits paid under other qualified and nonqualified benefit plans. The benefits under the SERP are not subject to offset for Social Security. The Compensation Committee of ALLTEL s Board of Directors may accelerate the payment of benefits under the SERP on an actuarially equivalent basis. Assuming annual increases in compensation in future years of 5% per year, retirement at age 65, and based on estimates of the benefits that reduce the retirement benefits payable under the SERP, the estimated normal retirement benefit under the SERP payable for each of Messrs. Scott T. Ford, Beebe, Fox, Frantz, and Flynn is $1,727,245, $823,156, $1,785,872, $565,203, and $441,732, respectively.

Grantor Trust

ALLTEL maintains a grantor trust under Section 671 of the Internal Revenue Code (the Trust) to provide certain participants in designated compensation and supplemental retirement plans and arrangements with greater assurance that the benefits and payments to which those participants are entitled under those plans and arrangements will be paid. Contributions by ALLTEL to the Trust are discretionary. Prior to a change of control of ALLTEL (as defined in the trust agreement for the Trust), benefits may not be paid from the Trust.

Following a change of control of ALLTEL, benefits and payments may be paid from the Trust to the extent those benefits and payments are not paid by ALLTEL or its successor. The assets of the Trust are subject to the claims of the creditors of ALLTEL in the event ALLTEL becomes insolvent (as defined in the trust agreement for the Trust).

STOCKHOLDER PROPOSAL

Stockholders who intend to present proposals at the 2004 Annual Meeting, and who wish to have those proposals included in ALLTEL s Proxy Statement for the 2004 Annual Meeting, must be certain that those proposals are received by the Corporate Secretary at One Allied Drive, Little Rock, Arkansas 72202, prior to November 4, 2003. Such proposals must meet the requirements set forth in the rules and regulations of the SEC in order to be eligible for inclusion in the Proxy Statement for ALLTEL s 2004 Annual Meeting.

Table of Contents

ALLTEL has been notified that the following proposal will be presented for consideration at the 2003 Annual Meeting:

ALLTEL SEXUAL ORIENTATION NONDISCRIMINATION POLICY

WHEREAS: ALLTEL does not explicitly prohibit discrimination based on sexual orientation in its written employment policy,

Our industry competitors AT&T, BellSouth, Nextel, QWest, SBC, Sprint, Verizon and WorldCom do explicitly prohibit this form of discrimination in their written policies;

More than half of the Fortune 500 companies have adopted written nondiscrimination policies prohibiting harassment and discrimination on the basis of sexual orientation, as have more than 75% of Fortune 100 companies;

A 2000 study by Hewitt Associates, a compensation and management consulting firm, found that 64 percent of large employers prohibited discrimination on the basis of sexual orientation;

The hundreds of corporations with nondiscrimination policies that reference sexual orientation have a competitive advantage in recruiting and retaining employees from the widest talent pool;

According to a recent survey by Harris Interactive and Witeck-Combs, 41% of gay and lesbian workers in the United States report facing some form of hostility or harassment on the job; almost one out of every 10 gay or lesbian adults also stated that they had been fired or dismissed unfairly from a previous job, or pressured to quit a job because of their sexual orientation.

Atlanta, San Francisco, Seattle and Los Angeles have adopted legislation restricting business with companies that do not guarantee equal treatment for lesbian and gay employees, and similar legislation is pending in other jurisdictions;

Our company has operations in, and makes sales to, institutions in states and cities that prohibit discrimination on the basis of sexual orientation;

National public opinion polls consistently find more than three-quarters of the American people support equal rights in the workplace for gay men, lesbians and bisexuals; for example, in a Gallup poll conducted in June 2001, 85% of respondents favored equal opportunity in employment for gays and lesbians.

RESOLVED: The Shareholders request that ALLTEL amend its written equal employment opportunity policy to explicitly prohibit discrimination based on sexual orientation and to substantially implement that policy.

STATEMENT: Employment discrimination on the basis of sexual orientation diminishes employee morale and productivity. Because state and local laws are inconsistent with respect to employment discrimination, our company would benefit by a consistent, corporate-wide policy to enhance efforts to prevent discrimination, resolve complaints internally, and ensure a respectful and supportive atmosphere for all employees. ALLTEL will enhance its competitive edge by joining the growing ranks of companies guaranteeing equal opportunity for all employees.

Promptly upon receipt of an oral or written request, ALLTEL will provide shareholders with the name and address of each proponent and the number of shares of stock held by each proponent. Other than certain formatting change, the foregoing is the verbatim submission of the proponents. All statements therein are the sole responsibility of the proponents, and neither the management of ALLTEL nor the Board of Directors have verified their accuracy.

Table of Contents

Board of Directors Statement in Opposition to the Proposal

ALLTEL complies with all applicable federal, state and local laws concerning fair employment practices. ALLTEL lists in its written policies as forms of discrimination or harassment only those that are specifically prohibited by federal law. To try to name all possible examples would result in a long list that would only divert attention from the basic need for a fully compliant and non-discriminatory workplace.

The Board of Directors believes that ALLTEL s current policies and practices achieve the objectives of this proposal and that it is unnecessary and undesirable to make the suggested changes.

For the reasons set forth above, the Board of Directors urges ALLTEL s stockholders to reject this proposal. THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THE ADOPTION OF THE FOREGOING STOCKHOLDER PROPOSAL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE VOTED AGAINST THE PROPOSAL UNLESS STOCKHOLDERS SPECIFY A CONTRARY VOTE.

CERTAIN TRANSACTIONS

ALLTEL engaged Stephens Inc., an affiliate of Stephens Group, Inc., to render investment banking and investment management services to ALLTEL and its subsidiaries during 2002, for which ALLTEL paid Stephens Inc. fees totaling $3,127,310 during the period January 1, 2002, through December 31, 2002. Stephens Group, Inc. beneficially owned, on February 24, 2003, 14,414,937 shares of Common Stock. Warren A. Stephens, an executive officer of Stephens Inc., is a director of ALLTEL.

ALLTEL believes that the transactions set forth above were conducted on terms that are no less favorable to ALLTEL than could have been obtained from unaffiliated third parties.

SECTION 16(a) BENEFICIAL OWNERSHIP

REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires ALLTEL s directors and executive officers, and persons who own more than ten percent of ALLTEL s Common Stock, to file with the SEC and the NYSE initial reports of ownership and reports of changes in ownership of that Common Stock. To ALLTEL s knowledge, based solely upon a review of copies of reports provided by those individuals to ALLTEL and written representations of those individuals that no other reports were required with respect to the year ended December 31, 2002, ALLTEL believes that all of the foregoing filing requirements applicable to its directors, executive officers, and greater-than-ten percent beneficial owners have been met, except that Sharilyn S. Gasaway, who became Controller of ALLTEL on July 25, 2002, did not file her initial Form 3 Report until August 21, 2002 (during which period she made no transactions in ALLTEL securities) and John R. Belk, a director, acquired a total of 147.469 shares of Common Stock during the period from October 1998 through October 2002, under a dividend reinvestment arrangement in his brokerage account that Mr. Belk did not report until he filed his Form 5 Report on February 13, 2003.

ANNUAL REPORT

The 2002 Annual Report accompanies this Proxy Statement. ALLTEL will provide, without charge upon written request, to any person receiving a copy of this Proxy Statement, a copy of ALLTEL s 2002 Form 10-K report, including the financial statements and the financial statement schedules thereto. Those requests should be addressed to Vice President-Investor Relations, ALLTEL Corporate Services, Inc., One Allied Drive, Little Rock, Arkansas 72202.

Only one copy of this proxy statement, and the accompanying Annual Report, is being delivered to stockholders who share an address, unless ALLTEL has received contrary instructions from one or more of the stockholders. ALLTEL will promptly deliver a separate copy of this proxy statement and the accompanying Annual Report to any stockholder at a shared address to which a single copy of those documents has been

delivered upon the written or oral request from that stockholder to ALLTEL at the foregoing address or by calling (501) 905-8991. Any stockholder sharing a single copy of the proxy statement and Annual Report who wishes to receive a separate mailing of ALLTEL s proxy statement and Annual Report in the future and stockholders sharing an address and receiving multiple copies of ALLTEL s proxy statement and Annual Report who wish to share a single copy of those documents in the future should also notify ALLTEL at the foregoing address.

AUDIT AND NON-AUDIT FEES

PricewaterhouseCoopers LLP (PwC) has been selected as ALLTEL s independent auditors for 2003. Representatives of PwC are expected to be present at the 2003 Annual Meeting. Such representatives will have an opportunity to make a statement if they desire to do so, and to respond to appropriate questions.

Audit Fees

The aggregate fees incurred for professional services rendered for the audit of ALLTEL s annual financial statements for the fiscal year ended December 31, 2002, and the review of the financial statements included in ALLTEL s Forms 10-Q for the fiscal year ended December 31, 2002, were $2,218,010. These audit fees include services rendered for the audits of certain subsidiaries and wireless partnerships. During 2002, PwC was also engaged to perform an audit of ALLTEL s annual consolidated financial statements and certain subsidiaries for the fiscal year ended December 31, 2001. In connection with these services, ALLTEL incurred aggregate fees of $2,080,457.

Audit-Related Fees

The aggregate fees incurred during 2002 for assurance and related services by PwC that were reasonably related to the performance of the audit or review of ALLTEL s financial statements and are not reported above under the caption Audit Fees for the fiscal years ended December 31, 2002 and 2001, were $156,285 and $137,100, respectively, which amounts were incurred for the following categories of services:

	2002	2001
Employee benefit plan audits	$125,000	$137,100
Services rendered in connection with registered security issuances	31,285	
Totals	$156,285	$137,100

Tax Fees

The aggregate fees incurred during 2002 by ALLTEL for tax compliance, tax consulting and tax planning services by PwC for the fiscal years ended December 31, 2002 and 2001, were $90,200 and $44,847, respectively. These tax-related services include review of tax returns, tax payment planning services and tax advice related to acquisitions.

All Other Fees

The aggregate fees incurred during 2002 for services rendered to ALLTEL by PwC, other than those services covered in the sections captioned Audit Fees , Audit-Related Fees , and Tax Fees , related to the fiscal year ended December 31, 2001, were $506,793 for expatriate tax and administration services. These services include the preparation of year-end balance sheets, compensation summaries and tax liability calculations by taxing authority for employees of ALLTEL who reside and work in foreign countries.

In making its determination regarding the independence of PwC, the Audit Committee considered whether the provision of the services covered in the sections herein regarding Audit-Related Fees , Tax Fees and All Other Fees was compatible with maintaining such independence. The Audit Committee maintains the policy that no non-audit services may be requested of PwC without the Audit Committee s approval.

Table of Contents

STATEMENT REGARDING CHANGE IN INDEPENDENT AUDITORS

On May 7, 2002, the Audit Committee of the Board of Directors of ALLTEL authorized (1) the engagement of PwC as the independent auditors for ALLTEL for the calendar year 2002 and (2) the dismissal of ALLTEL s existing independent auditors, Arthur Andersen LLP (Andersen).

During the two fiscal years ended December 31, 2001, and the subsequent interim period through May 7, 2002, the date of the dismissal of Andersen (i) there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference in connection with its report to the subject matter of the disagreement and (ii) Andersen has not advised ALLTEL of any reportable events as defined in paragraphs (A) through (D) of Regulation S-K Item 304(a)(1)(v).

The accountant s report of Andersen on the consolidated financial statements of ALLTEL and its subsidiaries as of and for the years ended December 31, 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2001, and the subsequent interim period through May 7, 2002, PwC was not consulted by ALLTEL, or by anyone on ALLTEL s behalf, regarding either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the financial statements of ALLTEL.

OTHER MATTERS

The management and the Board of Directors of ALLTEL do not know of any other matters that may come before the meeting. If any other matters properly come before the meeting, however, it is the intention of the persons named in the accompanying form of proxy to vote the proxy in accordance with their judgment on those matters. Under ALLTEL s Bylaws, nominations for director may be made only by the Board, or by an ALLTEL stockholder entitled to vote who has delivered notice to ALLTEL not fewer than 90 days nor more than 120 days prior to the first year anniversary of the immediately preceding year s annual meeting. The Bylaws also provide that no business may be brought before an annual meeting except as specified in the notice of the meeting or as otherwise brought before the meeting by or at the direction of the Board or by an ALLTEL stockholder entitled to vote who has delivered notice to ALLTEL (containing certain information specified in the Bylaws) within the time limits described above for delivering notice of a nomination for the election of a director. These requirements apply to any matter that an ALLTEL stockholder wishes to raise at an annual meeting other than in accordance with the procedures in SEC Rule 14a-8. A copy of the full text of the Bylaw provisions discussed above may be obtained by writing to the Corporate Secretary of ALLTEL, One Allied Drive, Little Rock, Arkansas 72202.

ALLTEL will bear the cost of solicitation of proxies. In addition to the use of the mail, proxies may be solicited by officers, directors, and employees of ALLTEL, personally or by telephone or electronic means. In the event the management of ALLTEL deems it advisable, ALLTEL may engage the services of an independent proxy solicitation firm to aid in the solicitation of proxies. The fees paid by ALLTEL, in the event of such an engagement, likely would not exceed $20,000. ALLTEL will pay persons holding stock in their names or those of their nominees for their expenses in sending soliciting material to their principals in accordance with regulations of the SEC and the NYSE.

The material referred to in this proxy statement under the captions Comparative Stockholder Return, Compensation Committee Report on Executive Compensation and Audit Committee Report shall not be deemed soliciting material or otherwise deemed filed and shall not be deemed to be incorporated by any general statement of incorporation by reference in any filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Table of Contents

IT IS IMPORTANT THAT ALLTEL S SHARES BE VOTED PROMPTLY. THEREFORE, STOCKHOLDERS ARE URGED TO FILL IN, DATE, SIGN, AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE, OR VOTE ON THE INTERNET OR BY TELEPHONE IN ACCORDANCE WITH THE INSTRUCTIONS SET FORTH ON THE PROXY CARD.

Dated: March 3, 2003

By Order of the Board of Directors,
FRANCIS X. FRANTZ,
Secretary

Table of Contents

APPENDIX A

ALLTEL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER ANNUAL REPORT INFORMATION

Table of Contents

ALLTEL CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

AND OTHER ANNUAL REPORT INFORMATION

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

During 2002, ALLTEL Corporation (ALLTEL or the Company) achieved solid financial results despite the effects of a sluggish economy, increased competition in its wireless business and a slight decline in wireline access lines. The Company continued to expand its core communications business in 2002, as evidenced by ALLTEL s purchase of wireline access lines in Kentucky from Verizon Communications Inc. (Verizon) and the purchase of substantially all of the wireless assets of CenturyTel, Inc. (CenturyTel). The acquired operations have been successfully integrated into ALLTEL s existing communications business. During 2002, the Company also continued its focus on controlling costs by restructuring its Competitive Local Exchange Carrier (CLEC), call center and retail store operations.

On January 28, 2003, ALLTEL signed a definitive agreement to sell the financial services division of its information services subsidiary, ALLTEL Information Services, to Fidelity National Financial Inc. (Fidelity National), for $1.05 billion payable as $775.0 million in cash and $275.0 million in Fidelity National common stock. As part of this transaction, Fidelity National will acquire ALLTEL s mortgage servicing, retail and wholesale banking and commercial lending operations, as well as the community/regional bank division. Approximately 5,500 employees of the Company will transition to Fidelity National as part of the transaction, which is expected to close by the end of the first quarter of 2003. The telecom division of ALLTEL Information Services will be retained by the Company and will not be part of the transaction. The telecommunications operations retained by ALLTEL represented approximately 12 percent of both the total revenues and sales and total segment income reported by the information services segment in 2002.

Acquisitions

On August 1, 2002, ALLTEL completed its purchase of local telephone properties serving approximately 589,000 wireline customers in Kentucky from Verizon for $1.93 billion in cash. The acquired wireline properties overlapped ALLTEL s existing wireless service in northeastern Kentucky and increased the Company s total access lines by approximately 23 percent to nearly 3.2 million wireline customers. Upon signing of the purchase agreement in October 2001, ALLTEL paid Verizon a deposit equal to 10 percent of the total purchase price, or $190.7 million, with the balance of the cash payment (net of accrued interest on the deposit) due at the time the transaction was completed.

On August 1, 2002, ALLTEL also completed its purchase of substantially all of the wireless properties owned by CenturyTel for approximately $1.59 billion in cash. Through the completion of the transaction, ALLTEL added properties representing approximately 8.3 million potential customers (POPs), acquired approximately 762,000 customers, increasing its wireless customer base to more than 7.5 million customers, and expanded its wireless footprint into new markets across Arkansas, Louisiana, Michigan, Mississippi, Texas and Wisconsin. Also included in the transaction were minority partnership interests in cellular operations representing approximately 1.8 million proportionate POPs, and Personal Communications Services (PCS) licenses covering 1.3 million POPs in Wisconsin and Iowa.

The accounts and results of operations of the acquired wireline and wireless properties are included in the accompanying consolidated financial statements from the date of acquisition. (See Note 3 to the consolidated financial statements for additional information regarding these acquisitions.)

To fund the cost of the acquisitions discussed above, during the second quarter of 2002, ALLTEL sold 27.7 million equity units and received net proceeds of $1.34 billion. The equity units had a stated amount of $50 per unit and included a purchase contract pursuant to which the holder agreed to purchase shares of ALLTEL common stock on May 17, 2005. ALLTEL will make quarterly contract adjustment payments to the holder at the rate of 1.50 percent of the stated amount per year. The number of shares to be purchased will be determined at the time the purchase contracts are settled based on the then current price of ALLTEL s common stock and will range between 0.8280 and 1.0101 shares of ALLTEL common stock per equity unit. The equity units also included $50 principal amount of senior notes, which bear interest at 6.25 percent and mature on May 17, 2007. In June 2002, the Company also issued $1.5 billion of unsecured long-term debt consisting of $800.0 million of

Table of Contents

7.0 percent senior notes due July 1, 2012 and $700.0 million of 7.875 percent senior notes due July 1, 2032. Net proceeds from this debt issuance were $1.47 billion, after deducting the underwriting discount and other offering expenses. (See Note 5 to the consolidated financial statements for additional information regarding these securities offerings.)

In addition to the net proceeds from the issuance of the equity units and debt securities of $2.81 billion, ALLTEL funded the remaining $521.4 million of the $3.33 billion cost of the wireline and wireless acquisitions ($3.52 billion total cost less $193.5 million deposit, including accrued interest, paid to Verizon upon the signing of the definitive purchase agreement in October 2001 as noted above) with cash on hand of $78.9 million and additional borrowings of $442.5 million under ALLTEL s commercial paper program. As a result of prefunding the wireline and wireless acquisitions through the issuance of the equity units and long-term debt, ALLTEL incurred additional interest expense in 2002 of $35.0 million and, conversely, earned interest income of $8.2 million from investing the cash proceeds from these securities offerings. Accordingly, ALLTEL s results for the year ended December 31, 2002 were adversely affected by additional net interest cost (interest expense less interest income) of $26.8 million.

On October 3, 2000, ALLTEL purchased wireless properties in Louisiana from SBC Communications, Inc. (SBC). ALLTEL paid SBC $387.6 million in cash and acquired approximately 150,000 wireless customers and 300,000 paging customers. During 2000, ALLTEL, Bell Atlantic Corporation (Bell Atlantic) and GTE Corporation (GTE) exchanged wireless properties in 13 states. On April 3, 2000, ALLTEL completed the exchange of wireless properties with Bell Atlantic in five states, acquiring operations in Arizona, New Mexico and Texas and divesting operations in Nevada and Iowa. In addition to the exchange of wireless assets, ALLTEL paid Bell Atlantic $624.3 million in cash to complete this transaction. On June 30, 2000, ALLTEL completed the remaining wireless property exchanges with Bell Atlantic and GTE, acquiring operations in Florida, Ohio, South Carolina and Alabama, while divesting operations in Illinois, Indiana, New York and Pennsylvania. ALLTEL also transferred to Bell Atlantic or GTE certain minority investments in unconsolidated wireless properties, representing approximately 2.6 million POPs. In connection with the transfer of the remaining wireless assets, ALLTEL received $216.9 million in cash and prepaid vendor credits of $199.6 million and assumed long-term debt of $425.0 million. Through the completion of the above transactions, ALLTEL acquired interests in 27 wireless markets, representing about 14.6 million POPs and approximately 1.5 million wireless customers, while divesting interests in 42 wireless markets, representing 6.9 million POPs and approximately 778,000 customers. ALLTEL accounted for these exchange transactions as purchases, and accordingly, the accompanying consolidated financial statements include the accounts and results of operations of the acquired wireless properties from the applicable dates of acquisition.

Accounting and Financial Reporting Changes

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets . This standard changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach. As of January 1, 2002, ALLTEL ceased amortization of goodwill recorded in conjunction with past business combinations. In addition, the Company conducted a review of its other identifiable intangible assets and determined that its cellular and PCS licenses met the indefinite life criteria outlined in SFAS No. 142, because the Company expects both the renewal by the granting authorities and the cash flows generated from these intangible assets to continue indefinitely. Accordingly, ALLTEL also ceased amortization of the wireless licenses as of January 1, 2002. In accordance with the requirements of SFAS No. 142, ALLTEL also completed its initial impairment review of goodwill and indefinite-lived intangible assets and determined that no write-down in the carrying value of these assets was required.

As of January 1, 2002, ALLTEL changed its business segment reporting presentation by reclassifying the operating units of its emerging communications businesses to better align its financial reporting with the Company s business segment mix and to provide clear comparisons to other communications companies within ALLTEL s peer group. In accordance with SFAS No. 131 Disclosures about Segments of an Enterprise and Related Information , ALLTEL restated all previously reported segment information to conform to the new

Table of Contents

financial reporting presentation. Under the new presentation, ALLTEL s wireless segment consists of its cellular, PCS and paging operations. The CLEC and Internet access operations have been combined with ALLTEL s incumbent local exchange carrier (ILEC) operations and reported as the wireline segment. The information services segment no longer includes services provided to ALLTEL affiliates. These affiliate services have been reported in the corresponding communications segments, and accordingly, information services operating results only reflect the Company s financial services business and non-affiliated telecommunications operations. All other segments, which include long-distance and network management services, communications products and directory publishing, have been reported together under a segment classification titled Communications Support Services . These reclassifications did not affect consolidated operating income, net income or earnings per share reported by ALLTEL prior to January 1, 2002. To enhance comparability of the consolidated financial information presented, the Company also reclassified its intersegment revenues and expenses. As a result, consolidated revenues and sales for prior periods were reduced for the portion of the information services revenues previously billed to the wireline operations that were not eliminated pursuant to SFAS No. 71 Accounting for the Effects of Certain Types of Regulation .

Also as of January 1, 2002, the Company changed to a gross basis the reporting presentation for reimbursements of out-of-pocket expenses received from customers under terms of its information services agreements in accordance with Emerging Issues Task Force (EITF) Issue 01-14 Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred . Prior to January 1, 2002, the Company netted these reimbursements against expenses incurred to provide data processing and consulting services and included the net amount in cost of services. Revenue and expense information prior to January 1, 2002 has been reclassified to conform to the new reporting presentation. This change did not affect operating income or net income reported by the Company prior to January 1, 2002. (See Notes 1 and 2 to the consolidated financial statements for additional information regarding these changes in accounting and financial reporting.)

Consolidated Results of Operations

(Millions, except per share amounts)	2002	2001	2000
Revenues and sales:			
Service revenues	$7,257.3	$6,736.8	$6,325.6
Product sales	726.1	768.8	834.4
Total revenues and sales	7,983.4	7,505.6	7,160.0
Costs and expenses:			
Cost of services	2,471.5	2,269.1	2,269.5
Cost of products sold	891.4	907.9	840.1
Selling, general, administrative and other	1,511.2	1,404.0	1,369.1
Depreciation and amortization	1,178.6	1,167.7	988.4
Integration expenses and other charges	115.1	92.2	25.4
Total costs and expenses	6,167.8	5,840.9	5,492.5
Operating income	$1,815.6	$1,664.7	$1,667.5
Net income	$ 924.3	$1,067.0	$1,928.8
Basic earnings per share	$2.97	$3.42	$6.13
Diluted earnings per share	$2.96	$3.40	$6.08

Revenues and sales increased $477.8 million, or 6 percent, in 2002 and $345.6 million, or 5 percent, in 2001. Service revenues increased $520.5 million, or 8 percent, in 2002 and $411.2 million, or 6 percent, in 2001. The increases in service revenues in both years primarily reflected growth in ALLTEL s communications customer base resulting primarily from acquisitions and the corresponding increase in access revenues. The acquisition of the wireline and wireless properties completed in the third quarter of 2002, as previously discussed, accounted for

Table of Contents

approximately $360.7 million of the overall increase in service revenues and $369.9 million of the overall increase in total revenues and sales in 2002. The acquisition of wireless properties in Louisiana and the exchange of wireless properties with Bell Atlantic and GTE accounted for approximately $248.9 million of the overall increase in service revenues and $269.2 million of the overall increase in total revenues and sales in 2001. Excluding the effects of the acquisitions in each period, service revenues would have increased $159.8 million, or 2 percent, and $162.3 million, or 3 percent, in 2002 and 2001, respectively, while total revenues and sales would have increased 1 percent in both 2002 and 2001, or $107.9 million and $76.4 million, respectively. In addition to the effects of the acquisitions, service revenues for both periods also reflected growth in the Company s Internet and long-distance operations, as well as increased revenues derived from the sale of enhanced communication services, such as caller identification, call-waiting, call forwarding, voice mail, and communications equipment protection plans. These increases were partially offset by lower average revenue per wireless customer compared to 2001 and the loss of wireline access lines due to broadband and wireless substitution.

Product sales decreased $42.7 million, or 6 percent, in 2002 and $65.6 million, or 8 percent, in 2001. Excluding the effects of the acquisitions discussed above in each period, product sales would have decreased $51.9 million, or 7 percent, and $85.9 million, or 11 percent, in 2002 and 2001, respectively. Product sales decreased in 2002 primarily due to a reduction in revenues derived from the sales of wireless handsets and accessories, reflecting decreases in retail prices driven by competition. In addition, directory publishing revenues decreased in 2002 primarily due to the loss of one major customer. A decline in customer premise equipment sales consistent with ALLTEL s decision to exit certain CLEC markets also contributed to the decrease in product sales in 2002. Product sales decreased in 2001 primarily due to a reduction in sales of telecommunications and data products to both the Company s wireline subsidiaries and non-affiliates, reflecting a general decline in capital spending by telecommunications companies due to economic conditions and the industry s emphasis on controlling costs. The decrease in sales of these products were partially offset in 2001 by increases in directory publishing revenues and sales of software licenses by the Company s information services subsidiary.

Cost of services increased $202.4 million, or 9 percent, in 2002 and decreased $0.4 million, or less than 1 percent, in 2001. The acquisition of the wireline and wireless properties completed in the third quarter of 2002 accounted for approximately $100.9 million of the overall increase in cost of services in 2002. Cost of services in 2002 also reflected increased network-related expenses due to higher network traffic associated with the nonacquisition-related growth in ALLTEL s communications customer base and increased bad debt expense of $123.0 million. Bad debt expense increased primarily due to the overall decline in economic conditions, weakening consumer credit and the effects of fourth quarter 2001 marketing programs directed toward the credit-challenged wireless customer segment. In an effort to reduce future losses sustained from bad debts, the Company periodically refines its customer credit policies, reevaluates minimum deposit requirements for high-credit risk customers, and improves collection practices by adding new technologies and additional human resources. Bad debt expense for 2002 also included a $14.0 million write-down in receivables resulting from an interexchange carrier s bankruptcy filing. Additional bad debt reserves related to ALLTEL s ongoing business relationship with this carrier or with any other carriers that may become subject to insolvency proceedings in the future may be required. The increases in cost of services in 2002 attributable to acquisitions and increased bad debt expense were partially offset by reduced operating costs in the Company s information services business primarily reflecting the effects of the Company s various restructuring efforts. The decrease in cost of services in 2001 primarily reflected reduced losses sustained from fraud and reductions in customer service expenses in the Company s communications operations, resulting from various restructuring activities completed during 2001, as further discussed below. The reduced losses from fraud reflected the Company s continuing efforts to control unauthorized usage of its customers wireless telephone numbers that results in unbillable fraudulent roaming activity. The effects of the decreases in losses sustained from fraud and customer service expenses were partially offset by increased bad debt expense of $30.9 million and additional expenses of $62.0 million attributable to the wireless property acquisitions completed in 2000.

Cost of products sold decreased $16.5 million, or 2 percent, in 2002 and increased $67.8 million, or 8 percent, in 2001. Cost of products sold decreased in 2002 consistent with the overall decline in product sales noted above and the effects of lower gross profit margins earned from the sale of telecommunications and data products. The reduction in gross profit margins earned by the product distribution operations reflected lower margins earned on affiliated sales and increased competition from other distributors and from direct sales by manufacturers. The increase in cost of products sold in 2001 was consistent with the growth in gross wireless customer activations, the selling of higher-cost wireless digital handsets and the Company s continuing efforts to migrate wireless customers from analog to digital equipment. The increase in cost of products sold attributable to the wireless operations was partially offset by a reduction in the cost of telecommunications and data products sold consistent with the decreased sales of those products as noted above.

Selling, general, administrative and other operating expenses increased $107.2 million, or 8 percent, in 2002 and $34.9 million, or 3 percent, in 2001. The wireless and wireline property acquisitions completed in 2002 accounted for $63.9 million of the overall increase in selling, general, administrative and other expenses in 2002. In addition to the effects of the acquisitions, selling, general, administrative and other expenses for 2002 reflected increased commission costs of $46.6 million consistent with the growth in gross wireless customer additions and increased sales of the Company s Total and National Freedom wireless service rate plans. Commissions expense also reflected increased commissions paid to outside agents reflecting a shift in the Company s distribution and product mix. The increases resulting from acquisitions and higher commissions costs were partially offset by cost savings from the Company s restructuring of its CLEC and retail store operations completed during the first quarter, as further discussed below, and decreased advertising costs of $13.5 million resulting from discounted pricing received by ALLTEL due to purchasing advertising in bulk as part of centralizing the Company s advertising efforts. The acquisitions of wireless properties completed in 2000 accounted for an increase of $46.9 million in selling, general, administrative and other expenses in 2001. In addition, advertising costs increased $28.8 million in 2001 primarily attributable to a nationwide branding campaign and other promotional activities. The increases attributable to the acquisitions and increased advertising costs were partially offset by decreased commission costs of $34.1 million. A reduction in overhead expenses, primarily resulting from the Company s 2001 restructuring efforts, also favorably impacted selling, general, administrative and other expenses in 2001.

Depreciation and amortization expense increased $10.9 million, or 1 percent, in 2002 and $179.3 million, or 18 percent, in 2001. Depreciation and amortization expense in 2002 was favorably impacted by the effect of no longer amortizing goodwill and other indefinite-lived intangible assets in accordance with SFAS No. 142. Excluding the effects of the amortization of goodwill and other indefinite-lived intangible assets in each period, depreciation and amortization expense would have increased $111.6 million, or 10 percent, in 2002 and $170.7 million, or 19 percent, in 2001. When excluding the effects of the amortization of goodwill and other indefinite-lived intangible assets, the increases in depreciation and amortization expense in both years primarily reflected growth in telecommunications plant in service. Depreciation and amortization expense for 2002 also included $54.2 million of additional expense attributable to the 2002 wireless and wireline property acquisitions. Depreciation and amortization expense for 2001 included $53.4 million of additional expense attributable to the 2000 wireless acquisitions.

Pension expense, which is included in both cost of services and selling, general, administrative and other expenses, remained flat in 2002 compared to 2001. Pension costs for 2001 included special termination benefits incurred in connection with an early retirement program offered by the Company, as further discussed in Note 9 to the consolidated financial statements. Primarily as a result of these special termination benefits, pension expense in 2001 increased $26.0 million over 2000. Pension costs for both 2002 and 2001 were both adversely affected by lower investment returns earned on pension plan assets.

Operating income increased $150.9 million, or 9 percent, in 2002 and decreased $2.8 million, or less than 1 percent, in 2001. The wireline and wireless acquisitions accounted for $133.5 million of the overall increase in operating income in 2002. The reduction in operating income for 2001 primarily reflected additional goodwill and other intangible assets amortization of approximately $44.0 million related to the acquisitions of wireless assets completed in 2000, partially offset by $39.3 million of additional operating income attributable to those acquisitions. In addition to the effects of the changes in revenues and sales and operating expenses discussed above, reported operating income for both 2002 and 2001 included the effects of integration expenses, restructuring and other charges as further discussed below.

Table of Contents

Integration Expenses and Other Charges

A summary of the integration and other charges recorded in 2002 by quarter was as follows:

(Millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Severance and employee benefit costs	$13.4	$	$ 3.3	$ (0.5)	$ 16.2
Lease and contract termination costs	12.4		2.2	(0.5)	14.1
Computer system conversion and other integration costs	3.4	9.0	8.6		21.0
Write-down of investment in business venture				42.3	42.3
Write-down of cell site equipment	7.1				7.1
Write-down of software development costs	4.4				4.4
Branding and signage costs			7.8		7.8
Equipment removal and other disposal costs	2.2				2.2
Total integration expenses and other charges	$42.9	$9.0	$21.9	$41.3	$115.1
Number of employees terminated	910		212		1,122
Number of lease sites terminated	31		7	2	40

On December 13, 2002, ALLTEL and Bradford & Bingley Group announced both companies had agreed to discontinue a business venture. The business venture, ALLTEL Mortgage Solutions, Ltd., was created in 2000 to provide mortgage administration and information technology products to the mortgage lending industry in the United Kingdom. Unfortunately, the existing business climate in the United Kingdom limited the business venture s ability to leverage the business across a broad base of customers. As a result of this announcement, ALLTEL recorded a write-down of its investment in the business venture, which primarily consisted of capitalized software development costs that had no alternative future use or functionality. The write-down also included unamortized leasehold improvements and other costs to unwind the business venture. During the fourth quarter of 2002, the Company also recorded lease termination costs of $1.5 million related to the closing of two data processing centers. The lease termination costs reflected the estimated minimum contractual commitments over the ensuing one to two years to terminate leases associated with these operating locations. The Company also recorded a $2.5 million reduction in the liabilities associated with the restructuring of its CLEC operations initiated during the first quarter of 2002, as discussed below. The reduction primarily reflected differences between estimated and actual costs to exit certain CLEC markets and consisted of $2.0 million in lease termination costs and $0.5 million in severance and employee benefit costs.

During the third quarter of 2002, the Company recorded a restructuring charge of $5.5 million consisting of severance and employee benefit costs related to a planned workforce reduction and lease termination costs primarily related to the closing of seven product distribution centers. The lease termination costs consisted of $1.2 million, primarily representing the estimated minimum contractual commitments over the ensuing one to four years for operating locations that the Company abandoned, net of anticipated sublease income. The lease termination costs also included an additional $1.0 million to reflect the revised estimated costs, net of anticipated sublease income, to terminate leases associated with four operating locations. ALLTEL had previously recorded $9.1 million in lease termination costs related to these four locations ($2.8 million during the first quarter of 2002 and $6.3 million in 1999), as further discussed below. The additional charge reflected a further reduction in expected sublease income attributable primarily to softening in the commercial real estate market. The restructuring plan, completed in September 2002, provided for the elimination of 212 employees primarily in the Company s information services and product distribution operations. As of December 31, 2002, the Company had paid $2.7 million in severance and employee-related expenses, and all of the employee reductions had been completed.

In connection with the purchase of wireline properties in Kentucky from Verizon and wireless properties from CenturyTel (see Note 3 to the consolidated financial statements), the Company incurred branding and signage costs of $7.8 million during the third quarter of 2002. In connection with these acquisitions, the Company

Table of Contents

also incurred computer system conversion and other integration costs during each of the first three quarters of 2002. These expenses included internal payroll and employee benefit costs, contracted services, and other computer programming costs incurred in connection with expanding ALLTEL s customer service and operations support functions to handle increased customer volumes resulting from the acquisitions and to convert Verizon s customer billing and operations support systems to ALLTEL s internal systems.

In 2001, during the evaluation of its existing CLEC operations, the Company determined that a business model that relied heavily on interconnection with other carriers had limited potential for profitably acquiring market share. Accordingly, in January 2002, the Company announced its plans to exit its CLEC operations in seven states representing less than 20 percent of ALLTEL s CLEC access lines. In the course of exiting these markets, ALLTEL honored all existing customer contracts, licenses and other obligations and worked to minimize the inconvenience to affected customers by migrating these customers to other service providers. During the first quarter of 2002, the Company also consolidated its call center and retail store operations. In connection with these activities, the Company recorded a restructuring charge consisting of severance and employee benefit costs related to a planned workforce reduction, costs associated with terminating certain CLEC transport agreements and lease termination fees incurred with the closing of certain retail and call center locations. In exiting the CLEC operations, the Company also incurred costs to disconnect and remove switching and other transmission equipment from central office facilities and expenses to notify and migrate customers to other service providers. ALLTEL also wrote off certain capitalized software development costs that had no alternative future use or functionality. The restructuring plans, completed in March 2002, provided for the elimination of 910 employees primarily in the Company s sales, customer service and network operations support functions. As previously discussed, in the fourth quarter of 2002, ALLTEL reduced the liabilities associated with these restructuring plans by $2.5 million. As of December 31, 2002, the Company had paid $11.5 million in severance and employee-related expenses, and all of the employee reductions had been completed.

The $12.4 million in lease and contract termination costs recorded in the first quarter of 2002 consisted of $5.0 million, representing the estimated minimum contractual commitments over the next one to five years for 31 operating locations that the Company abandoned, net of anticipated sublease income. The lease and contract termination costs also included $3.6 million of costs to terminate transport agreements with six interexchange carriers. The Company also recorded an additional $2.8 million to reflect the revised estimated costs, net of anticipated sublease income, to terminate leases associated with four operating locations. ALLTEL had previously recorded $6.3 million in lease termination costs related to these four locations in 1999. The additional charge reflected a reduction in expected sublease income primarily due to softening in the commercial real estate market and the bankruptcy filings by two sublessees. Finally, the lease termination costs also included $1.0 million of unamortized leasehold improvement costs related to the abandoned locations.

In conjunction with a product replacement program initiated by a vendor in 2001, the Company exchanged certain used cell site equipment for new equipment. The exchange of cell site equipment began during the third quarter of 2001 and continued through the first quarter of 2002. As the equipment exchanges were completed, the Company recorded write-downs in the carrying value of the used cell site equipment to fair value.

During 2001, the Company restructured its regional communications, information services, product distribution and corporate operations. In connection with these restructuring efforts, ALLTEL recorded restructuring charges during each of the four quarters of 2001. The Company also recorded write-downs in the carrying value of certain cell site equipment to fair value in connection with the product replacement program previously discussed.

Table of Contents

A summary of the restructuring and other charges recorded in 2001 by quarter was as follows:

(Millions)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Severance and employee benefit costs	$54.9	$1.6	$ 5.5	$0.1	$62.1
Lease and contract termination costs	5.2	0.5	0.4		6.1
Write-down of software development costs	8.9				8.9
Write-down of cell site equipment			9.5	5.6	15.1
Total restructuring and other charges	$69.0	$2.1	$15.4	$5.7	$92.2
Number of employees terminated	1,247	170	216	11	1,644
Number of lease sites terminated	48	10	2	3	63

As indicated in the table above, the restructuring charges consisted of $62.1 million in severance and employee benefit costs related to planned workforce reductions, $6.1 million in lease termination costs associated with the closing of certain retail and other operating locations and an $8.9 million write-down in the carrying value of certain software development costs. Included in the severance and employee benefit component of the restructuring charges were non-cash charges of $22.6 million. These non-cash charges consisted of $21.5 million in additional pension and post-retirement benefit costs related to a special early retirement program offered by the Company to employees meeting certain age and service requirements and $1.1 million in compensation expense related to the accelerated vesting of certain stock options. Eligible employees who elected the early retirement incentive received five years of additional vested service for purposes of calculating their retirement benefits available under the Company s pension and post-retirement benefit plans. During the first quarter of 2001, 230 employees accepted the retirement incentive offer. The restructuring plans were completed in December 2001 and resulted in the elimination of 1,644 employees, including the employees who accepted the early retirement incentive. The work force reductions occurred primarily in operations management, engineering, sales and the corporate support functions. As of December 31, 2002, the Company had paid $39.4 million in severance and employee-related expenses, and all of the employee reductions had been completed.

The lease termination costs recorded in 2001 included $5.0 million representing the estimated minimum contractual commitments over the next one to five years for 63 operating locations that the Company abandoned, net of anticipated sublease income. The lease termination costs also included $1.1 million of unamortized leasehold improvement costs related to the abandoned locations. The write-down in the carrying value of certain software development costs resulted from the Company s formation of a business venture with IBM announced in March 2001. The business venture, which operates as ALLTEL Corebanking Solutions, a majority-owned consolidated subsidiary of ALLTEL, develops and markets Corebank, a real-time banking system, to financial service organizations in Europe. Prior to forming the business venture, ALLTEL had been developing its own real-time processing software. Following the signing of the business venture agreement, ALLTEL ceased further development of its software product and wrote off the portion of the capitalized software development costs that had no alternative future use or functionality.

In an effort to realign the cost structure in its information services business, ALLTEL recorded a restructuring charge of $10.1 million in 2000. This charge consisted of $5.9 million in severance and employee benefit costs related to a planned workforce reduction and $4.2 million in lease termination costs related to the consolidation of certain operating locations. The lease termination costs represented the estimated minimum contractual commitments over the next one to four years for leased facilities that the Company abandoned, net of anticipated sublease income. As of December 31, 2001, ALLTEL had paid all of the severance and employee-related expenses and completed all of the scheduled employee reductions.

In connection with ALLTEL s purchase of wireless assets in Louisiana from SBC and the Company s exchange of wireless assets with Bell Atlantic and GTE, the Company recorded integration expenses and other charges of $19.9 million in 2000. These charges consisted of $14.6 million in branding and signage costs and $5.3 million in severance and employee-related expenses related to a planned workforce reduction. The integration plan provided for the elimination of 22 employees in the Company s wireless operations management,

Table of Contents

engineering and sales support functions. During 2000, the Company paid $5.3 million in severance and employee-related expenses and completed all of the planned employee reductions.

As a result of completing the restructuring of its wireline operations initiated in September 1999, the Company recorded a $2.1 million reduction in the liabilities associated with this restructuring plan in 2000. The adjustment reflected differences between estimated and actual severance costs paid and a reduction in the number of employees to be terminated under the plan. During 2000, the Company also recorded a $2.5 million reduction in the liabilities associated with its merger and integration activities initiated during 1999. The reduction consisted of decreases in estimated severance costs of $2.3 million and $0.2 million, respectively, related to the 1999 acquisitions of Aliant Communications Inc. (Aliant) and Liberty Cellular, Inc. (Liberty). The adjustments primarily reflected a reduction in the expected number of Aliant employees to be terminated under the merger and integration plans, as well as differences between actual and estimated severance costs paid. As of December 31, 2002, the remaining unpaid liability relating to ALLTEL s acquisitions of Aliant and Liberty was $1.5 million and consisted of unpaid severance and employee-related expenses.

As of December 31, 2002, the remaining unpaid liability related to the Company s integration and restructuring activities was $15.7 million, consisting of severance and employee-related expenses of $3.6 million and lease cancellation and contract termination costs of $12.1 million. Cash outlays for the remaining employee-related expenses and lease termination costs will be disbursed over the ensuing 12 to 48 months. Funding for the remaining unpaid liability will be internally financed from operating cash flows. The integration expenses and other charges decreased net income $62.5 million, $54.8 million and $15.0 million for the years ended December 31, 2002, 2001 and 2000, respectively. (See Note 9 to the consolidated financial statements for additional information regarding these charges.) The integration expenses and other charges discussed above are not allocated to the Company s business segments, as management evaluates segment performance excluding the effects of these items.

Non-Operating Income (Expense), Net

(Millions)	2002	2001	2000
Equity earnings in unconsolidated partnerships	$ 65.8	$ 57.0	$120.5
Minority interest in consolidated partnerships	(69.9)	(71.8)	(97.2)
Other income, net	2.4	12.8	24.0
Non-operating income (expense), net	$ (1.7)	$ (2.0)	$ 47.3

Non-operating expense, net decreased $0.3 million, or 15 percent, in 2002 and increased $49.3 million, or 104 percent, in 2001. Equity earnings in unconsolidated partnerships in 2002 included $15.1 million of additional income resulting from the acquisition of certain minority partnership interests from CenturyTel, as previously discussed. The increase in equity earnings in 2002 attributable to the CenturyTel acquisition was partially offset by the fourth quarter 2001 acquisition of a controlling interest in a Texas wireless partnership, in which the Company previously held a minority ownership interest. Minority interest expense for 2002 included $5.6 million of additional expense resulting from the acquisition of certain non-wholly owned partnership interests from CenturyTel. The increase in minority interest expense attributable to the CenturyTel acquisition was offset in 2002 by the transfer to ALLTEL of the remaining ownership interest in two South Carolina MSAs as part of the dissolution of a wireless partnership with BellSouth Mobility, Inc. (BellSouth) that was completed in 2001. Other income, net for 2002 included additional interest income of $8.2 million from investing the cash proceeds from ALLTEL s equity unit and long-term debt offerings, as previously discussed. Other income, net for 2002 also included net losses of $12.1 million related to the disposal of property, plant and equipment. Other income, net for 2001 included pretax gains from the sale of miscellaneous stock investments of $8.4 million. The decrease in equity earnings in unconsolidated partnerships in 2001 primarily reflected the sale of certain minority investments to Bell Atlantic and GTE completed during 2000 and the transfer to BellSouth of certain minority investments as part of the dissolution of the BellSouth partnership. The decrease in minority interest expense in 2001 reflected ALLTEL s acquisition of the remaining ownership interest in a Georgia Rural Service Area

Table of Contents

(RSA) completed in January 2000 and in a Florida RSA completed in August 2000. Other income, net for 2000 included a pretax gain of $4.7 million from the sale of a minority interest in a wireless property and pretax gains of $16.7 million realized from the sale of miscellaneous stock investments.

Interest Expense

Interest expense increased $80.9 million, or 30 percent, in 2002 and decreased $24.1 million, or 8 percent, in 2001. The increase in 2002 primarily reflected the additional interest expense resulting from ALLTEL s equity unit and long-term debt offerings to finance the cost of its wireline and wireless property acquisitions, as previously discussed. The decrease in interest expense in 2001 primarily reflected reductions in both the weighted average borrowing amount and interest rates applicable to ALLTEL s commercial paper program. The decrease in interest expense attributable to reduced borrowings outstanding under the commercial paper program was partially offset by additional interest costs related to the $425.0 million of long-term debt assumed by ALLTEL in completing the wireless property exchange with GTE.

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

In 2002, the Company recorded a pretax gain of $22.1 million from the sale of a wireless property in Pennsylvania to Verizon Wireless. The Company also recorded pretax write-downs totaling $15.1 million related to its investment in Hughes Tele.com Limited (HTCL). The initial write-down of $12.5 million was recorded during the second quarter of 2002 in connection with HTCL s agreement to merge with a major Indian telecommunications company and an other-than-temporary decline in the fair value of HTCL s common stock. In December 2002, ALLTEL exchanged its shares of HTCL for non-voting, mandatory redeemable convertible preferred shares of Tata Teleservices Limited (Tata), a privately held Indian company. Subsequently, ALLTEL decided to liquidate this investment by selling the Tata preferred shares. The additional $2.6 million write-down of the Tata investment recorded in the fourth quarter of 2002 reflected the difference between the carrying amount of the Tata preferred shares and the estimated sales proceeds to be realized by ALLTEL upon completion of the sale, which occurred in February 2003. During 2002, the Company also recorded a pretax adjustment of $4.8 million to reduce the gain recognized from the dissolution of the wireless partnership with BellSouth involving wireless properties in four states. As discussed below, this gain was initially recorded in 2001. This additional adjustment reflected a true up for cash distributions payable to BellSouth in conjunction with the dissolution of the partnership. In 2002, the Company also recorded a pretax write-down of $1.2 million related to an other-than-temporary decline in ALLTEL s investment in Airspan Networks, Inc., a provider of wireless telecommunications equipment. These transactions increased net income $0.6 million in 2002.

In 2001, ALLTEL recorded pretax gains of $347.8 million from the sale of 20 PCS licenses to Verizon Wireless. The Company also recorded a pretax gain of $9.5 million upon the dissolution of the partnership with BellSouth. Upon dissolution, the partnership s assets were distributed to the partners at fair value resulting in a gain for financial reporting purposes. ALLTEL also recorded pretax gains of $3.2 million from the sale of certain investments and prepaid $73.5 million of long-term debt prior to its stated maturity date. In connection with the early retirement of that debt, ALLTEL incurred pretax termination fees of $2.9 million. These transactions increased net income $212.7 million in 2001.

During 2000, the Company recorded pretax gains of $1,345.5 million from the exchange of wireless properties with Bell Atlantic and GTE. The Company also recorded pretax gains of $36.0 million from the sale of its PCS operations in Birmingham and Mobile, Ala. and nine other PCS licenses, including the license covering the Pensacola, Fla. market. The sales of the Mobile, Ala. and Pensacola, Fla. PCS assets were necessary in order for ALLTEL to meet the U.S. Department of Justice guidelines regarding the overlap of wireless properties so that the Company could complete the wireless asset exchanges with Bell Atlantic and GTE. The Company also recorded pretax gains totaling $562.0 million from the sale of equity securities, including ALLTEL s remaining investment in WorldCom, Inc. (WorldCom) common stock. In addition, the Company recorded a pretax write-down of $15.0 million on its investment in APEX Global Information Services, Inc. (APEX), a provider of Internet access services. The write-off was recorded due to adverse market conditions and APEX s bankruptcy

Table of Contents

filing. These transactions increased net income $1,124.3 million in 2000. (See Note 10 to the consolidated financial statements for additional information regarding these items.)

Income Taxes

Income tax expense decreased $163.1 million, or 23 percent, in 2002 and $681.0 million, or 49 percent, in 2001. The decreases in income tax expense for both years primarily reflected the tax-related effects of the integration expenses and other charges, gain on disposal of assets and write-down of investments previously discussed. The tax-related effects of these items accounted for $175.3 million and $681.8 million of the overall decreases in income tax expense in 2002 and 2001, respectively, and were partially offset by growth in segment income as further discussed below under Results of Operations by Business Segment . Income tax expense for 2002 also reflected an approximate two percent reduction in the Company s effective income tax rate from 2001 as a result of no longer amortizing goodwill and other indefinite-lived intangible assets for financial statement purposes pursuant to SFAS No. 142. Income tax expense for 2001 also reflected a one percent reduction in the Company s effective state income tax rate from 2000, as state income tax expense for 2000 included the effects of certain gain transactions taxed in states with statutory rates that exceeded ALLTEL s overall state tax rates for its communications operations.

Cumulative Effect of Accounting Change

In 2001, ALLTEL changed the method of accounting for the defined benefit pension plan of a subsidiary acquired in 1999 to conform to the accounting principles followed by the ALLTEL Pension Plan (the ALLTEL Plan), a defined benefit pension plan covering substantially all employees working in the Company s communications and corporate operations. The change in accounting was completed in conjunction with the Company s decision to conform future benefits earned under the subsidiary s plan with the ALLTEL Plan, effective June 1, 2001. The change in accounting, retroactive to January 1, 2001, affected both the computation and amortization of unrecognized actuarial gains and losses for purposes of computing annual pension cost related to the subsidiary s pension plan. The change included modifying the method by which the market-related value of plan assets was determined from a calculated five-year average to actual fair value. In addition, unrecognized actuarial gains or losses that exceed 17.5 percent of the greater of the projected benefit obligation or market-related value of plan assets will be amortized on a straight-line basis over five years. Unrecognized actuarial gains and losses below the 17.5 percent corridor will be amortized over the average remaining service life of active plan participants (approximately 13 years). Under the method previously followed by the subsidiary s plan, only unrecognized actuarial gains and losses in excess of 10 percent of the greater of the projected benefit obligation or market-related value of plan assets were amortized over the average remaining service life of active plan participants. ALLTEL believes the changes in computing the market-related value of plan assets and accelerating the amortization periods are preferable because these changes result in more timely recognition of actuarial gains and losses in computing annual pension cost related to the subsidiary s plan, and achieve consistency with the ALLTEL Plan. The effect of these changes in 2001 was to increase pension income by $1.7 million and income before cumulative effect of accounting change by $1.0 million.

Effective January 1, 2000, the Company changed its method of recognizing wireless access revenues and certain customer activation fees to conform ALLTEL s revenue recognition policies to the requirements of the Securities and Exchange Commission s Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements . Prior to January 1, 2000, the Company recognized monthly non-refundable wireless access revenues when billed in accordance with contractual arrangements with customers. With the change in accounting, the Company recognizes wireless access revenues over the period in which the corresponding services are provided. Because ALLTEL bills its customers on a cycle basis throughout the month, this accounting change resulted in the continuous deferral of approximately 15 days of wireless access revenue. In addition, ALLTEL previously recognized when billed fees assessed to communications customers to activate service. With the change in accounting, the Company now recognizes these fees over the expected life of the customer. These changes in revenue recognition decreased income before cumulative effect of accounting change

Table of Contents

by $4.6 million, or $.01 per share, in 2000. (See Note 2 to the consolidated financial statements for additional information regarding these changes in accounting principles.)

Net income decreased $142.7 million, or 13 percent, in 2002 and $861.8 million, or 45 percent, in 2001. Basic and diluted earnings per share both decreased 13 percent in 2002 and 44 percent in 2001. As previously discussed, operating results for 2002 reflected the effects of no longer amortizing indefinite-lived intangible assets, additional net interest cost due to prefunding ALLTEL s wireline and wireless acquisitions, integration expenses and other charges, and the write-down in receivables due to an interexchange carrier s bankruptcy filing. Reported net income and earnings per share for all three years also included the effects of gains realized from the exchange or sale of assets, investment write-downs, termination fees on the early retirement of long-term debt and the cumulative effect of accounting changes. The effects of these items accounted for $171.3 million and $889.8 million of the overall decreases in net income in 2002 and 2001, respectively, and were partially offset by growth in segment income, as further discussed below under Results of Operations by Business Segment . Excluding the effects of these items in each year, net income would have increased $28.6 million, or 3 percent, in 2002 and $28.0 million, or 3 percent, in 2001 and basic and diluted earnings per share both would have increased 3 percent in 2002 and 4 percent in 2001.

Average Common Shares Outstanding

The average number of common shares outstanding decreased slightly in 2002 and decreased 1 percent in 2001. The decreases in both periods were primarily due to the Company s repurchase of 3.3 million of its common shares during the second quarter of 2001, as further discussed below. The effects on the average number of common shares outstanding resulting from the repurchase of stock were partially offset in 2002 and 2001 by additional shares issued upon the exercise of options granted under ALLTEL s employee stock-based compensation plans.

Table of Contents

Results of Operations by Business Segment

Communications-Wireless Operations

(Dollars in millions, customers in thousands)	2002	2001	2000
Revenues and sales:			
Service revenues	$3,999.2	$3,639.8	$3,349.6
Product sales	161.0	192.2	187.0
Total revenues and sales	4,160.2	3,832.0	3,536.6
Costs and expenses:			
Cost of services	1,213.8	1,011.1	1,011.9
Cost of products sold	430.6	467.1	322.9
Selling, general, administrative and other	990.3	907.1	854.2
Depreciation and amortization	577.6	619.0	480.8
Total costs and expenses	3,212.3	3,004.3	2,669.8
Segment income	$ 947.9	$ 827.7	$ 866.8
Total customers	7,601.6	6,683.0	6,241.6
Gross customer additions	3,157.0	2,297.6	2,906.6
Net customer additions	1,032.5	441.4	1,223.0
Prepaid customer unit adjustment	(113.9)		
Market penetration rate	12.9%	13.5%	12.6%
Postpaid customer churn	2.23%	2.34%	2.33%
Total churn	2.50%	2.41%	2.50%
Average revenue per customer per month	$46.97	$47.09	$49.40
Cost to acquire a new customer	$304	$302	$307

Excluding the effect of acquisitions, ALLTEL added more than 2.4 million gross customers in 2002, compared to nearly 2.3 million gross customers in 2001 and 2.1 million in 2000. As a result of this increase in gross customer additions, the total number of wireless customers served by ALLTEL increased 14 percent during 2002, compared to an annual growth rate in customers of 7 percent in 2001. As previously discussed, on August 1, 2002, the Company completed the purchase of substantially all of the wireless assets of CenturyTel. This acquisition accounted for approximately 762,000 of the overall increase in wireless customers that occurred during 2002. During the third quarter of 2002, in integrating the operations of the former CenturyTel properties, ALLTEL upgraded the acquired markets to a CDMA-based network, launched the ALLTEL brand name and began offering regional and national rate plans. The Company also standardized disconnect policies across its entire wireless operations, the primary effects of which were a two-month advancement of customer disconnects among the Company s prepaid customer segment and a reduction of ALLTEL s customer base by approximately 114,000 customers. This policy change did not affect reported operating results, because the customer accounts disconnected were inactive. Overall, the Company s wireless market penetration rate (number of customers as a percent of the total population in ALLTEL s service areas) decreased to 12.9 percent as of December 31, 2002, primarily due to lower penetration levels in the markets acquired from CenturyTel.

In addition to the effects of heightened competition and increased penetration levels in the wireless industry, economic factors, including weakening customer demand and consumer credit, also affected customer growth rates in the wireless industry during 2002. The level of customer growth during 2003 will be dependent upon the Company s ability to attract new customers in an increasingly competitive marketplace currently supporting up to seven competitors in each market. The Company will continue to focus its efforts on sustaining value-added customer growth by managing its distribution channels and customer segments, offering attractively priced rate plans and enhanced services and other features, selling additional phones to existing customers and pursuing strategic acquisitions.

The Company continues to focus its efforts on lowering postpaid customer churn (average monthly rate of customer disconnects). To improve customer retention, the Company offers competitively priced rate plans, proactively analyzes customer usage patterns and migrates customers to digital handsets due to technology advancements. In addition, the Company continues to upgrade its telecommunications network in order to provide enhanced service offerings to customers. These efforts helped to reduce postpaid customer churn in 2002, despite heightened competition and declining economic conditions. Total churn increased in 2002 primarily due to the standardization of disconnect policies previously discussed and an increase in the actual number of prepaid customer disconnects during the fourth quarter of 2002.

Wireless revenues and sales increased $328.2 million, or 9 percent, in 2002 and $295.4 million, or 8 percent, in 2001. Service revenues increased $359.4 million, or 10 percent, in 2002 and $290.2 million, or 9 percent, in 2001. The increases in service revenues in both years primarily reflected growth in ALLTEL s customer base and the resulting increase in access revenues. The acquisition of the CenturyTel properties accounted for approximately $179.3 million of the overall increase in service revenues and $186.4 million of the overall increase in total revenues and sales in 2002. The acquisition of wireless properties in Louisiana and the exchange of wireless properties with Bell Atlantic and GTE accounted for approximately $248.9 million of the overall increase in service revenues and $269.2 million of the overall increase in total revenues and sales in 2001. In addition to the effects of the acquisitions, service revenues in 2002 and 2001 also reflected increases in the sale of enhanced services, including call waiting, call forwarding, three-way calling, voicemail and equipment protection plans. Revenues from these enhanced services increased $27.3 million and $33.2 million in 2002 and 2001, respectively, reflecting increased demand for these service offerings. Fees assessed for early disconnection, late payment and reconnection services increased $54.4 million and $14.4 million in 2002 and 2001, respectively, reflecting enhancements to ALLTEL s billing systems to consistently charge for these services and the overall decline in economic conditions and weakening consumer credit. Service revenue growth in 2002 and 2001 attributable to customer growth, acquisitions, increased access revenues and additional revenues earned from enhanced services and fees were partially offset by lower airtime and retail roaming revenues and a decrease in wholesale roaming rates. The decrease in airtime and retail roaming revenues primarily reflected the expansion of local, regional and national calling areas. Average revenue per customer per month in both 2002 and 2001 continued to be adversely affected by decreased wholesale roaming rates, the effects of which were partially offset in 2002 by increased sales of the Company s higher-yield Total and National Freedom rate plans. In addition to the effects of decreased wholesale roaming rates, the decrease in average revenue per customer per month in 2001 reflected the effects of the local, regional and national calling plans and continued penetration into more competitive retail and non-traditional market segments.

Service revenue growth also reflected increases in rental revenues, which increased $16.0 million and $21.1 million in 2002 and 2001, respectively. The increases in both years primarily resulted from ALLTEL s agreement with American Tower Corporation (American Tower) to lease to American Tower 1,773 of the Company s cell site towers for $531.9 million of cash paid in advance. This transaction was structured to close in several phases and resulted in 869 tower closings in the second quarter of 2001, 537 tower closings in the third quarter of 2001 and 342 tower closings in the fourth quarter of 2001. The final phase of the transaction, involving 25 towers, was completed in February 2002. Proceeds from this leasing transaction are recognized as service revenues on a straight-line basis over the fifteen-year lease term.

Service revenue growth during 2003 will depend upon ALLTEL s ability to maintain market share in an increasingly competitive marketplace by adding new customers, retaining existing customers, increasing customer usage, and selling additional enhanced services.

Product sales decreased $31.2 million, or 16 percent, in 2002 and increased $5.2 million, or 3 percent, in 2001. Excluding the effects of the property acquisitions completed in 2002 and 2000, product sales would have decreased $38.3 million, or 20 percent, and $15.0 million, or 10 percent, in 2002 and 2001, respectively. Net of the effects of the acquisitions, the decreases in product sales in 2002 and 2001 were primarily due to lower retail prices driven by increased competition. Reduced wholesale volumes, as compared to 2001, also contributed to the decrease in product sales in 2002.

Cost of services increased $202.7 million, or 20 percent, in 2002. The acquisition of the CenturyTel properties accounted for approximately $48.2 million of the overall increase in cost of services in 2002. In addition to the effects of the CenturyTel acquisition, cost of services for 2002 reflected increases in network-related costs, customer service expenses and bad debts. Network-related expenses increased $34.2 million in 2002 primarily due to increased network traffic resulting from customer growth and expansion of calling areas. Customer service expense increased $20.1 million in 2002 reflecting the expansion of ALLTEL s customer service and operations support functions to handle increased customer volumes resulting from the CenturyTel acquisition. Bad debt expense increased $100.2 million in 2002 primarily reflecting the effects of fourth quarter 2001 marketing programs directed toward the credit-challenged customer segment and weakening consumer credit, as previously noted. Cost of services decreased $0.8 million, or less than 1 percent, in 2001. The decrease in 2001 reflected a $54.0 million reduction in losses sustained from fraud due to the Company s continuing efforts to control unauthorized usage of its customers wireless telephone numbers that results in unbillable fraudulent roaming activity. Cost of services for 2001 also reflected reduced customer service expenses of $63.7 million due to reduced customer retention costs and the effects of the Company s 2001 restructuring efforts. The reduced losses sustained from fraud and decreased customer service expenses were partially offset by $62.0 million of additional expenses attributable to the wireless property acquisitions completed in 2000, increased network-related expenses of $22.2 million and additional bad debt expense of $34.6 million.

Cost of products sold decreased $36.5 million, or 8 percent, in 2002. Excluding the effects of the CenturyTel acquisition, cost of products sold would have decreased $51.3 million, or 11 percent, consistent with the overall decline in product sales discussed above. Cost of products sold increased $144.2 million, or 45 percent, in 2001 consistent with the growth in gross customer activations, the selling of higher-priced digital phones and the Company s continuing efforts to migrate customers from analog to digital equipment. The acquisitions of wireless properties completed in 2000 accounted for $67.6 million of the overall increase in cost of products sold in 2001.

Selling, general, administrative and other expenses increased $83.2 million, or 9 percent, in 2002 and $52.9 million, or 6 percent, in 2001. The acquisition of the CenturyTel properties accounted for approximately $41.8 million of the overall increase in selling, general, administrative and other expenses in 2002. In addition to the effects of the CenturyTel property acquisition, selling, general, administrative and other expenses for 2002 reflected increased commission costs of $46.6 million consistent with the growth in gross customer additions and increased sales of the Company s Total and National Freedom rate plans. Commissions expense also reflected increased commissions paid to outside agents reflecting a shift in the Company s distribution and product mix, as further discussed below. Commission rates paid to the Company s internal sales force and outside agents are higher on the sales of the Company s more profitable Total and National Freedom rate plans than comparable rates paid on other lower-margin rate plans offered by the Company. Selling, general, administrative and other expenses for 2002 and 2001 also reflected increases in regulatory assessment fees of $12.1 million and $23.6 million, respectively, consistent with the growth in wireless customers. The increase in selling, general, administrative and other expenses in 2002 attributable to the CenturyTel acquisition and higher commissions expense and regulatory fees was partially offset by decreased advertising costs of $21.0 million. The decrease in advertising expense reflected discounted pricing received by ALLTEL due to purchasing advertising in bulk, as a result of centralizing the Company s advertising efforts. The acquisitions of wireless properties completed in 2000 accounted for $46.9 million of the overall increase in selling, general, administrative and other expenses in 2001. Advertising costs increased $42.5 million in 2001 primarily attributable to a nationwide branding campaign and other promotional activities. The increase in selling, general, administrative and other expense in 2001 attributable to the acquisitions and increased advertising costs and regulatory fees was partially offset by decreased commission costs of $34.1 million, primarily reflecting a shift in the Company s distribution mix, as further discussed below. A reduction in administrative expenses, primarily resulting from the Company s 2001 restructuring efforts, also favorably impacted selling, general, administrative and other expenses in 2001.

Table of Contents

Depreciation and amortization expense decreased $41.4 million, or 7 percent, in 2002 and increased $138.2 million, or 29 percent, in 2001. The decrease in depreciation and amortization expense in 2002, primarily resulted from the effects of no longer amortizing goodwill and other indefinite-lived intangible assets pursuant to SFAS No. 142, as previously discussed. Excluding the effects of amortization of indefinite-lived intangible assets, depreciation and amortization expense would have increased $49.3 million, or 9 percent, in 2002, reflecting growth in wireless plant in service and $16.4 million of additional depreciation expense attributable to the CenturyTel acquisition. Conversely, the increase in depreciation and amortization expense in 2001 reflected additional amortization of goodwill and other intangible assets of $43.9 million associated with the acquisitions of wireless assets completed in 2000. In addition, depreciation expense increased $94.3 million, reflecting growth in wireless plant in service and $53.4 million of additional depreciation expense attributable to the 2000 wireless property acquisitions.

Wireless segment income increased $120.2 million, or 15 percent, in 2002, primarily due to the growth in revenues and sales noted above. The acquisition of the CenturyTel properties accounted for approximately $65.2 million of the overall increase in segment income in 2002. In addition to reflecting the CenturyTel acquisition, segment income in 2002 was also favorably affected by the cessation of amortizing goodwill and other indefinite-lived intangibles assets in accordance with SFAS No. 142, as previously discussed. Conversely, segment income in 2002 was adversely affected by $3.1 million related to the write-down of receivables due to an interexchange carrier s bankruptcy filing. Excluding the effects of amortization of indefinite-lived intangible assets and the write-down of receivables, wireless segment income would have increased $32.7 million, or 4 percent, in 2002. Wireless segment income decreased $39.1 million, or 5 percent, in 2001, as growth in operating revenues was more than offset by increased costs and expenses as discussed above.

The cost to acquire a new wireless customer represents sales, marketing and advertising costs and the net equipment cost, if any, for each new customer added. The increase in per unit customer acquisition costs in 2002 primarily reflected the increase in commissions expense. As previously discussed, the increase during 2002 in commissions paid to outside agents reflected a shift in the Company s distribution and product mix, as proportionately higher sales volumes were generated from ALLTEL s external sales distribution channels. Conversely, the decrease in customer acquisition costs in 2001 primarily resulted from lower commissions expense due to a shift in the Company s distribution mix, as proportionately higher sales volumes were generated from ALLTEL s internal sales distribution channels. Commissions paid to outside agents also decreased in 2001, reflecting a shift in the mix of the Company s external distribution channels from national to local dealers. The decrease in cost to acquire a new customer in 2001 attributable to lower commission costs was partially offset by increased advertising costs as noted above. In addition, margins earned from the sale of digital handsets and other accessories declined driven by lower retail prices, reflecting very competitive market conditions. The Company has expanded its internal sales distribution channels through Company retail stores and kiosks located in shopping malls and other retail outlets and mass merchandisers. During 2002 and 2001, approximately 70 percent and 80 percent, respectively, of the gross customer additions came through ALLTEL s internal distribution channels. Incremental sales costs at a Company retail store or kiosk are significantly lower than commissions paid to dealers. Although ALLTEL intends to manage the costs of acquiring new customers during 2003 by continuing to enhance its internal distribution channels, the Company will also continue to utilize its large dealer network.

Table of Contents

A summary of the integration expenses and other charges related to the wireless operations that were not included in the determination of segment income were as follows for the years ended December 31:

(Millions)	2002	2001	2000
Severance and employee benefit costs	$ 6.4	$29.3	$ 5.3
Lease and contract termination costs	5.2	2.8	
Computer system conversion and other integration costs	4.0		
Write-down of cell site equipment	7.1	15.1	
Write-down of software development costs	0.3		
Branding and signage costs	4.1		14.6
Reversal of previous accrued charges			(2.5)
Total integration expenses and other charges	$27.1	$47.2	$17.4

Regulatory Matters-Wireless Operations

The Company is subject to regulation by the Federal Communications Commission (FCC) as a provider of wireless communications services. The Telecommunications Act of 1996 (the 96 Act) provides wireless carriers numerous opportunities to provide an alternative to the long-distance and local exchange services provided by local exchange telephone companies and interexchange carriers. Wireless carriers are also entitled to compensation from other telecommunications carriers for calls transmitted from the other carriers networks and terminated on the wireless carriers networks. Presently, the Company s wireless operations do not bill access charges to interexchange carriers. In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation issues. Under this rulemaking, the FCC has proposed a bill and keep compensation method that would overhaul the existing rules governing reciprocal compensation and access charge regulation. The outcome of this proceeding could change the way ALLTEL receives compensation from other carriers and its wireless customers. At this time, ALLTEL cannot estimate whether any such changes will occur or, if they do, what the effect of the changes on its wireless revenues and expenses would be.

Under rules established by the FCC, effective November 24, 2002, all Commercial Mobile Radio Services (CMRS) providers were required to participate in a nationwide number conservation program known as thousand block number pooling in accordance with roll out schedules established by the FCC. CMRS providers must modify their networks to comply with FCC and industry performance criteria for number pooling, including support for roaming customers. Number pooling is an FCC mandated program intended to alleviate the shortage of available telephone numbers by requiring carriers to return unused numbers in their inventory to a centrally administered pool and taking assignment of new numbers in blocks of 1,000 instead of the 10,000 number blocks previously assigned. FCC rules also require that CMRS providers implement wireless local number portability, an intercarrier network function that permits customers to retain their existing telephone number when moving from one telecommunications carrier to another. On July 26, 2002, compliance with the FCC requirements for wireless local number portability was extended by one year to November 24, 2003. Rules governing the number of MSAs in which wireless local number portability must be deployed, as well as the process for triggering a carrier s obligation to provide wireless local number portability in markets both within the top MSAs and below, remain subject to reconsideration by the FCC. Recently, the FCC denied a request of Verizon Wireless seeking forbearance of the CMRS provider s obligation to provide wireless local number portability. The FCC decision has been appealed to the U.S. Court of Appeals for the District of Columbia Circuit. Oral arguments related to this appeal are scheduled for April 15, 2003. Although at this time, the Company cannot fully quantify the effects on its communications operations of implementing wireless local number portability, ALLTEL believes these requirements, when implemented, would result in a significant increase in both its operating costs and customer churn rates.

Table of Contents

In addition, wireless service carriers must also provide 911 emergency service in a two-phased approach. In phase one, the carriers must provide service capabilities to determine station locations for originated calls. In phase two, wireless carriers must determine the location of a caller within fifty meters of an originated call. The second phase requirements were set to begin by October 1, 2001, but, due to technology unavailability, the Company requested a limited waiver of these requirements. On July 26, 2002, the FCC released an order granting a temporary stay of the 911 emergency implementation rules as they apply to the Company. The FCC order provides for a phased-in deployment of an Automatic Location Identification (ALI) capable network or handset-based technology to begin on March 1, 2003. ALI capability will permit rapid response in situations where callers are disoriented, disabled, unable to speak or do not know their location by allowing for the immediate dispatch of emergency assistance to the caller s location. Under the FCC order, the Company must employ handset-based ALI technology and will be required to (1) begin selling and activating ALI-capable handsets no later than March 1, 2003; (2) ensure that at least 25 percent of all new handsets activated are ALI capable no later than May 31, 2003; (3) ensure that at least 50 percent of all new handsets activated are ALI capable no later than May 31, 2004; and (5) ensure that penetration of ALI capable handsets among its customers reaches 95 percent no later than December 31, 2005. ALLTEL began selling ALI capable handsets in June 2002 and expects to comply with the remaining requirements. Although at this time, the Company cannot fully quantify the effects on its communications operations of implementing ALI technology, ALLTEL believes these requirements, when fully implemented, could result in a significant increase in its operating costs.

Communications-Wireline Operations

(Dollars in millions, except access lines in thousands)	2002	2001	2000
Revenues and sales:			
Local service	$1,017.9	$ 909.6	$ 840.4
Network access and long-distance	943.5	855.0	833.8
Miscellaneous	218.3	200.3	182.0
Total revenues and sales	2,179.7	1,964.9	1,856.2
Costs and expenses:			
Cost of services	645.0	565.5	545.6
Cost of products sold	24.8	28.4	27.4
Selling, general, administrative and other	251.3	226.3	246.3
Depreciation and amortization	465.6	412.0	378.2
Total costs and expenses	1,386.7	1,232.2	1,197.5
Segment income	$ 793.0	$ 732.7	$ 658.7
Access lines in service	3,167.3	2,612.3	2,572.3

Wireline revenues and sales increased $214.8 million, or 11 percent, in 2002 and $108.7 million, or 6 percent, in 2001. Wireline operating revenues for 2000 included the effect of the $11.5 million litigation settlement with the Georgia Public Service Commission (the Georgia PSC). As reported in Note 13 to the consolidated financial statements, in September 2000, ALLTEL and the Georgia PSC reached a final settlement agreement to resolve all pending litigation involving the two parties. Under terms of the final agreement, ALLTEL agreed to issue a one-time credit of about $25 to approximately 450,000 wireline customers in Georgia. The credits were issued to business and residential customers during the fourth quarter of 2000 and totaled $11.5 million. The Company recorded the credits as a reduction in wireline operating revenues. The one-time customer credits were in addition to other commitments agreed to by ALLTEL under an earlier version of the settlement agreement signed in April 2000. As part of the earlier agreement, ALLTEL agreed to accelerate deployment of digital subscriber lines and Internet service to its customers in Georgia and to reduce certain optional local calling plan rates prospectively. ALLTEL also agreed to future reductions in funds received from the Georgia Universal Service Fund. These revenue reductions totaled approximately $26.0 million in 2001 and $11.7 million in 2000.

As previously discussed, on August 1, 2002, the Company completed the purchase from Verizon of wireline properties in Kentucky. This acquisition accounted for approximately 589,000 of the overall increase in wireline customers that occurred during 2002. Excluding the effects of the acquisition, customer access lines decreased approximately one percent during 2002, reflecting declines in both primary and second access lines and ALLTEL s decision to exit CLEC markets in seven states, as previously discussed. Slower economic growth, along with the effects of substitution of wireless, cable television and high-speed access services for the Company s wireline services, also adversely affected the Company s internal access line growth rates in 2002, and the Company expects some degree of access line loss to continue in 2003.

To maintain revenue growth in 2003, the Company will continue to emphasize sales of enhanced services and bundling of its various product offerings including Internet, long-distance and high-speed data transport services. Deployment of DSL service is an important strategic initiative for ALLTEL. Currently, DSL service is available to approximately one half of the Company s wireline customers. During 2002, the number of DSL customers has nearly tripled to approximately 70,000 customers.

Local service revenues increased $108.3 million, or 12 percent, in 2002 and $69.2 million, or 8 percent, in 2001. Local service revenues for 2000 included the effect of the Georgia PSC litigation settlement previously discussed. Excluding the effect of this settlement, local service revenues would have increased $57.7 million, or 7 percent, in 2001. The acquisition of wireline properties in Kentucky accounted for $91.6 million of the overall increase in local service revenues in 2002, while growth in customer access lines accounted for $17.2 million of the overall growth in local service revenues in 2001. In addition to the effects of the acquisition and customer growth, local service revenues in 2002 and 2001 also reflected growth in revenues derived from the sales of enhanced products and services, reflecting increased demand for these services. Revenues from these enhanced services increased $10.0 million in 2002 and $18.4 million in 2001. Revenues derived from integrated digital network services, which increased $3.9 million in 2002 and $8.7 million in 2001, and from the sale of equipment protection plans, which increased $3.2 million in 2002 and $6.8 million in 2001, also contributed to the growth in local service revenues in each year.

Network access and long-distance revenues increased $88.5 million, or 10 percent, in 2002 and $21.2 million, or 3 percent, in 2001. The acquisition of wireline properties in Kentucky accounted for $79.7 million of the overall increase in network access and long-distance revenues in 2002. In addition to the effects of the acquisition, the increase in network access and long-distance revenues in 2002 also reflected higher volumes of network usage and growth in revenues from data services, partially offset by reductions in intrastate toll revenues. Network access and long-distance revenues increased in 2001 primarily as a result of higher volumes of network usage and growth in customer access lines, partially offset by a reduction in intrastate toll revenues. Network access and long-distance revenues also reflected reductions of $8.4 million in 2002 and $14.6 million in 2001 in revenues received from the Georgia Universal Service Fund. These revenue reductions resulted from the litigation settlement between ALLTEL and the Georgia PSC finalized in 2000 noted above.

Miscellaneous revenues primarily consisted of charges for billing and collections services provided to long-distance companies, customer premise equipment sales, directory advertising and Internet services. Miscellaneous revenues increased $18.0 million, or 9 percent, in 2002 and $18.3 million, or 10 percent, in 2001. The acquisition of wireline properties in Kentucky accounted for $12.3 million of the overall increase in miscellaneous revenues in 2002. In addition to the effects of the acquisition, the increase in miscellaneous revenues in 2002 also reflected growth in Internet service and directory advertising revenues. Internet service revenues increased $9.8 million in 2002, primarily due to customer growth and an increase in the standard monthly rate charged to customers for this service initiated during the fourth quarter of 2001, while directory advertising revenues increased $2.4 million in 2002. Partially offsetting the growth in Internet service and directory advertising revenues were declines in customer premise equipment sales, which decreased $12.2 million. The decrease primarily occurred in the Company s CLEC operations and reflected ALLTEL s strategic decision in 2002 to exit CLEC operations in seven markets, as previously discussed. The increase in miscellaneous revenues in 2001 primarily resulted from increased Internet service revenues of $10.8 million and growth in directory advertising revenues of $4.1 million.

Table of Contents

Cost of services increased $79.5 million, or 14 percent, in 2002 and $19.9 million, or 4 percent, in 2001. Cost of services for 2002 included the effect of the write-down of receivables due to an interexchange carrier s bankruptcy filing previously discussed. Excluding the effect of this write-down, cost of services would have increased $68.6 million, or 12 percent, in 2002. The acquisition of wireline properties in Kentucky accounted for $52.8 million of the overall increase in cost of services in 2002. In addition to the effects of the acquisition, cost of services for 2002 reflected increased network-related costs of $13.1 million, primarily due to increased network usage. The increase in cost of services in 2001 was also attributable to increased network-related expenses consistent with the growth in customer access lines and the resulting increase in network usage.

Selling, general, administrative and other expenses increased $25.0 million, or 11 percent, in 2002 and decreased $20.0 million, or 8 percent, in 2001. The acquisition of the wireline properties in Kentucky accounted for approximately $22.1 million of the overall increase in 2002. The reduction in selling, general, administrative and other expenses in 2001 primarily reflected cost savings from the Company s 2001 restructuring efforts, as previously discussed.

Depreciation and amortization expense increased $53.6 million, or 13 percent, in 2002 and $33.8 million, or 9 percent, in 2001. Depreciation and amortization expense in 2002 included the effects of no longer amortizing goodwill in accordance with to SFAS No. 142, as previously discussed. Excluding the effects of amortization of goodwill, depreciation and amortization expense would have increased $58.2 million, or 14 percent, in 2002, primarily reflecting $37.8 million of additional depreciation expense attributable to the acquisition of wireline properties in Kentucky. The increase in depreciation and amortization expense in 2001 primarily reflected growth in wireline plant in service.

Wireline segment income increased $60.3 million, or 8 percent, in 2002 and $74.0 million, or 11 percent, in 2001. Segment income in 2002 was also favorably impacted by the effect of no longer amortizing goodwill in accordance with SFAS No. 142. Conversely, wireline segment income for 2002 included $10.9 million of the write-down of receivables due to an interexchange carrier s bankruptcy filing, as previously discussed. Excluding the effects of the amortization of goodwill and write-down of receivables, wireline segment income would have increased $66.7 million, or 9 percent, in 2002. Net of the effects of the goodwill amortization and receivables write-down, growth in segment income in 2002 reflected the acquisition of wireline properties in Kentucky, which accounted for $68.3 million of the increase in segment income in 2002. Growth in segment income for 2001 reflected the increases in wireline operating revenues and reductions in selling, general, administrative and other expenses, primarily resulting from the Company s restructuring efforts, as previously discussed. The increase in segment income in 2001 attributable to revenue growth and cost savings was partially offset by increases in cost of services and depreciation and amortization expense as discussed above.

A summary of the integration expenses and other charges related to the wireline operations that were not included in the determination of segment income were as follows for the years ended December 31:

(Millions)	2002	2001	2000
Severance and employee benefit costs	$ 6.6	$ 18.5	$
Lease and contract termination costs	3.8		
Computer system conversion and other integration costs	17.0		
Write-down of software development costs	4.1		
Branding and signage costs	3.7		
Equipment removal and other disposal costs	2.2		
Reversal of previous accrued charges			(2.1)
Total integration expenses and other charges	$ 37.4	$ 18.5	$ (2.1)

Regulatory Matters-Wireline Operations

Except for the Kentucky properties acquired from Verizon and the Nebraska operations acquired in 1999, ALLTEL s ILEC operations follow the accounting for regulated enterprises prescribed by SFAS No. 71,

Table of Contents

Accounting for the Effects of Certain Types of Regulation . Criteria that would give rise to the discontinuance of SFAS No. 71 include (1) increasing competition restricting the ILEC subsidiaries ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Company periodically reviews the criteria to determine whether the continuing application of SFAS No. 71 is appropriate. ALLTEL s ILEC operations have begun to experience some competition in their local service areas. Sources of competition to ALLTEL s local exchange business include, but are not limited to, resellers of local exchange services, interexchange carriers, satellite transmission services, wireless communications providers, cable television companies, radio-based personal communications companies, and competitive service providers including those utilizing UNE-P (Unbundled Network Elements-Platform). Through December 31, 2002, this competition has not had a material adverse effect on the results of operations of ALLTEL s ILEC operations.

Although the Company believes that the application of SFAS No. 71 continues to be appropriate, it is possible that changes in regulation, legislation or competition could result in the Company s ILEC operations no longer qualifying for the application of SFAS No. 71 in the near future. If ALLTEL s ILEC operations no longer qualified for the application of SFAS No. 71, the accounting impact to the Company would be an extraordinary non-cash charge to operations ranging in an amount of approximately $15.0 to $25.0 million. The non-cash charge would consist primarily of the write-off of previously established regulatory assets and liabilities. ALLTEL does not expect to record any impairment charge related to the carrying value of its ILEC plant. Under SFAS No. 71, ALLTEL currently depreciates its ILEC plant based upon asset lives approved by regulatory agencies or as otherwise allowed by law. Upon discontinuance of SFAS No. 71, ALLTEL would be required to revise the lives of its property, plant and equipment to reflect the estimated useful lives of the assets. ALLTEL does not expect any revisions in asset lives to have a material adverse effect on its ILEC operations.

Most states in which the Company s ILEC subsidiaries operate have adopted alternatives to rate-of-return regulation, either through legislative or regulatory commission actions. The Company has elected alternative regulation for certain of its ILEC subsidiaries in Alabama, Arkansas, Florida, Georgia, Kentucky, Missouri, Nebraska, North Carolina, Pennsylvania, South Carolina and Texas. The Company continues to evaluate alternative regulation options in other states where its ILEC subsidiaries operate. The Nebraska ILEC properties and the recently acquired Kentucky properties operate under interstate price cap regulation pursuant to waivers granted by the FCC. On April 17, 2002, the FCC extended ALLTEL s waiver of price cap regulation associated with its Nebraska ILEC properties and, in the same order, the FCC granted ALLTEL a waiver with respect to the Kentucky properties. Both waivers will remain in effect until the FCC completes a comprehensive review of the waiver process.

In April 2001, the FCC released a notice of proposed rulemaking addressing inter-carrier compensation. Under this rulemaking, the FCC asked for comment on a bill and keep compensation method that would overhaul the existing rules governing reciprocal compensation and access charge regulation. The outcome of this proceeding could change the way ALLTEL receives compensation from, and remits compensation to, other carriers and its end users. At this time, ALLTEL cannot estimate whether or when any such changes will occur or, if they occur, what would be the impact of the changes on its ILEC revenues and expenses.

In May 2001, the FCC adopted the Rural Task Force Order that established an interim universal service mechanism that will govern compensation for rural telephone companies for the ensuing five years. At this time, ALLTEL cannot estimate the effect of the changes to its universal service support, if any, that may occur once the FCC adopts a permanent plan for rural carriers. On December 13, 2002, the FCC released its interim Universal Service Fund (USF) contribution report and order and further notice of proposed rulemaking. Under this ruling, the method for providing federal universal service fund contributions will change from the current interstate revenue-based arrangement to contributions based on projected revenues. Effective April 1, 2003, carriers must also limit the USF line item on the customer bill to the USF contribution obligation of the carrier. These interim universal service changes are not expected to have a material adverse effect on the Company s wireline operations.

Table of Contents

In May 2001, the FCC also released an order adopting the recommendation of the Federal-State Joint Board to impose an interim freeze of the Part 36 category relationships and jurisdictional cost allocation factors for price cap ILECs and a freeze of all allocation factors for rate-of-return ILECs. This order also gave rate-of-return ILECs a one-time option to freeze their Part 36 category relationships in addition to their jurisdictional allocation factors. ALLTEL opted not to freeze its allocation factors. In June 2001, the FCC waived certain provisions of its Part 69 access charge rules to allow non-price cap ILECs to include in their tariff filings an end-user charge to recover their universal service contributions. ALLTEL ILECs tariffed the surcharge in their annual interstate access tariff filing and began assessing the surcharge effective August 1, 2001.

In October 2001, the FCC adopted rate-of-return access charge reform and initiated a further round of rulemaking to consider other rate-of-return carrier issues. The order lowered traffic sensitive switched access rates, increased the subscriber line charge (SLC) over time to bring it in line with SLCs adopted for price cap carriers and phased out carrier common line charges in favor of a new portable Interstate Common Line Support universal service mechanism, and retained the authorized 11.25 percent rate of return. The residential and single-line business SLC cap phase-in began on January 1, 2002, increased on July 1, 2002 and may increase again on July 1, 2003, subject to a FCC review of SLC caps for price cap carriers. The Company does not expect that this order will have a material adverse effect on its consolidated financial results during 2003.

On December 20, 2001, the FCC released a notice of proposed rulemaking initiating the first triennial review of the FCC s policies on unbundled network elements (UNEs). UNE-P is created when a competing carrier obtains all the network elements needed to provide service from the ILEC at a discounted rate. The rulemaking asks whether the FCC should retain, modify, or eliminate its existing definitions and requirements for unbundled network elements. A decision is expected from the FCC in the first quarter 2003. At this time, ALLTEL cannot predict the impact of the FCC s decision on its ILEC revenues and expenses.

During the first quarter of 2002, the FCC initiated a rulemaking that could result in the deregulation of wireline broadband for Internet access services. The FCC s tentative conclusion is that wireline broadband Internet access should be classified as an information service rather than a telecommunications service and, therefore, should not be subject to common carrier regulation. At this time, ALLTEL cannot estimate whether or when any such changes will occur or, if they occur, what the impact of the changes on its ILEC revenues and expenses would be.

Because certain of the regulatory matters discussed above are under FCC or judicial review, resolution of these matters continues to be uncertain, and ALLTEL cannot predict at this time the specific effects, if any, that the 96 Act, regulatory decisions and rulemakings, and future competition will ultimately have on its ILEC operations.

Table of Contents

Communications Support Services Operations

(Millions)	2002	2001	2000
Revenues and sales:			
Product distribution	$371.3	$367.7	$503.9
Directory publishing	119.1	146.2	130.3
Long-distance and network management services	316.2	309.9	272.4
Total revenues and sales	806.6	823.8	906.6
Costs and expenses:			
Cost of services	208.7	190.5	178.0
Cost of products sold	439.2	444.7	556.2
Selling, general, administrative and other	68.1	75.6	91.6
Depreciation and amortization	27.2	22.4	17.4
Total costs and expenses	743.2	733.2	843.2
Segment income	$ 63.4	$ 90.6	$ 63.4

Revenues and sales decreased $17.2 million, or 2 percent, in 2002 and $82.8 million, or 9 percent, in 2001. As noted in the table above, the decrease in revenues and sales in 2002 reflected reductions in directory publishing revenues, partially offset by growth in sales of telecommunications and data products and increased revenues from long-distance and network management services. Directory publishing revenues decreased $27.1 million primarily due to a reduction in the number of directory contracts published, as a result of the loss of one large customer. Sales of telecommunications and data products increased $3.6 million in 2002, as sales to affiliates increased $12.5 million, primarily due to additional purchases made by the Company s wireline subsidiaries reflecting the Verizon acquisition. Sales to non-affiliates decreased $8.9 million in 2002, reflecting a reduction in capital spending by telecommunications companies. Revenues from long-distance and network management services increased $6.3 million in 2002, primarily driven by growth in ALLTEL s customer base for these services, partially offset by a decrease in customer billing rates due to competition.

The decrease in revenues and sales in 2001 primarily resulted from a reduction in sales of telecommunications and data products, which decreased $136.2 million. Sales to affiliates accounted for $94.2 million of the overall decrease in sales of telecommunications and data products in 2001, primarily due to a reduction in purchases made by the Company s wireline subsidiaries, reflecting timing differences in the purchases of materials and equipment related to long-term construction projects. Sales to non-affiliates also declined $42.0 million in 2001, primarily reflecting a general reduction in capital spending by telecommunications companies due to economic conditions and the industry s emphasis on controlling costs. Revenues from long-distance and network management services increased $37.5 million in 2001, primarily driven by growth in ALLTEL s customer base for these services. Directory publishing revenues increased $15.9 million in 2001, primarily reflecting an increase in the number of directory contracts published.

A summary of the integration expenses and other charges related to the communications support services operations that were not included in the determination of segment income were as follows for the years ended December 31:

(Millions)	2002	2001	2000
Severance and employee benefit costs	$1.4	$1.9	$
Lease and contract termination costs	3.6	1.0	
Total integration expenses and other charges	$5.0	$2.9	$

Excluding the effects of the integration expenses and other charges noted above, the decrease in segment income in 2002 reflected the overall reduction in revenues and sales noted above, lower gross profit margins

Table of Contents

realized by the product distribution and long-distance operations and an increase in depreciation expense. Gross profit margins for the long-distance operations primarily reflected the reduction in customer billing rates and increased network-related expenses due to growth in its customer base. Gross profit margins for the product distribution operations reflected lower margins earned on affiliated sales and the effects of increased competition from other distributors and from direct sales by manufacturers. Depreciation and amortization expense increased $4.8 million in 2002, due mainly to the growth in plant in service supporting the long-distance and network management operations. Although revenues and sales decreased in 2001, segment income increased primarily due to improved profit margins realized by the long-distance operations. The improved profit margins reflected reduced network costs as a result of transporting more traffic on ALLTEL s own fiber network as compared to the prior year.

Information Services Operations

(Millions)	2002	2001	2000
Revenues and sales	$990.1	$1,035.2	$1,014.6
Costs and expenses:			
Cost of services	551.5	616.4	616.7
Cost of products sold	0.1	0.7	2.3
Selling, general, administrative and other	182.9	177.6	157.6
Depreciation and amortization	93.7	94.1	93.6
Total costs and expenses	828.2	888.8	870.2
Segment income	$161.9	$ 146.4	$ 144.4

Information services revenues and sales decreased $45.1 million, or 4 percent, in 2002 and increased $20.6 million, or 2 percent, in 2001. Financial services revenues, which includes the residential lending and international operations, decreased $18.8 million in 2002, primarily due to reduced software licensing and processing revenues from several large customers, partially offset by additional revenues earned from existing data processing contracts and additional software maintenance revenues. The decreases in revenues earned from several large financial services customers in 2002 primarily resulted from lost international operations due to contract terminations, reflecting consolidation in the financial services industry and from completion during 2001 of certain customer specific software development and conversion projects. Telecommunications revenues decreased $26.3 million in 2002, primarily due to reduced revenues earned from several large customers, partially offset by additional services provided to existing customers. The reduced revenues from several large telecommunications customers reflected lost operations due to contract terminations and the completion during 2001 of customer specific conversion projects and other transitional services. Revenues and sales increased in 2001 primarily due to growth in the financial services operations. Financial services revenues increased $38.8 million in 2001, primarily due to growth in mortgage processing revenues, reflecting increased mortgage refinancing activity due to declines in consumer borrowing rates and additional revenues earned from new businesses. Software licensing and maintenance revenues increased $9.5 million and $14.2 million, respectively, also contributing to the growth in financial services revenues in 2001. During the second half of 2000, ALLTEL acquired Benchmark Consulting International and Datamatic Services, Inc., two privately held companies serving the financial services industry and formed ALLTEL Corebanking Solutions, a business venture with IBM to provide corebanking software to financial services organizations in Europe. As previously discussed, in 2000, the Company had also formed ALLTEL Mortgage Solutions, a business venture with Bradford & Bingley Group, that was discontinued in December 2002. Both of these business ventures are majority-owned consolidated subsidiaries of ALLTEL. The acquired businesses and two business ventures accounted for $30.2 million of the overall increase in financial services revenues in 2001. Growth in financial services revenues in 2001 attributable to new business and additional license fee and software maintenance revenues was partially offset by reduced revenues from several large customers and lost operations due to contract terminations. Telecommunications

Table of Contents

revenues decreased $18.2 million in 2001, primarily as a result of lost operations due to contract terminations, partially offset by growth in existing contracts and the effect of two new outsourcing agreements.

The changes in cost of services for 2002 and 2001 were consistent with the changes in revenues and sales noted above. In addition, cost of services for 2002 and 2001 also reflected reduced operating costs reflecting the Company s restructuring activities, as previously discussed. Selling, general, administrative and other operating expenses increased in both years due to increased development expense primarily associated with the Company s business ventures discussed above, partially offset by reduced overhead costs reflecting the Company s restructuring activities.

Primarily as a result of reduced operating costs and expenses, segment income increased $15.5 million, or 11 percent, in 2002. Segment income increased $2.0 million or 1 percent in 2001, primarily as a result of the changes in revenues and sales. Growth in segment income for 2001 attributable to revenue growth and reduced operating and overhead costs was partially offset by losses sustained by the recently acquired operations and the business ventures previously discussed.

A summary of the integration expenses and other charges related to the information services operations that were not included in the determination of segment income were as follows for the years ended December 31:

(Millions)	2002	2001	2000
Severance and employee benefit costs	$ 1.8	$ 9.0	$ 5.9
Lease and contract termination costs	1.5	2.3	4.2
Write-down of investment in business venture	42.3		
Write-down of software development costs		8.9	
Total integration expenses and other charges	$45.6	$20.2	$10.1

In connection with the Company s business venture with IBM, ALLTEL has capitalized approximately $28.0 million in software development costs. The Company expects to capitalize in 2003 approximately $6.0 million of additional software development costs related to this business venture. The process of developing new software products is complex and requires the Company to make long-term investments and commit significant resources before realizing revenue streams. Accordingly, the future profitability of this business venture and the Company s ability to recover its investment will be dependent upon ALLTEL s success in marketing the software and related services to customers.

Segment Capital Requirements

The primary uses of cash for ALLTEL s operating segments are capital expenditures for property, plant and equipment and expenditures for capitalized software development to support the Company s communications and information services businesses. Capital expenditures and expenditures for software development by operating segment are forecasted as follows for the year ended December 31, 2003:

(Millions)	Capital Expenditures		Software Development		Totals	
Wireless	$ 715.0	$ 790.0	$50.0	$ 50.0	$ 765.0	$ 840.0
Wireline	400.0	410.0	10.0	10.0	410.0	420.0
Communications support services	20.0	30.0			20.0	30.0
Information services	50.0	60.0	30.0	40.0	80.0	100.0
Corporate	5.0	10.0			5.0	10.0
Totals	$1,190.0	$1,300.0	$90.0	$100.0	$1,280.0	$1,400.0

The foregoing forecast does not reflect the pending disposition of the Company s financial services division of its information services subsidiary, which is expected to close by the end of the first quarter of 2003.

Approximately 95 percent of the total capital requirements for the information services segment listed above relates to the financial services division. Capital expenditures for 2003 will be primarily incurred for further deployment of digital wireless technology, including wireless 1X data capabilities, in the Company s existing and acquired wireless markets. The forecasted spending levels in 2003 are subject to revision depending on changes in future capital requirements of the Company s business segments.

Each of ALLTEL s operating segments in 2002 generated positive cash flows sufficient to fund the segments day-to-day operations and to fund their capital requirements. The Company expects each of the operating segments to continue to generate sufficient cash flows in 2003 to fund their operations and capital requirements.

Financial Condition, Liquidity and Capital Resources

(Millions, except per share amounts)	2002	2001	2000
Cash flows from (used in):			
Operating activities	$ 2,594.9	$ 2,070.5	$ 1,496.3
Investing activities	(4,606.6)	(570.3)	(1,264.3)
Financing activities	2,078.9	(1,476.7)	(183.4)
Effect of exchange rate changes	3.0	(5.4)	1.0
Change in cash and short-term investments	$ 70.2	$ 18.1	$ 49.6
Total capital structure (a)	$12,639.9	$ 9,480.2	$ 9,776.8
Percent equity to total capital (b)	47.5%	58.7%	52.1%
Interest coverage ratio (c)	5.52x	6.54x	5.95x
Book value per share (d)	$19.27	$17.92	$16.28

Notes:

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

(b) Computed by dividing total shareholders equity by total capital structure as computed in (a) above.

(c) Computed by dividing income before income taxes adjusted to exclude interest expense, integration expenses and other charges, gain on disposal of assets, write-down of investments and other by interest expense.

(d) Computed by dividing total shareholders equity less preferred stock by the total number of common shares outstanding at the end of the year.

Cash Flows from Operations

Cash provided from operations continued to be ALLTEL s primary source of funds. Cash provided from operations in all three years reflected growth in earnings from the Company s business segments. In addition to earnings growth, the increases in 2002 and 2001 also reflected changes in working capital requirements, including timing differences in the receipt and payment of trade receivables, payables and taxes. Cash provided from operations in 2000 was adversely affected by working capital changes, including timing differences in the billing and collection of accounts receivable and additional income tax payments primarily associated with gains realized from the exchange of wireless assets and the sale of WorldCom stock.

Cash Flows from Investing Activities

Capital expenditures continued to be ALLTEL s primary use of capital resources. Capital expenditures were $1,194.1 million in 2002, $1,231.9 million in 2001 and $1,164.7 million in 2000. Capital expenditures in each of the past three years were incurred to construct additional network facilities, to deploy digital wireless technology in the Company s existing wireless markets and to upgrade ALLTEL s telecommunications network in order to offer other communications services, including long-distance, Internet, DSL and local competitive access

Table of Contents

services. Capital expenditures for 2002 also included additional spending by ALLTEL to deploy CDMA technology in the properties acquired from CenturyTel, as previously discussed. During each of the past three years, the Company funded most of its capital expenditures through internally generated funds. As indicated in the table above under Segment Capital Requirements , the Company expects capital expenditures to be approximately $1,190.0 million to $1,300.0 million for 2003, which will be funded primarily from internally generated funds.

Investing activities also included outlays for capitalized software development costs. Additions to capitalized software were $119.0 million in 2002, $171.4 million in 2001 and $117.3 million in 2000. Capitalized software development costs for 2001 included additional spending on certain of the Company s proprietary financial services software products related to customer specific development projects. Spending levels for capitalized software development costs in 2002 reflected the completion of these projects during 2001. Capitalized software development costs for 2002 and 2001 also included costs incurred for the development and enhancement of internal use software to support the Company s retail operations. As indicated in the table above under Segment Capital Requirements , the Company expects expenditures for capitalized software development to be approximately $90.0 million to $100.0 million for 2003, which also will be funded primarily from internally generated funds.

Cash outlays for the purchase of property, net of cash acquired, were $3,375.8 million for 2002 and primarily consisted of $1,735.2 million for the purchase of wireline properties in Kentucky from Verizon ($1,928.7 million total purchase price less $193.5 million deposit including accrued interest paid in October 2001) and $1,595.3 million for the purchase of wireless assets from CenturyTel. In addition, during 2002, ALLTEL also purchased a wireline property in Georgia for $17.9 million, acquired additional ownership interests in wireless properties in Arkansas, Louisiana and Texas for $17.1 million and purchased two privately held companies serving the financial services industry for $10.3 million in cash.

Cash flows used in investing activities for 2001 included cash outlays of $217.5 million for the purchase of property, principally consisting of the $190.7 million deposit paid by ALLTEL in connection with the Company s pending purchase of wireline properties in Kentucky, as previously discussed. Cash flows used in investing activities for 2000 included $1,040.0 million of cash outlays for the acquisition of property. This amount principally consisted of $624.3 million paid by ALLTEL in connection with the wireless transaction with Bell Atlantic completed in April 2000 and $387.6 million paid by ALLTEL in October 2000 to acquire wireless properties in Louisiana, as previously discussed. Also during 2000, the Company acquired additional ownership interests in wireless properties in Florida and Georgia and purchased two privately held companies serving the financial services industry. In connection with these acquisitions, the Company paid $28.1 million in cash and issued approximately 730,000 shares of ALLTEL common stock.

Cash flows from investing activities included $7.5 million in 2002 and $524.4 million in 2001 of advance lease payments received from American Tower for the leasing of 1,773 of the Company s cell site towers. As further discussed in Note 14 to the consolidated financial statements, in December 2000, ALLTEL signed an agreement to lease American Tower certain of the Company s cell site towers in exchange for cash paid in advance. ALLTEL is obligated to pay American Tower a monthly fee per tower for management and maintenance services for the duration of the fifteen-year lease agreement.

Cash flows from investing activities for 2002 included proceeds from the sale of assets of $24.1 million received by ALLTEL in connection with the sale of a wireless property in Pennsylvania, as previously discussed. Cash flows from investing activities for 2001 included $411.4 million of proceeds from the sale of assets, principally consisting of $410.1 million received by ALLTEL from the sale of 20 PCS licenses, as previously discussed. Cash flows from investing activities for 2000 included $328.9 million of proceeds from the sale of assets. These amounts consisted of $216.9 million received by ALLTEL to complete the exchange of wireless assets with GTE in June 2000 and $112.0 million received from the sale of PCS assets in Birmingham and Mobile, Ala. and PCS licenses in nine other markets including Pensacola, Fla., as previously discussed. Cash flows from investing activities for 2000 included proceeds from the sale of investments of $630.3 million and primarily consisted of $595.8 million received from the sale of ALLTEL s investment in WorldCom common

Table of Contents

stock. Cash flows from investing activities also included proceeds from the return on investments of $51.9 million in 2002, $54.8 million in 2001 and $94.2 million in 2000. These amounts primarily consisted of cash distributions received from ALLTEL s wireless minority investments. The significant decrease in distributions received in 2001 primarily reflected the sale of certain minority investments to Bell Atlantic and GTE, as previously discussed.

The proceeds received in 2001 from the asset sales and the leasing of cell site towers and the proceeds received in 2000 from the sales of investments and other assets were used primarily to reduce borrowings under the Company s commercial paper program.

Cash Flows from Financing Activities

Dividend payments remained a significant use of the Company s capital resources. Common and preferred dividend payments amounted to $423.1 million in 2002, $411.8 million in 2001 and $403.0 million in 2000. The increases in each year primarily reflected growth in the annual dividend rates on ALLTEL s common stock. In October 2002, the Company s Board of Directors increased the quarterly common stock dividend rate from $.34 to $.35 per share. This action raised the annual dividend rate to $1.40 per share and marked the 42nd consecutive year in which ALLTEL has increased its common stock dividend. The Company expects to continue its cash dividend policy in 2003.

During 2002, the Company increased the maximum borrowing capacity of its commercial paper program from $1.25 billion to $1.5 billion. ALLTEL classifies commercial paper borrowings as long-term debt, because they are intended to be maintained on a long-term basis and are supported by the Company s revolving credit agreements. ALLTEL has a $1.0 billion line of credit under a revolving credit agreement of which $50.0 million will expire in October 2003 and $950.0 million will expire in October 2005. On July 31, 2002, the Company entered into an additional $500.0 million, 364-day revolving credit agreement that will expire on July 30, 2003, and allows the Company to convert any outstanding borrowings under this agreement into term loans maturing in 2004. No borrowings were outstanding under the revolving credit agreements as of December 31, 2002, 2001 and 2000.

Under the commercial paper program, commercial paper borrowings are deducted from the revolving credit agreements in determining the amount available for borrowing under those agreements. Accordingly, the total amount outstanding under the commercial paper program and the indebtedness incurred under the revolving credit agreements may not exceed $1.5 billion. Commercial paper borrowings outstanding as of December 31, 2002 were $25.0 million, compared to $230.1 million and $835.5 million outstanding as of December 31, 2001 and 2000, respectively. Commercial paper borrowings outstanding as of December 31, 2002 had a weighted average interest rate of 1.4 percent. As previously discussed, the Company incurred commercial paper borrowings in the amount of $442.5 million to fund a portion of the purchase price of the Verizon and CenturyTel acquisitions. Borrowings in 2001 under the commercial paper program were incurred primarily to finance the deposit delivered in connection with the Verizon wireline property acquisition and to fund stock repurchases. Additional borrowings under the commercial paper program in 2000 were incurred to finance the wireless property acquisitions from SBC and Bell Atlantic, to fund the stock repurchase plan and to retire amounts outstanding under the $1.0 billion revolving credit agreement.

On April 9, 2002, ALLTEL deregistered its May 2001 $1.0 billion shelf registration statement, under which no debt securities had been issued. On March 28, 2002, the Company filed a new shelf registration statement providing for the issuance of up to $5.0 billion in the aggregate initial offering price of unsecured debt and equity securities. As previously discussed, during May 2002, the Company sold 27.7 million equity units under this shelf registration statement and received net proceeds of $1.34 billion. In June 2002, the Company issued $1.5 billion of unsecured long-term debt consisting of $800.0 million of 7.0 percent senior notes due July 1, 2012 and $700.0 million of 7.875 percent senior notes due July 1, 2032. Net proceeds from the debt issuance were $1.47 billion, after deducting the underwriting discount and other offering expenses. The net proceeds from the issuance of the equity units and debt securities of $2.81 billion represented all of the long-term debt issued in

Table of Contents

2002. Long-term debt issued in 2000 was $835.5 million and consisted solely of additional borrowings under the Company s commercial paper program.

Retirements of long-term debt totaled $266.4 million in 2002, $782.5 million in 2001 and $405.9 million in 2000. The net reductions from December 31, 2001 and 2000 in commercial paper borrowings of $205.1 million and $605.4 million, respectively, represented the majority of the long-term debt retired in 2002 and 2001. Retirements of long-term debt for 2001 also included the early retirement of $73.5 million of high-cost debt completed in the second quarter of 2001, as previously discussed. The net reductions from December 31, 1999 in revolving credit borrowings of $341.0 million represented the majority of the long-term debt retired in 2000. Scheduled long-term debt retirements, net of commercial paper and revolving credit agreement activity and the prepayment of long-term debt, amounted to $61.3 million in 2002, $103.6 million in 2001 and $64.9 million in 2000. (See Note 5 to the consolidated financial statements for additional information regarding the Company s long-term debt.)

Distributions to minority investors were $57.9 million in 2002, compared to $117.8 million in 2001 and $76.8 million in 2000. The decrease in 2002 period primarily reflected the transfer to ALLTEL of the remaining ownership interest in two South Carolina MSAs related to the dissolution of a partnership with BellSouth previously discussed. In addition, distributions in 2001 included additional payments of $48.4 million, representing the minority partners share of the proceeds received from the leasing of cell site towers discussed above. Distributions in 2001 and 2000 included the effects of the acquisition of the remaining minority interests in wireless properties in Florida and Georgia and the disposition of certain majority-owned partnerships in connection with the property exchanges with Bell Atlantic and GTE, as previously discussed.

On July 20, 2000, ALLTEL s Board of Directors adopted a stock repurchase plan that allowed the Company to repurchase up to 7.5 million shares of its outstanding common stock. During 2001, ALLTEL repurchased 1.4 million of its common shares at a total cost of $78.1 million, compared to 3.0 million common shares repurchased at a total cost of $164.3 million in 2000. In November 2000, the Company entered into three forward purchase contracts with a financial institution in conjunction with the stock repurchase program. Under terms of the contracts, the Company agreed to purchase ALLTEL common shares from the financial institution at a specified price (the forward price). The forward price was equal to the financial institution s cost to acquire the shares plus a premium based on the net carrying cost of the shares to the financial institution and accrued over the period that the contract was outstanding. During the second quarter of 2001, the Company settled these contracts by acquiring 1.9 million of its common shares at a cost of $114.2 million. Through December 31, 2002, ALLTEL had repurchased 6.3 million of the 7.5 million shares the Company was authorized to repurchase under the stock repurchase plan.

Liquidity and Capital Resources

The Company believes it has adequate operating cash flows to finance its ongoing operating requirements including capital expenditures and the payment of dividends. Additional sources of funding available to the Company include (1) additional borrowings available to the Company under its commercial paper program and revolving credit agreements and (2) additional debt or equity securities under the Company s $5.0 billion shelf registration statement, of which approximately $730 million remained available for issuance at December 31, 2002.

ALLTEL s commercial paper and long-term credit ratings with Moody s Investors Service (Moody s), Standard & Poor s Corporation (Standard & Poor s) and Fitch Ratings (Fitch) were unchanged from December 31, 2001 and were as follows:

Description	Moody s	Standard & Poor s	Fitch
Commercial paper credit rating	Prime-1	A-1	F1
Long-term debt credit rating	A2	A	A
Outlook	Stable	Negative	Stable

Table of Contents

Factors that could affect ALLTEL s short and long-term credit ratings would include, but not be limited to, a material decline in the Company s operating results and increased debt levels relative to operating cash flows resulting from future acquisitions or increased capital expenditure requirements. If ALLTEL s credit ratings were to be downgraded from current levels, the Company would incur higher interest costs on new borrowings, and the Company s access to the public capital markets could be adversely affected. A downgrade in ALLTEL s current short or long-term credit ratings would not accelerate scheduled principal payments of ALLTEL s existing long-term debt.

During the third quarter of 2002, the Company amended its $1.0 billion revolving credit agreement to conform certain of its provisions to corresponding provisions of the Company s 364-day revolving credit agreement. The revolving credit agreements contain various covenants and restrictions including a requirement that, as of the end of each calendar quarter, ALLTEL maintain a total debt-to-capitalization ratio of less than 65 percent. For purposes of calculating this ratio under the revolving credit agreement, total debt would include amounts classified as long-term debt (excluding mark-to-market adjustments for interest rate swaps), current maturities of long-term debt outstanding, short-term debt and any letters of credit or other guarantee obligations. As of December 31, 2002, the Company s total debt to capitalization ratio was 52.2 percent.

At December 31, 2002, current maturities of long-term debt were $495.3 million and included a $450.0 million, 7.125 percent senior unsecured note due March 1, 2003. ALLTEL expects to fund the payment of this note at maturity through cash on hand or through the issuance of additional commercial paper borrowings or other unsecured long-term debt.

As previously discussed, the Company has entered into a definitive agreement to sell the financial services division of its information services subsidiary to Fidelity National for $1.05 billion, payable as $775.0 million in cash and $275.0 million in Fidelity National common stock. The transaction is expected to close by the end of the first quarter of 2003. The Company anticipates using the net cash proceeds from the transaction to reduce its borrowings under its commercial paper program and for other general corporate purposes.

As previously discussed, the Company received $531.9 million of cash in advance as prepaid rent in connection with the leasing of certain cell site towers to American Tower and is recognizing the proceeds as revenue on a straight-line basis over the fifteen-year lease term. Participants in the telecommunications and cell tower industry currently are experiencing a more difficult operating and financial environment than when the tower transaction with ALLTEL was completed. Accordingly, although ALLTEL currently considers the likelihood to be remote, in the event ALLTEL s tower lessee were to file or become subject to bankruptcy proceedings, it is possible that the bankruptcy court could require that the tower transaction be rescinded and ALLTEL be required to refund the unutilized portion of the prepaid rent.

Pension Plans

ALLTEL maintains a qualified defined benefit pension plan, which covers substantially all employees other than employees of ALLTEL s information services and directory publishing subsidiaries. The Company also maintains a supplemental executive retirement plan that provides unfunded, non-qualified supplemental retirement benefits to a select group of management or other highly-compensated employees. In addition, the Company has entered into individual retirement agreements with certain retired executives providing for unfunded supplemental pension benefits. As further illustrated in Note 7 to the consolidated financial statements, total pension expense (income) related to these plans was $8.8 million in 2002, $8.8 million in 2001 and $(17.2) million in 2000. As a result of unfavorable investment returns and a decrease in long-term interest rates during 2002, ALLTEL s pension expense for 2003 will be approximately $41.0 million.

Annual pension expense is calculated based upon a number of actuarial assumptions, including an expected long-term rate of return on qualified pension plan assets of 8.50 percent and a discount rate of 6.85 percent. In developing the expected long-term rate of return assumption, ALLTEL evaluated historical investment performance, as well as input from its investment advisors. Projected returns by such advisors were based on broad equity and bond indices. The Company also considered the pension plan s historical returns since 1975 of 10.7 percent.

Table of Contents

ALLTEL s expected long-term rate of return on qualified pension plan assets is based on a targeted asset allocation of 70 percent to equities, with an expected long-term rate of return of 10 percent, and 30 percent to fixed income assets, with an expected long-term rate of return of 5 percent. Because of market fluctuations and cash contributions funded in late December to the qualified pension plan by ALLTEL of $50.0 million and the qualified pension plan of Verizon related to the acquired Kentucky wireline assets of $49.0 million that had not yet been reinvested, the actual asset allocation as of December 31, 2002 was 58.3 percent to equities, 25.4 percent to fixed income assets and 16.3 percent in money market funds and other interest bearing investments. ALLTEL regularly reviews the actual asset allocation of its qualified pension plan and periodically rebalances its investments to achieve the targeted allocation. ALLTEL continues to believe that 8.50 percent is a reasonable long-term rate of return on its qualified pension plan assets, despite the market downturn which resulted in a loss in the qualified pension plan assets for the year ended December 31, 2002.

ALLTEL will continue to evaluate its actuarial assumptions, including the expected rate of return, at least annually, and will adjust them as necessary. Lowering the expected long-term rate of return on the qualified pension plan assets by 0.5 percent (from 8.50 percent to 8.0 percent) would result in an increase in pension expense of approximately $3.5 million in 2003.

The discount rate selected is based on a review of current market interest rates of high-quality, fixed-rate debt securities adjusted to reflect the duration of expected future cash outflows for pension benefit payments. In developing the discount rate assumption for 2002, ALLTEL reviewed the high grade bond indices published by Moody s as of December 31, 2002, which are based on debt securities with average maturities of 30 years. These maturities are shorter than the term of the Company s expected future cash outflows, reflecting the younger workforce in the Company s wireless business. To account for the longer duration of its expected future pension benefit payments, the Company analyzed market data and yield curves for U.S. Treasury securities and estimated an appropriate duration adjustment. The discount rate determined on this basis decreased from 7.25 percent at December 31, 2001 to 6.85 percent at December 31, 2002. Lowering the discount rate by 0.25 percent (from 6.85 percent to 6.60 percent) would result in an increase in pension expense of approximately $7.7 million in 2003.

As of December 31, 2002, ALLTEL had cumulative unrecognized actuarial losses of $209.6 million, which will result in increased pension expense beginning in 2003, as these actuarial losses are included in the calculation of annual pension expense. For the Company, unrecognized actuarial gains or losses that exceed 17.5 percent of the greater of the projected benefit obligation or market-related value of plan assets are amortized into pension expense on a straight-line basis over five years. Unrecognized actuarial gains and losses below the 17.5 percent corridor are amortized over the average remaining service life of active plan participants (approximately 14 years at December 31, 2002). In applying this amortization method, the estimated pension expense of $41.0 million for 2003 includes $20.6 million of the unrecognized actuarial loss at December 31, 2002.

ALLTEL made a voluntary $50.0 million contribution to its qualified pension plan in December 2002. ALLTEL does not expect that any contributions to the plan calculated in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 will be required in 2003. Future 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 the Company s qualified pension plan.

Table of Contents

Contractual Obligations and Commitments

Set forth below is a summary of ALLTEL s material contractual obligations and commitments as of December 31, 2002:

(Millions)	Payments Due by Period Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years	Total
Long-term debt, excluding commercial paper	$495.3	$544.0	$2,079.8	$3,496.7	$6,615.8
Commercial paper	25.0				25.0
Operating leases	119.3	151.9	80.8	92.2	444.2
Site maintenance fees cell sites	27.4	58.9	64.9	363.2	514.4
Agreement to purchase wireless properties	72.0				72.0
Total contractual obligations and commitments	$739.0	$754.8	$2,225.5	$3,952.1	$7,671.4

On November 25, 2002, the Company signed a definitive agreement to purchase wireless properties, representing approximately 360,000 POPs in southern Mississippi, from Cellular XL Associates, a privately held company, for $72.0 million in cash. The transaction is expected to close during the first quarter of 2003.

In connection with the offering of the Company s nationwide prepaid wireless services, ALLTEL has entered into a reseller agreement. The agreement allows customers who purchase ALLTEL s nationwide prepaid product offering to obtain wireless services in those U.S. regions in which ALLTEL does not maintain a network presence. Under terms of the three-year agreement, ALLTEL is committed to purchasing minutes of usage at rates that vary based on the actual volume of minutes of usage purchased by the Company. Depending upon the actual usage volumes incurred, ALLTEL s commitment under this agreement could range between approximately $5.0 million and $90.0 million over the next three years. Due to the uncertainty of the timing and the amount of cash outlays, this commitment has not been reflected in the table above.

Under the Company s long-term debt borrowing agreements, acceleration of principal payments would occur upon payment default, violation of debt covenants not cured within 30 days or breach of certain other conditions set forth in the borrowing agreements. At December 31, 2002, the Company was in compliance with all of its debt covenants. There are no provisions within the Company s leasing agreements that would trigger acceleration of future lease payments. (See Notes 5, 8 and 14 to the consolidated financial statements for additional information regarding the obligations and commitments listed above.)

The Company does not use securitization of trade receivables, affiliation with special purpose entities, variable interest entities or synthetic leases to finance its operations. Additionally, the Company has not entered into any arrangement requiring ALLTEL to guarantee payment of third party debt or to fund losses of an unconsolidated special purpose entity.

Legal Proceedings

ALLTEL is party to various legal proceedings arising in the ordinary course of business. Although the ultimate resolution of these various proceedings cannot be determined at this time, management of the Company does not believe that such proceedings, individually or in the aggregate, will have a material adverse effect on the future results of operations or financial condition of ALLTEL. In addition, management of the Company is currently not aware of any environmental matters that, individually or in the aggregate, would have a material adverse effect on the consolidated financial condition or results of operations of the Company.

Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations . SFAS No. 143 will apply to fiscal years beginning after June 15, 2002, and will address financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset

Table of Contents

retirement costs. This standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the assets and requires that a liability for an asset retirement obligation be recognized when incurred, recorded at fair value and classified as a liability in the balance sheet. When the liability is initially recorded, the entity will capitalize the cost and increase the carrying value of the related long-lived asset. The liability is then accreted to its present value each period and the capitalized cost is depreciated over the estimated useful life of the related asset. At the settlement date, the entity will settle the obligation for its recorded amount or recognize a gain or loss upon settlement.

The Company has evaluated the effects of SFAS No. 143 on its operations and has determined that for telecommunications and other operating facilities in which the Company owns the underlying land, ALLTEL has no contractual or legal obligation to remediate the property if the Company were to abandon, sell or otherwise dispose of those facilities. For the Company s leased non-wireline telecommunications and operating facilities, primarily consisting of cell sites, office and retail store locations, ALLTEL has determined that the adoption of SFAS No. 143 will not have a material impact on its consolidated financial statements.

In accordance with federal and state regulations, depreciation expense for the Company s wireline operations have historically included an additional provision for cost of removal. Effective with the adoption of SFAS No. 143, the additional cost of removal provision will no longer be included in depreciation expense, because it does not meet the recognition and measurement principles of an asset retirement obligation under SFAS No. 143. On December 20, 2002, the FCC notified wireline carriers that they should not adopt the provisions of SFAS No. 143 unless specifically required by the FCC in the future. As a result of the FCC ruling, the Company will continue to record a regulatory liability for cost of removal for its wireline subsidiaries that follow SFAS No. 71 accounting. For the acquired Kentucky and Nebraska wireline operations not subject to SFAS No. 71, effective January 1, 2003, the Company will cease recognition of the cost of removal provision in depreciation expense and eliminate the cumulative cost of removal included in accumulated depreciation. The cumulative effect of retroactively applying these changes to periods prior to January 1, 2003, will result in a non-cash pretax credit of approximately $34.0 million.

In June 2002, the FASB issued SFAS No. 146 Accounting for Costs Associated with Exit or Disposal Activities . SFAS No. 146 requires that a liability for a cost that is associated with an exit or disposal activity be recognized when the liability is incurred. Costs typically associated with exit or disposal activities include employee termination costs, contract cancellation provisions and relocation costs. This standard nullifies the guidance of Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . SFAS No. 146 also establishes that fair value is the objective for the initial measurement of the liability. SFAS No. 146 will be effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not believe that the adoption of SFAS 146 will have a material impact on its consolidated financial statements.

In December 2002, the FASB issued SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123 . SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation prescribed by SFAS No. 123, Accounting for Stock-Based Compensation . SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. As the Company continues to account for stock-based employee compensation using the intrinsic value method under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees and related Interpretations, the Company, as required, has only adopted the revised disclosure requirements of SFAS No. 148 as of December 31, 2002. (See Stock-Based Compensation section of Note 1 to the consolidated financial statements.)

Table of Contents

In November 2002, the FASB issued FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others . FIN 45 requires that upon issuance of a guarantee, a guarantor must recognize a liability for the fair value of an obligation assumed under a guarantee. FIN 45 also requires additional disclosures by a guarantor in its interim and annual financial statements about the obligations associated with guarantees issued. The recognition provisions of FIN 45 are effective for guarantees issued after December 31, 2002, while the disclosure requirements were effective for financial statements for periods ending after December 15, 2002. At December 31, 2002, the Company had not entered into any material arrangement that would be subject to the disclosure requirements of FIN 45. In addition, ALLTEL does not believe that the adoption of FIN 45 will have a material impact on its consolidated financial statements.

In November 2002, the EITF reached a consensus on Issue 00-21 Accounting for Revenue Arrangements With Multiple Deliverables . The guidance in Issue 00-21 is effective for revenue arrangements entered into in fiscal years beginning after June 15, 2003. Issue 00-21 addresses the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, Issue 00-21 addresses how to determine whether an arrangement involving multiple deliverables contains one or more units of accounting and how arrangement consideration should be measured and allocated to the separate units of accounting. The Company is currently assessing the expected impact of applying the guidance in Issue 00-21 to its communications and information services operations.

Market Risk

The Company is exposed to market risk from changes in interest rates and foreign exchange rates. The Company has estimated its market risk using sensitivity analysis. Market risk is defined as the potential change in earnings due to a hypothetical adverse change in market prices or interest rates. The results of the sensitivity analysis used to estimate market risk are presented below, although the actual results may differ from these estimates.

Interest Rate Risk

The Company s earnings are affected by changes in variable interest rates related to ALLTEL s issuance of short-term commercial paper and interest rate swap agreements. The Company enters into interest rate swap agreements to obtain a targeted mixture of variable and fixed-interest-rate debt such that the portion of debt subject to variable rates does not exceed 30 percent of ALLTEL s total debt outstanding. The Company has established policies and procedures for risk assessment and the approval, reporting, and monitoring of interest rate swap activity. ALLTEL does not enter into interest rate swap agreements, or other derivative financial instruments, for trading or speculative purposes. Management periodically reviews ALLTEL s exposure to interest rate fluctuations and implements strategies to manage the exposure.

As of December 31, 2002, the Company had $25.0 million of outstanding commercial paper. The Company also had entered into six, pay variable receive fixed, interest rate swap agreements on notional amounts totaling $1.0 billion to convert fixed interest rate payments to variable as of December 31, 2002. The maturities of the six interest rate swaps range from March 1, 2006 to November 1, 2013. The weighted average fixed rate received by ALLTEL on these swaps is 5.5 percent, and the variable rate paid by ALLTEL is the three month LIBOR (London-Interbank Offered Rate). The weighted average variable rate paid by ALLTEL was 1.5 percent at December 31, 2002. A hypothetical increase of 100 basis points would reduce pre-tax earnings by approximately $10.3 million. Conversely, a hypothetical decrease of 100 basis points would increase pre-tax earnings by approximately $10.3 million.

As of December 31, 2001, the Company had $230.1 million of outstanding commercial paper. In addition, as of December 31, 2001, the Company had entered into four, pay variable receive fixed, interest rate swap agreements on notional amounts totaling $500.0 million to convert fixed interest rate payments to variable. The maturities of the four interest rate swaps range from March 1, 2006 to November 1, 2013. The weighted average fixed rate received by ALLTEL on these swaps is 5.7 percent, and the variable rate paid by ALLTEL is the three month LIBOR. The weighted average variable rate paid by ALLTEL was 2.1 percent at December 31, 2001. At December 31, 2001, a hypothetical increase of 100 basis points in variable interest rates would reduce pre-tax earnings by $7.3 million. Conversely, a hypothetical decrease of 100 basis points in variable interest rates would increase pre-tax earnings by $7.3 million.

Foreign Exchange Risk

The Company s business operations in foreign countries are not material to the Company s consolidated operations, financial condition and liquidity. Foreign currency translation gains and losses were not material to the Company s consolidated results of operations for the years ended December 31, 2002 and 2001. Additionally, the Company is not currently subject to material foreign currency exchange rate risk from the effects that exchange rate movements of foreign currency would have on the Company s future costs or on future cash flows it would receive from its foreign subsidiaries. The Company has not entered into any material foreign currency forward exchange contracts or other derivative financial instruments to hedge the effects of adverse fluctuations in foreign currency exchange rates.

Critical Accounting Policies

ALLTEL prepares its consolidated financial statements in accordance with accounting principles generally accepted in the United States. ALLTEL s significant accounting policies are discussed in detail in Note 1 to the consolidated financial statements. Certain of these accounting policies as discussed below require management to make estimates and assumptions about future events that could materially affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. These critical accounting polices include the following:

Service revenues for the Company s communications business are recognized based upon minutes of use processed and contracted fees, net of any credits and adjustments. Due to varying customer billing cycle cut-off times, the Company must estimate service revenues earned but not yet billed at the end of each reporting period. These estimates are based on historical minutes of use processed. Changes in estimates for revenues are recognized in the period in which they are determinable, and such changes could occur and have a material effect on the Company s consolidated operating results in the period of change. Fees assessed to communications customers to activate service are deferred and recognized over the expected life of the customer relationship that is based on historical weighted average service lives of customers. ALLTEL does not anticipate any significant changes to the expected life of its communications customer base, but a material increase in the churn rates associated with the customer base could materially affect the Company s future consolidated operating results. The percentage-of-completion method of accounting is utilized for information services contracts that include a software license element. Under this method, revenue and profit are recognized throughout the term of the contract, based upon estimates of the total costs to be incurred and revenues to be generated throughout the term of the contract. Changes in estimates for revenues, costs and profits are recognized in the period in which they are determinable, and such changes have occurred in the past and have been material. Accordingly, changes in revenue, cost and profit estimates related to the Company s contracts could occur and have a material effect on the Company s consolidated operating results in the period of change.

In evaluating the collectibility of its trade receivables, ALLTEL assesses a number of factors including a specific customer s ability to meet its financial obligations to the Company, as well as general factors, such as the length of time the receivables are past due and historical collection experience. Based on these assessments, the Company records both specific and general reserves for bad debt to reduce the related receivables to the amount the Company ultimately expects to collect from customers. If circumstances related to specific customers change or economic conditions worsen such that the Company s past collection experience is no longer relevant, ALLTEL s estimate of the recoverability of its trade receivables could be further reduced from the levels provided for in the consolidated financial statements.

At each balance sheet date, ALLTEL performs a detailed assessment of its capitalized software development costs to be marketed which includes a review of, among other factors, projected revenues, customer demand requirements, product lifecycle, changes in software and hardware technologies, and product development plans. Based on this analysis, ALLTEL records adjustments, when appropriate, to reflect the net realizable value of its capitalized software development costs. The estimates of expected future revenues generated by the software, the remaining economic life of the software, or both, could be reduced in the near term, materially affecting the carrying value of capitalized software development costs and the Company s consolidated operating results in the period of change.

The calculation of the annual costs of providing pension and postretirement benefits are based on certain key actuarial assumptions as disclosed in Note 7 to the consolidated financial statements. As previously discussed, the discount rate selected is based on a review of current market interest rates on high-quality, fixed-rate debt securities adjusted to reflect the Company s longer duration of expected future cash outflows for benefit payments. The expected return on plan assets reflects management s view of the long-term returns available in the investment market based on historical averages and consultation with investment advisors. The healthcare cost trend rate is based on the Company s actual medical claims experience and future projections of medical costs. Changes in these key assumptions could have a material effect on the projected benefit obligations, funding requirements and future periodic benefit costs incurred by the Company.

The calculation of depreciation and amortization expense is based on the estimated economic useful lives of the underlying property, plant and equipment and intangible assets. Although ALLTEL believes it is unlikely that any significant changes to the useful lives of its tangible or intangible assets will occur in the near term, rapid changes in technology or changes in market conditions could result in revisions to such estimates that could materially affect the carrying value of these assets and the Company s future consolidated operating results.

Other Information

On May 7, 2002, the Audit Committee of the Board of Directors of ALLTEL authorized (1) the engagement of PricewaterhouseCoopers LLP (PwC) as the independent auditors for ALLTEL for the calendar year 2002 and (2) the dismissal of Arthur Andersen LLP as ALLTEL s independent auditors.

During 2002, ALLTEL paid PwC $506,793 related to a 2001 engagement for expatriate tax and administration services. Billings related to these services are expected to continue through the first quarter of 2003. The Audit Committee has adopted a policy that requires all non-audit services be approved in advance by the Audit Committee and that no non-audit services, other than tax-related services, may be requested of ALLTEL s independent auditors. PwC has advised the Audit Committee that performing the foregoing expatriate tax and administrative services did not jeopardize the independence of PwC or violate the requirements of the Sarbanes-Oxley Act of 2002. In addition, PwC has not performed tax services for any of ALLTEL s executive officers.

Forward-Looking Statements

This Management s Discussion and Analysis of Financial Condition and Results of Operations 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 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 and expressions, are intended to identify these forward-looking statements. Examples of such forward-looking statements include statements regarding ALLTEL s future cash dividend policy, forecasts of segment capital requirements for 2003, and future contractual obligation and commitment payments. 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; material changes in communications technology; the risks associated with the integration of acquired businesses; the potential for adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations; the availability and cost of financing in the corporate debt markets; the uncertainties related to ALLTEL s strategic investments; the effects of litigation; ongoing deregulation (and the resulting likelihood of significantly increased price and product/service competition) in the communications business as a result of federal and state legislation, rules, and regulations; the final outcome of federal, state and local regulatory initiatives and proceedings related to the terms and conditions of interconnection, access charges, universal service and unbundled network elements and resale rates; and the final outcome of pending litigation challenging the Federal Communications Commission s wireless number portability rules.

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.

Table of Contents

SELECTED FINANCIAL DATA

	For the years ended December 31,					
(Millions, except per share amounts)	2002	2001	2000	1999	1998	1997
Revenues and sales	$7,983.4	$7,505.6	$7,160.0	$6,501.9	$5,779.2	$5,076.0
Operating expenses	6,052.7	5,748.7	5,467.1	4,886.3	4,446.3	3,929.9
Merger and integration expenses and other charges	115.1	92.2	25.4	90.5	252.0	
Provision to reduce carrying value of certain assets					55.0	16.9
Total costs and expenses	6,167.8	5,840.9	5,492.5	4,976.8	4,753.3	3,946.8
Operating income	1,815.6	1,664.7	1,667.5	1,525.1	1,025.9	1,129.2
Non-operating income (expense), net	(1.7)	(2.0)	47.3	13.0	41.2	8.2
Interest expense	(349.4)	(268.5)	(292.6)	(250.4)	(254.9)	(260.6)
Gain on disposal of assets, write-down of investments and other	1.0	357.6	1,928.5	43.1	292.7	209.6
Income before income taxes	1,465.5	1,751.8	3,350.7	1,330.8	1,104.9	1,086.4
Income taxes	541.2	704.3	1,385.3	547.2	501.8	433.9
Income before cumulative effect of accounting change	924.3	1,047.5	1,965.4	783.6	603.1	652.5
Cumulative effect of accounting change		19.5	(36.6)			
Net income	924.3	1,067.0	1,928.8	783.6	603.1	652.5
Preferred dividends	0.1	0.1	0.1	0.9	1.2	1.3
Net income applicable to common shares	$ 924.2	$1,066.9	$1,928.7	$ 782.7	$ 601.9	$ 651.2
Earnings per share:						
Income before cumulative effect of accounting change:						
Basic	$2.97	$3.36	$6.25	$2.50	$1.97	$2.12
Diluted	$2.96	$3.34	$6.20	$2.47	$1.95	$2.10
Net income:						
Basic	$2.97	$3.42	$6.13	$2.50	$1.97	$2.12
Diluted						