ALLTEL CORP
Form 10-Q
August 08, 2007

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

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-4996

ALLTEL CORPORATION
(Exact name of registrant as specified in its charter)

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

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

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x YES ¨ NO

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). ¨ YES x NO

Number of common shares outstanding as of July 31, 2007: 343,880,806

The Exhibit Index is located on page 40.

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Forward-Looking Statements

This Report on Form 10-Q includes, and future filings by the Company on Form 10-K, Form 10-Q and Form 8-K and future oral and written statements by ALLTEL Corporation ("Alltel") and its management may include, certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to uncertainties that could cause actual future events and results to differ materially from those expressed in the forward-looking statements. These forward-looking statements are based on estimates, projections, beliefs, and assumptions and are not guarantees of future events and results. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", and "should", and variations of these words ar expressions, are intended to identify these forward-looking statements. Alltel disclaims any obligation to update or revise any forward-looking statement based on the occurrence of future events, the receipt of new information, or otherwise.

Actual future events and results may differ materially from those expressed in these forward-looking statements as a result of a number of important factors. Representative examples of these factors include (without limitation): the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement with TPG Partners V, L.P. and GS Capital Partners VI Fund, L.P.; the inability to complete the merger due to the failure to obtain stockholder approval for the merger or the failure to satisfy other conditions to completion of the merger, including the receipt of all regulatory approvals related to the merger; risks that the proposed transaction disrupts current plans and operations; adverse changes in economic conditions in the markets served by Alltel; the extent, timing, and overall effects of competition in the communications business; material changes in the communications industry generally that could adversely affect vendor relationships with equipment and network suppliers and customer relationships with wholesale customers; changes in communications technology; the risks associated with the integration of acquired businesses; adverse changes in the terms and conditions of the wireless roaming agreements of Alltel; the potential for adverse changes in the ratings given to Alltel's debt securities by nationally accredited ratings organizations; the uncertainties related to Alltel's strategic investments; the effects of litigation; and the effects of federal and state legislation, rules, and regulations governing the communications industry.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share amounts)		June 30, 2007		December 31, 2006
Assets				
Current Assets:				
Cash and short-term investments	$	456.3	$	934.2
Accounts receivable (less allowance for doubtful accounts of $64.5 and $54.9, respectively)		839.2		807.3
Inventories		206.5		218.6
Prepaid expenses and other		86.1		67.7
Assets related to discontinued operations		-		4.3
Total current assets		1,588.1		2,032.1
Investments		187.1		368.9
Goodwill		8,421.3		8,447.0
Other intangibles		2,042.3		2,129.4
Property, Plant and Equipment:				
Land		328.3		314.9
Buildings and improvements		990.9		955.1
Operating plant and equipment		8,313.6		7,933.8
Information processing		1,114.1		1,048.1
Furniture and fixtures		178.5		173.8
Under construction		431.1		496.0
Total property, plant and equipment		11,356.5		10,921.7
Less accumulated depreciation		6,257.6		5,690.3
Net property, plant and equipment		5,098.9		5,231.4
Other assets		100.9		89.4
Assets related to discontinued operations		-		45.5
Total Assets	$	17,438.6	$	18,343.7
Liabilities and Shareholders' Equity				
Current Liabilities:				
Current maturities of long-term debt	$	39.7	$	36.3
Accounts payable		496.2		576.1
Advance payments and customer deposits		205.3		186.2
Accrued taxes		180.5		114.1
Accrued dividends		43.0		46.0
Accrued interest		79.1		79.3
Other current liabilities		185.6		156.5
Liabilities related to discontinued operations		-		2.8
Total current liabilities		1,229.4		1,197.3
Long-term debt		2,743.9		2,697.4
Deferred income taxes		1,083.4		1,109.5
Other liabilities		700.2		677.6
Total liabilities		5,756.9		5,681.8
Shareholders' Equity:				

Preferred stock, Series C, $2.06, no par value, 10,028 and 10,307 shares issued and outstanding, respectively		0.3		0.3
Common stock, par value $1 per share, 1.0 billion shares authorized, 343,873,537 and 364,505,820 shares issued and outstanding, respectively		343.9		364.5
Additional paid-in capital		3,031.3		4,296.8
Accumulated other comprehensive income (loss)		(26.1)		9.5
Retained earnings		8,332.3		7,990.8
Total shareholders’ equity		11,681.7		12,661.9
Total Liabilities and Shareholders’ Equity	$	17,438.6	$	18,343.7

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

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Millions, except per share amounts)	2007	2006	2007	2006
Revenues and sales:				
Service revenues	$ 1,971.6	$ 1,734.1	$ 3,851.7	$ 3,383.3
Product sales	203.5	211.1	401.9	405.2
Total revenues and sales	2,175.1	1,945.2	4,253.6	3,788.5
Costs and expenses:				
Cost of services (excluding depreciation of $197.0, $169.8, $385.8 and $330.6, respectively, included below)	640.2	574.0	1,251.2	1,116.8
Cost of products sold	288.6	283.3	576.1	556.0
Selling, general, administrative and other	479.5	434.5	949.4	860.2
Depreciation and amortization	352.3	309.6	701.8	608.9
Integration expenses and other charges	36.0	-	42.3	10.8
Total costs and expenses	1,796.6	1,601.4	3,520.8	3,152.7
Operating income	378.5	343.8	732.8	635.8
Equity earnings in unconsolidated partnerships	16.4	15.4	31.4	28.3
Minority interest in consolidated partnerships	(8.9)	(11.5)	(18.6)	(25.4)
Other income, net	5.6	21.0	13.3	31.8
Interest expense	(47.4)	(86.4)	(94.1)	(171.1)
Gain on disposal of assets	-	176.6	56.5	176.6
Income from continuing operations before income taxes	344.2	458.9	721.3	676.0
Income taxes	145.7	170.5	292.5	253.4
Income from continuing operations	198.5	288.4	428.8	422.6
Income (loss) from discontinued operations (net of income tax expense of $1.8, $97.2, $1.7 and $214.7, respectively)	(2.8)	140.5	(3.0)	303.7
Net income	195.7	428.9	425.8	726.3
Preferred dividends	-	-	-	-
Net income applicable to common shares	$ 195.7	$ 428.9	$ 425.8	$ 726.3
Earnings per share:				
Basic:				
Income from continuing operations	$ .58	$ .74	$1.22	$1.09

Income (loss) from discontinued operations	(.01)	.36	(.01)	.78
Net income	$ .57	$1.10	$1.21	$1.87
Diluted:				
Income from continuing operations	$ .57	$ .74	$1.21	$1.08
Income (loss) from discontinued operations	(.01)	.36	(.01)	.78
Net income	$ .56	$1.10	$1.20	$1.86

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
(Millions)	2007	2006
Cash Flows from Operating Activities:		
Net income	$ 425.8	$ 726.3
Adjustments to reconcile net income to net cash provided from operating activities:		
Loss (income) from discontinued operations	3.0	(303.7)
Depreciation and amortization expense	701.8	608.9
Provision for doubtful accounts	86.8	113.4
Non-cash portion of gain on disposal of assets	(56.5)	(176.6)
Change in deferred income taxes	47.1	21.2
Other, net	(16.2)	(4.3)
Changes in operating assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	(120.8)	(136.1)
Inventories	12.2	71.0
Accounts payable	(81.7)	(68.2)
Other current liabilities	133.8	(155.9)
Other, net	(22.6)	(53.7)
Net cash provided from operating activities	1,112.7	642.3
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(477.8)	(441.2)
Additions to capitalized software development costs	(17.2)	(17.0)
Purchases of property, net of cash acquired	(6.2)	(676.4)
Proceeds from the sale of investments	188.7	199.9
Proceeds from the return on investments	24.8	22.2
Other, net	0.6	11.4
Net cash used in investing activities	(287.1)	(901.1)
Cash Flows from Financing Activities:		
Dividends paid on common and preferred stock	(90.5)	(297.2)
Repayments of long-term debt	(36.3)	(0.7)
Repurchases of common stock	(1,360.3)	-
Cash payments to effect conversion of convertible notes	-	(59.8)
Distributions to minority investors	(21.1)	(20.3)
Excess tax benefits from stock option exercises	5.2	5.7
Long-term debt issued	100.0	-
Common stock issued	53.0	88.6
Net cash used in financing activities	(1,350.0)	(283.7)
Cash Flows from Discontinued Operations:		
Cash provided from (used in) operating activities	(1.2)	599.5
Cash provided from investing activities	47.7	1,492.0

Cash provided from financing activities		-		1.0
Net cash provided from discontinued operations		46.5		2,092.5
Effect of exchange rate changes on cash and short-term investments		-		(5.9)
Increase (decrease) in cash and short-term investments		(477.9)		1,544.1
Cash and Short-term Investments:				
Beginning of the period		934.2		982.4
End of the period	$	456.3	$	2,526.5

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

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CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2006	$ 0.3	$ 364.5	$ 4,296.8	$ 9.5	$ 7,990.8	$ 12,661.9
Cumulative effect adjustment to adopt recognition and measurement provisions of FASB Interpretation No. 48 (See Note 2)	-	-	-	-	3.2	3.2
Net income	-	-	-	-	425.8	425.8
Other comprehensive loss, net of tax (See Note 10)						
Unrealized holding losses on investments, net of reclassification adjustments	-	-	-	(37.5)	-	(37.5)
Defined benefit pension plans	-	-	-	1.8	-	1.8
Other postretirement benefit plan	-	-	-	0.1	-	0.1
Comprehensive income	-	-	-	(35.6)	425.8	390.2
Employee plans, net	-	1.2	51.6	-	-	52.8
Issuance of restricted stock	-	0.2	-	-	-	0.2
Amortization of stock-based compensation	-	-	15.4	-	-	15.4
Tax benefit for non-qualified stock options	-	-	5.8	-	-	5.8
Repurchases of stock	-	(22.0)	(1,338.3)	-	-	(1,360.3)
Dividends:						
Common - $.25 per share	-	-	-	-	(87.5)	(87.5)
Preferred	-	-	-	-	-	-
Balance at June 30, 2007	$ 0.3	$ 343.9	$ 3,031.3	$ (26.1)	$ 8,332.3	$ 11,681.7

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General:

Basis of Presentation– The consolidated financial statements as of June 30, 2007 and December 31, 2006 and for the three and six month periods ended June 30, 2007 and 2006 of ALLTEL Corporation ("Alltel" or the "Company") are unaudited. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission ("SEC") rules and regulations. Certain information and footnote disclosures have been condensed or omitted in accordance with those rules and regulations. The consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods presented.

Classification of Operations Following the Spin-off of the Wireline Telecommunications Business– On July 17, 2006, Alltel completed the spin-off of its wireline telecommunications business to its stockholders and the merger of that wireline business with Valor Communications Group, Inc. ("Valor"). The spin-off included the majority of Alltel's communications support services, including directory publishing, information technology outsourcing services, retail long-distance and the wireline sales portion of communications products. The new wireline company formed in the merger of Alltel's wireline operations and Valor is named Windstream Corporation ("Windstream"). In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets", the results of operations, assets, liabilities, and cash flows of the wireline telecommunications business have been presented as discontinued operations for all periods presented. See Note 9 for a further discussion of the spin-off of the wireline telecommunications business.

Following the spin-off, Alltel provides wireless voice and data communications services to more than 12 million customers in 35 states. Through roaming arrangements with other carriers, Alltel is able to offer its customers wireless services covering more than 95 percent of the U.S. population. Alltel manages its wireless business and retained portion of communications support services as a single operating segment, and accordingly, Alltel's continuing operations consist of a single reportable business segment, wireless communications services. Unless otherwise noted, the footnote disclosures accompanying these unaudited interim consolidated financial statements exclude information related to the spun-off wireline telecommunications business.

2. Accounting Changes:

Changes in Accounting Principle– In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), which clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

Effective January 1, 2007, Alltel adopted the provisions of FIN 48. As a result of the implementation of FIN 48, the Company recognized an approximate $3.2 million decrease in its reserves for uncertain tax positions, the offsetting effects of which resulted in a corresponding increase to the January 1, 2007 balance of retained earnings. The Company's gross unrecognized tax benefits totaled $93.7 million at January 1, 2007. Approximately $37.4 million of the total amount of unrecognized tax benefits (net of federal tax benefits on state issues) relates to tax positions that would, if recognized, affect Alltel's effective tax rate in future periods. As of January 1, 2007, Alltel believed that it was reasonably possible that approximately $50.0 to $60.0 million of gross unrecognized tax benefits for uncertain tax positions, related to both income inclusion and tax deductibility issues, would reverse in the following twelve months. Of that amount, approximately $2.0 million relates to payments to be made to taxing authorities, $14.6 million relates to an Internal Revenue Service ("IRS") initiative described below and the balance relates to the lapsing of various statutes of limitations.

Alltel's only significant tax jurisdiction is the U.S. federal tax jurisdiction. In 2006, Alltel elected to participate in an IRS initiative undertaken to address certain implications of FIN 48. In connection with that initiative, on January 30, 2007, Alltel entered into a Memorandum of Understanding with the IRS to settle two issues. As a result of this action, in the first quarter of 2007, Alltel reduced its gross unrecognized tax benefits by $14.6 million and its gross deferred tax assets by $0.8 million. The corresponding effects of the reduction in unrecognized tax benefits (including interest and any related tax benefits) of $13.8 million resulted in an increase to additional paid-in capital of $7.7 million, a decrease in goodwill of $4.0 million and an increase to current income taxes payable of $2.1 million. As of June 30, 2007, no other material changes in Alltel's unrecognized tax benefits have occurred subsequent to the Company's adoption of FIN 48 on January 1, 2007.

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. Accounting Changes, Continued:

During the fourth quarter of 2006, Alltel entered into a final settlement with the IRS with respect to its federal income tax returns for the tax years 1997 through 2003, however, the statutes of limitations remain open through September 15, 2007 for the years 2002 and 2003. The audits and related statutes of limitations applicable to Alltel's federal income tax returns for the tax years 2004 through 2006 also remain open. The IRS recently began its audits of the Company's 2004 and 2005 federal income tax returns. Alltel's open tax years for state income tax jurisdictions range from 1997 to 2006.

Consistent with Alltel's past practices, interest charges on potential assessments and any penalties assessed by taxing authorities are classified as income tax expense within the Company's consolidated statements of income. The Company has accrued $28.7 million for the payment of interest and $0.6 million for the payment of penalties related to its gross unrecognized tax benefits as of January 1, 2007.

In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" and supercedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. On March 25, 2005, the SEC staff issued Staff Accounting Bulletin ("SAB") 107, which summarized the staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provided additional guidance regarding the valuation of share-based payment arrangements for public companies. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the employee's requisite service period.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123(R) using the modified prospective application method and applied the provisions of SAB 107 in its adoption of SFAS No. 123(R). Operating results for prior periods were not restated. Under the modified prospective transition method, Alltel is required to recognize compensation cost for all stock option awards granted after January 1, 2006 and for all existing awards for which the requisite service had not been rendered as of the date of adoption. Compensation expense for the unvested awards outstanding as of January 1, 2006 is recognized over the remaining requisite service period based on the fair value of the awards on the date of grant, as previously calculated by Alltel in developing its pro forma disclosures in accordance with the provisions of SFAS No. 123.

The effect of adopting SFAS No. 123(R) consisted of compensation expense for stock options issued by Alltel and resulted in pretax charges of $5.4 million and $10.2 million, which decreased net income $4.1 million and $7.7 million, or $.01 per share and $.02 per share, for the three and six months ended June 30, 2006, respectively. (See Note 5 for a further discussion of the Company's stock-based compensation plans.)

3. Acquisitions:

On October 3, 2006, Alltel completed the purchase of Midwest Wireless Holdings of Mankato, Minnesota ("Midwest Wireless") for $1,083.5 million in cash. The final purchase price included $8.3 million of working capital adjustments. In this transaction, Alltel acquired wireless properties, including 850 MHz licenses and Personal Communications Services ("PCS") spectrum covering approximately 2.0 million potential customers ("POPs"), network assets and approximately 450,000 customers in select markets in Minnesota, Iowa and Wisconsin. Given the close proximity to year-end that this acquisition was completed, the value of certain assets and liabilities were based on preliminary valuations and subject to adjustment as additional information was obtained. During 2007, Alltel recorded employee termination benefits of $6.9 million, including involuntary severance and related benefits to be provided to 154 former Midwest Wireless employees. Alltel also recorded contract termination costs of $2.2 million primarily related to the cancellation of a third party billing services agreement. The employee benefit and contract termination costs were recognized in accordance with Emerging Issues Task Force Issue No. 95-3, “Recognition of Liabilities in Connection with a Purchase Business Combination” (“EITF 95-3”), as liabilities assumed in the business combination. As of June 30, 2007, Alltel had paid $5.3 million in employee termination benefits, and 17 of the scheduled employee terminations had been completed.

During the second quarter of 2006, Alltel purchased for $217.5 million in cash wireless properties covering approximately 727,000 POPs in Illinois, Texas and Virginia. On March 16, 2006, Alltel purchased from Palmetto MobileNet, L.P. for $456.3 million in cash the remaining ownership interests in ten wireless partnerships that cover approximately 2.0 million POPs in North and South Carolina. Prior to this transaction, Alltel owned a 50 percent interest in each of the ten wireless partnerships. During the first quarter of 2006, Alltel also acquired for $2.6 million in cash the remaining ownership interest in a wireless property in Wisconsin in which the Company owned a majority interest.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. Acquisitions, Continued:

During 2007, Alltel adjusted the purchase price allocations related to its 2006 acquisitions primarily for the recognition of employee benefit and contract termination costs associated with the Midwest Wireless acquisition discussed above. These adjustments to the purchase price allocation resulted in a reduction to the preliminary values assigned to acquired net assets of $7.7 million with an offsetting increase to goodwill compared to the corresponding values that had been previously recorded in the Company's consolidated balance sheet as of December 31, 2006.

Unaudited pro forma financial information related to the 2006 acquisitions has not been presented because the acquisitions, individually or in the aggregate, were not material to Alltel's consolidated results of operations for all periods presented. During the first six months of 2007, the Company incurred integration expenses related to its 2006 acquisitions, principally consisting of costs for branding, signage and computer system conversions. (See Note 7 for a further discussion of the integration expenses recorded by Alltel during the three and six month periods ended June 30, 2007.)

On August 1, 2005, Alltel and Western Wireless Corporation ("Western Wireless") completed the merger of Western Wireless into a wholly-owned subsidiary of Alltel. As a result of the merger, Alltel added approximately 1.3 million domestic wireless customers, adding operations in nine new states, including California, Idaho, Minnesota, Montana, Nevada, North Dakota, South Dakota, Utah and Wyoming, and expanding its wireless operations in Arizona, Colorado, New Mexico and Texas. In the merger, each share of Western Wireless common stock was exchanged for 0.535 shares of Alltel common stock and $9.25 in cash unless the shareholder made an all-cash election, in which case the shareholder received $40 in cash. Western Wireless shareholders making an all-stock election were subject to proration and received approximately 0.539 shares of Alltel common stock and $9.18 in cash. In the aggregate, Alltel issued approximately 54.3 million shares of stock valued at $3,430.4 million and paid approximately $933.4 million in cash. Through its wholly-owned subsidiary that merged with Western Wireless, Alltel also assumed debt of approximately $2.1 billion. On the date of closing, Alltel repaid approximately $1.3 billion of term loans representing all borrowings outstanding under Western Wireless' credit facility. During 2005, Alltel repurchased all of the issued and outstanding 9.25 percent senior notes due July 15, 2013 of Western Wireless, representing an aggregate principal amount of $600.0 million. Alltel also assumed $115.0 million of 4.625 percent convertible subordinated notes due 2023 that were issued by Western Wireless in June 2003 (the "Western Wireless notes"). Upon closing of the merger, each $1,000 principal amount of Western Wireless notes became convertible into shares of Alltel common stock and cash based on the mixed-election exchange ratio. During 2006, an aggregate principal amount of $113.0 million of the Western Wireless notes were converted.

During the first quarter of 2007, Alltel adjusted the purchase price allocation related to the Western Wireless acquisition to adjust certain income tax liabilities primarily related to the international operations. The effects of these adjustments resulted in a reduction in goodwill of $31.2 million. During the first quarter of 2006, Alltel completed the integration of the domestic operations acquired from Western Wireless. In connection with this integration, the Company incurred integration expenses, principally consisting of costs for branding, signage, retail store redesigns and computer system conversions. (See Note 7 for a discussion of integration expenses recorded by Alltel during the first quarter of 2006). Employee termination benefits of $23.8 million, including involuntary severance and related benefits to be provided to 337 former Western Wireless employees, and employee retention bonuses of $7.4 million payable to approximately 1,150 former Western Wireless employees were recorded during 2005. These employee benefit costs were recognized in accordance with EITF 95-3 as liabilities assumed in the business combination. As of June 30, 2007, Alltel had paid $31.2 million in employee termination and retention benefits, and all of the scheduled employee terminations had been completed.

4. Goodwill and Other Intangible Assets:

Goodwill represents the excess of cost over the fair value of net identifiable tangible and intangible assets acquired through various business combinations. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets, and the excess of the total purchase price over the amounts assigned to identifiable tangible and intangible assets is recorded as goodwill. As of January 1, 2007, Alltel completed the annual impairment reviews of its goodwill and other indefinite-lived intangible assets and determined that no write-down in the carrying value of these assets was required.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

4. Goodwill and Other Intangible Assets, Continued:

The changes in the carrying amount of goodwill for the six months ended June 30, 2007 were as follows:

(Millions)		
Balance at December 31, 2006	$	8,447.0
Acquired during the period		1.8
Other adjustments		(27.5)
Balance at June 30, 2007	$	8,421.3

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

(Millions)	June 30, 2007	December 31, 2006
Cellular and Personal Communications Services licenses	$ 1,661.5	$ 1,657.8

Intangible assets subject to amortization were as follows:

	June 30, 2007		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 946.6	$ (568.7)	$ 377.9
Roaming agreement	6.1	(3.4)	2.7
Non-compete agreement	0.3	(0.1)	0.2
	$ 953.0	$ (572.2)	$ 380.8

	December 31, 2006		
(Millions)	Gross Cost	Accumulated Amortization	Net Carrying Value
Customer lists	$ 946.6	$ (478.6)	$ 468.0
Roaming agreement	6.1	(2.5)	3.6
	$ 952.7	$ (481.1)	$ 471.6

Amortization expense for intangible assets subject to amortization was $45.2 million and $91.1 million, respectively, for the three and six month periods ended June 30, 2007, compared to $47.0 million and $92.4 million for the same periods of 2006. Amortization expense for intangible assets subject to amortization is estimated to be $170.1 million in 2007, $127.8 million in 2008, $78.5 million in 2009, $46.7 million in 2010 and $21.1 million in 2011.

5. Stock-Based Compensation:

Stock-based compensation expense was as follows for the three and six months ended June 30:

	Three Months Ended	Six Months Ended

(Millions, except per share amounts)	2007	2006	2007	2006
Compensation expense related to stock options issued by Alltel	$ 4.2	$ 5.4	$ 8.8	$ 10.2
Compensation expense related to stock options converted to Alltel stock options in connection with the acquisition of Western Wireless	0.3	0.5	0.5	1.0
Compensation expense related to restricted stock awards	3.0	2.6	6.1	6.3
Compensation expense before income taxes	7.5	8.5	15.4	17.5
Income tax benefit	(2.5)	(2.6)	(4.9)	(5.4)
Compensation expense, net of tax	$ 5.0	$ 5.9	$ 10.5	$ 12.1

Under the provisions of SFAS No. 123(R), stock-based compensation expense recognized during the period is based on the portion of the share-based payment awards that is ultimately expected to vest. Accordingly, stock-based compensation expense recognized in the three and six months ended June 30, 2007 and 2006 has been reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

5. Stock-Based Compensation, Continued:

actual forfeitures differ from those estimates. Pre-vesting forfeitures were based on Alltel's historical experience and were estimated to be 4.7 percent and 5.1 percent for the six months ended June 30, 2007 and 2006, respectively. Compensation expense for stock option awards granted after January 1, 2006 is expensed using a straight-line single option method. Stock-based compensation expense is included in selling, general, administrative and other expenses within Alltel's unaudited interim consolidated statements of income. Of the total pretax stock-based compensation expense presented in the table above, amounts allocated to discontinued operations totaled $1.4 million and $2.4 million for the three and six months ended June 30, 2006, respectively.

Under the Company's stock-based compensation plans, Alltel may grant fixed and performance-based incentive and non-qualified stock options, restricted stock, and other equity securities to officers and other management employees. The maximum number of shares of the Company's common stock that may be issued to officers and other management employees under all stock compensation plans in effect at June 30, 2007 was 27.8 million shares.

Stock Options– Fixed stock options granted under the stock-based compensation plans generally become exercisable over a period of one to five years after the date of grant. Under Alltel's stock option plan for non-employee directors (the "Directors' Plan"), the Company grants fixed, non-qualified stock options to directors for up to 1.0 million shares of common stock. Under the Directors' Plan, directors receive a one-time option grant to purchase 12,000 shares of common stock when they join the Board. Directors are also granted each year, on the date of the annual meeting of stockholders, an option to purchase a specified number of shares of common stock (currently 7,800 shares). Options granted under the Directors' Plan become exercisable the day immediately preceding the date of the first annual meeting of stockholders following the date of grant. For all plans, the exercise price of the option equals the market value of Alltel's common stock on the date of grant. The maximum term for each stock option granted is 10 years. The Company's practice has been to issue new shares of common stock upon the exercise of stock options.

The fair value of each option award was estimated on the grant date using the Black-Scholes option valuation model and the following assumptions:

	Six Months Ended June 30, 2007	2006
Weighted average grant date fair value per share	$17.41	$18.55
Expected life	5.9 years	5.9 years
Expected volatility	20.9%	22.9%
Dividend yield	0.8%	0.8%
Risk-free interest rate	4.7%	4.5%

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

The expected dividend yield was based on the Company's approved annual dividend rate in effect following the completion of the spin-off of the Company's wireline operations to Alltel's shareholders of $.50 per share. Future increases to the dividend rate were not included in the development of the dividend yield assumption because Alltel's board of directors has not approved any increase to the dividend rate following completion of the spin-off. The risk-free interest rate was determined using the implied yield currently available for zero-coupon U.S. government issues with a remaining term equal to the expected life of the stock options.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

5. Stock-Based Compensation, Continued:

Activity under all of the Company's stock option plans for the six months ended June 30, 2007 was as follows:

	(Thousands) Number of Shares	Weighted Average Price Per Share
Outstanding at December 31, 2006	16,176.2	$46.78
Granted	1,601.4	61.66
Exercised	(1,157.7)	46.90
Forfeited	(107.1)	45.83
Expired	(1.2)	26.18
Outstanding at June 30, 2007	16,511.6	$48.22
Exercisable at end of period	12,223.3	$46.78

The total intrinsic value of stock options exercised during the six months ended June 30, 2007 was $19.6 million, and Alltel received $54.3 million in cash from the exercise of stock options. As of June 30, 2007, the total intrinsic value of stock options outstanding was $319.1 million, while the total intrinsic value of stock options exercisable as of June 30, 2007 was $253.9 million.

Non-vested stock options as of June 30, 2007 and changes during the six months ended June 30, 2007 were as follows:

	(Thousands) Number of Shares	Weighted Average Price Per Share
Non-vested at December 31, 2006	4,391.9	$45.89
Granted	1,601.4	61.66
Vested	(1,636.3)	44.36
Forfeited	(68.7)	47.56
Non-vested at June 30, 2007	4,288.3	$52.34

At June 30, 2007, the total unamortized compensation cost for non-vested stock option awards amounted to $48.8 million and is expected to be recognized over a weighted average period of 3.8 years.

Restricted Stock– During each of the past four years, Alltel granted to certain senior management employees and non-employee directors restricted stock awards. These awards had an aggregate fair value on the date of grant of $15.5 million in 2007, $18.6 million in 2006, $11.1 million in 2005 and $8.5 million in 2004. The cost of the restricted stock awards is determined based on the fair market value of the shares at the date of grant reduced by the $1.00 par value per share charged to the employee and is expensed ratably over the vesting period. The restricted shares granted to employees in 2007, 2006 and 2004 vest in equal increments over a three-year period following the date of grant. Certain awards granted in 2006, representing 96,000 shares, vest in increments of 40%, 30% and 30% over a five-year period beginning three years after the date of grant. The restricted shares granted to employees in 2005 vest three years from the date of grant. Restricted shares granted to non-employee directors vest one year from the date of grant.

Non-vested restricted stock activity for the six months ended June 30, 2007 was as follows:

	Number of Shares	Weighted Average Fair Value Per Share
Non-vested at December 31, 2006	487,552	$58.37
Granted	255,520	60.64
Vested	(111,899)	57.20
Forfeited	(3,833)	53.18
Non-vested at June 30, 2007	627,340	$59.53

At June 30, 2007, unrecognized compensation expense for the restricted shares amounted to $22.0 million and is expected to be recognized over a weighted average period of 2.2 years.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

The components of pension expense, including provision for executive retirement agreements, were as follows for the three and six months ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2007	2006	2007	2006
Benefits earned during the year	$ 2.8	$ 5.1	$ 5.5	$ 11.8
Interest cost on benefit obligation	3.2	14.4	6.4	29.3
Special termination benefits	-	4.5	-	9.0
Settlement and curtailment losses	-	2.4	-	3.4
Amortization of prior service cost	0.3	0.4	0.5	0.5
Amortization of net actuarial loss	1.2	6.8	2.4	15.2
Expected return on plan assets	(3.6)	(21.0)	(7.2)	(41.9)
Net periodic benefit expense	$ 3.9	$ 12.6	$ 7.6	$ 27.3

Of the total pension expense presented in the table above, amounts allocated to discontinued operations totaled $11.4 million and $19.8 million, for the three and six months ended June 30, 2006 respectively. As previously discussed in Note 1, on July 17, 2006, Alltel completed the spin-off of its wireline telecommunications business to its stockholders and merger of that wireline business with Valor. Two former executive officers of Alltel, who were eligible to receive supplemental retirement benefits payable under the Company's supplemental executive retirement plan, joined Windstream. As a result, the supplemental executive retirement plan was amended to provide for the immediate pay out of the accrued supplemental retirement benefits earned by the two executives at the time the spin-off was consummated. The special termination benefits paid to the two executives and the corresponding settlement and curtailment losses presented in the table above were recognized ratably during the first six months of 2006 and have been included in the amount of pension expense allocated to discontinued operations for the three and six months ended June 30, 2006.

In connection with the spin-off, Alltel transferred to Windstream the portion of the Alltel defined benefit pension plan, which represented the accumulated benefit obligation and fair value of plan assets attributable to the active and retired employees of the wireline business who transferred to Windstream. The amount of pension plan assets and accumulated benefit obligations transferred to Windstream was determined by an independent actuary and totaled $851.2 million and $790.9 million, respectively. The assumptions used to estimate the accumulated benefit obligation were as follows: (1) discount rate of 6.3 percent, (2) long-term rate of return on plan assets of 8.5 percent and (3) rate of future compensation increases of 3.5 percent. Similarly, Alltel also transferred to Windstream the portion of the Alltel postretirement benefit plan, which represented the accumulated benefit obligation attributable to the active and retired employees of the wireline business who transferred to Windstream. The amount of the accumulated benefit obligation transferred to Windstream was determined by an independent actuary and totaled $222.5 million. The assumed discount rate used to estimate the accumulated benefit obligation was 6.3 percent.

Alltel disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute $3.4 million for retirement benefits in 2007 consisting solely of amounts necessary to fund the expected benefit payments related to the unfunded supplemental retirement plans. Through June 30, 2007, Alltel had contributed $1.7 million to fund the supplemental retirement plans. Alltel does not expect that any contribution to the qualified defined pension plan calculated in accordance with the minimum funding requirements of the Employee Retirement Income Security Act of 1974 will be required in 2007. Future discretionary contributions to the plan will depend on various factors, including future investment performance, changes in future discount rates and changes in the demographics of the population participating in Alltel's qualified pension plan.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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

	Three Months Ended		Six Months Ended	
(Millions)	2007	2006	2007	2006
Benefits earned during the year	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Interest cost on benefit obligation	0.1	3.4	0.2	6.7
Amortization of transition obligation	-	0.2	-	0.4
Amortization of prior service cost	-	0.4	-	0.9
Recognized net actuarial loss	0.1	1.6	0.2	3.2
Expected return on plan assets	-	-	-	-
Net periodic benefit expense	$ 0.3	$ 5.7	$ 0.6	$ 11.4

Of the total postretirement expense presented in the table above, amounts allocated to discontinued operations totaled $5.1 million and $10.2 million, respectively, for the three and six months ended June 30, 2006.

7. Integration Expenses and Other Charges:

A summary of the integration expenses and other charges recorded by Alltel were as follows for the three and six months ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2007	2006	2007	2006
Severance and employee benefit costs	$ 0.7	$ -	$ 4.4	$ -
Rebranding and signage costs	0.3	-	0.4	8.3
Computer system conversion and other integration expenses	1.9	-	4.4	2.5
Costs associated with pending acquisition of Alltel	33.1	-	33.1	-
Total integration expenses and other charges	$ 36.0	$ -	$ 42.3	$ 10.8

During 2007, Alltel incurred $4.8 million of integration expenses related to its 2006 acquisitions of Midwest Wireless and properties in Illinois, Texas and Virginia. The system conversion and other integration expenses primarily consisted of internal payroll, contracted services and other programming costs incurred in converting the acquired properties to Alltel's customer billing and operational support systems, a process that the Company expects to complete during the fourth quarter of 2007. Alltel also recorded severance and employee benefit costs of $4.4 million related to a planned workforce reduction in connection with the closing of two call centers.

As further discussed in Note 12, on May 20, 2007, Alltel entered into an agreement to be acquired by two private investment firms. In connection with this transaction, Alltel incurred $33.1 million of incremental costs during the second quarter of 2007, principally consisting of financial advisory, legal and regulatory filing fees. Included in this amount are attorneys' fees and expenses incurred in connection with the settlement of certain shareholder lawsuits as further discussed in Note 13. Upon successful closing of the transaction, Alltel will be obligated to pay additional financial advisory and legal fees of approximately $65.0 million, which will be expensed in the period the transaction closes. The integration expenses and other charges decreased net income $34.9 million and $38.8 million for the three and six months ended June 30, 2007, respectively.

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

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

7. Integration Expenses and Other Charges, Continued:

The following is a summary of the activity related to the liabilities associated with the Company's integration and other restructuring activities for the six months ended June 30, 2007:

(Millions)		
Balance, beginning of period	$	0.1
Integration expenses and other charges recorded during the period		42.3
Cash outlays during the period		(28.9)
Balance, end of period	$	13.5

At June 30, 2007, the remaining unpaid liability related to Alltel's integration activities consisted of severance and employee benefit costs of $4.4 million, legal fees associated with the pending merger transaction of $9.0 million and lease and contract termination costs of $0.1 million and is included in other current liabilities in the accompanying consolidated balance sheet.

8. Gain on Disposal of Assets:

Through its merger with Western Wireless, Alltel acquired marketable equity securities. On January 24, 2007, Alltel completed the sale of these securities for $188.7 million in cash and recorded a pretax gain from the sale of $56.5 million. This transaction increased net income $36.8 million in the six month period ended June 30, 2007.

On November 10, 2005, federal legislation was enacted that included provisions to dissolve and liquidate the assets of the Rural Telephone Bank ("RTB"). In connection with the dissolution and liquidation, during April 2006, the RTB redeemed all outstanding shares of its Class C stock. As a result, the Company received liquidating cash distributions of $198.7 million in exchange for its $22.1 million investment in RTB Class C stock and recognized a pretax gain of $176.6 million. This transaction increased net income $107.6 million in the three and six month periods ended June 30, 2006.

9. Discontinued Operations:

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

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

In connection with the spin-off and merger of Alltel's wireline business with Valor, Alltel incurred $25.7 million of incremental costs in 2006, primarily consisting of the $12.4 million of special termination benefits payable to the two executives and the corresponding settlement and curtailment losses previously discussed (see Note 6) and additional consulting and legal fees of $5.6 million. The remaining expenses included internal payroll and employee benefit costs, contracted services, relocation expenses and other costs incurred in preparation of separating the wireline operations from Alltel's internal customer billing and operational support systems. Of the total spin-related expenses incurred, $12.0 million and $20.7 million were recorded in the three and six months ended June 30, 2006, respectively, and have been classified as discontinued operations. During 2006 and prior to the spin-off, Alltel transferred to Spinco certain assets and liabilities related to the operations of Spinco's business that were previously utilized or incurred on a shared basis with Alltel's

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. Discontinued Operations, Continued:

wireless business. As previously discussed in Note 6, Alltel also transferred the portion of the Alltel defined pension and postretirement benefit plans attributable to the active and retired employees of the wireline business who transferred to Windstream. The distribution and related agreements with Windstream provide that Alltel and Windstream will provide each other with certain transition services for specified periods at negotiated prices. In addition, Alltel will provide Windstream with interconnection, transport and other specified services at negotiated rates. The agreements also provide for a settlement process, which could result in adjustments in future periods.

As a condition of receiving approval from the U.S. Department of Justice ("DOJ") and the Federal Communications Commission ("FCC") for its October 3, 2006 acquisition of Midwest Wireless, on September 7, 2006, Alltel agreed to divest certain wireless operations in four rural markets in Minnesota. On April 3, 2007, Alltel completed the sale of these markets to Rural Cellular Corporation for $48.5 million in cash.

As a condition of receiving approval for the merger with Western Wireless from the DOJ and the FCC, Alltel agreed to divest certain wireless operations of Western Wireless in 16 markets in Arkansas, Kansas and Nebraska, as well as the Cellular One brand. On December 19, 2005, Alltel completed an exchange of wireless properties with U.S. Cellular that included a substantial portion of the divestiture requirements related to the merger. In December 2005, Alltel sold the Cellular One brand and during the first quarter of 2006, Alltel completed the sale of the remaining market in Arkansas to Cingular. During 2005, Alltel completed the sales of Western Wireless' international operations in Georgia, Ghana and Ireland for $570.3 million in cash. During the second quarter of 2006, Alltel completed the sales of Western Wireless' international operations in Austria, Bolivia, Côte d'Ivoire, Haiti, and Slovenia for approximately $1.7 billion in cash. In connection with the sales of the international operations completed in the second quarter of 2006, Alltel recorded an after tax loss of $9.3 million. There was no gain or loss realized upon the sales of the international operations in Georgia, Ghana and Ireland and the domestic markets in Arkansas, Kansas and Nebraska.

As a result of the above transactions, the wireline telecommunications business, the acquired international operations and interests of Western Wireless and the domestic markets to be divested by Alltel have been classified as discontinued operations in the Company's interim consolidated financial statements for all periods presented. Depreciation of long-lived assets related to the international operations and the domestic markets to be divested in Arkansas, Kansas and Nebraska was not recorded subsequent to the completion of the merger on August 1, 2005. Depreciation of long-lived assets and amortization of finite-lived intangible assets related to the four markets in Minnesota to be divested was not recorded subsequent to September 7, 2006, the date of Alltel's agreement with the DOJ and FCC to divest these markets. The following table includes certain summary income statement information related to the wireline telecommunications business, international operations and the domestic markets to be divested reflected as discontinued operations for the three and six months ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2007	2006	2007	2006
Revenues and sales	$ 0.2	$ 800.2	$ 7.8	$ 1,703.5
Operating expenses (a)	1.4	542.0	10.6	1,156.2
Operating income (loss)	(1.2)	258.2	(2.8)	547.3
Minority interest expense in unconsolidated entities	-	(1.5)	-	(6.0)

Gain (loss) on disposal of discontinued operations	0.2	(14.8)	0.2	(14.8)
Other income (expense), net	-	(1.6)	1.3	0.3
Interest expense (b)	-	(2.6)	-	(8.4)
Pretax income (loss) from discontinued operations	(1.0)	237.7	(1.3)	518.4
Income tax expense	1.8	97.2	1.7	214.7
Income (loss) from discontinued operations	$ (2.8)	$ 140.5	$ (3.0)	$ 303.7

Notes to summary income statement information table:

(a) Operating expenses for the six month period of 2007 included an impairment charge of $1.7 million to reflect the fair value less cost to sell of the four rural markets in Minnesota required to be divested, and resulted in the write-down in the carrying values of goodwill ($1.4 million) and customer list ($0.3 million) allocated to these markets. Operating expenses for 2006 exclude general corporate overhead expenses previously allocated to the wireline business in accordance with Emerging Issues Task Force Issue No. 87-24, "Allocation of Interest Expense to Discontinued Operations". The amount of corporate overhead expenses added back to Alltel's continuing operations totaled $1.9 million and $7.0 million for the three and six months ended June 30, 2006, respectively.

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NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. Discontinued Operations, Continued:

Notes to summary income statement information table, continued:

(b) Except for $260.8 million of long-term debt directly related to the wireline business that was transferred to Windstream and a $50.0 million credit facility agreement that was assumed by the buyer of the Bolivian operations, Alltel had no outstanding indebtedness directly related to the wireline business, the international operations or the domestic markets to be divested, and accordingly, no additional interest expense was allocated to discontinued operations for the periods presented.

10. Comprehensive Income:

Comprehensive income was as follows for the three and six months ended June 30:

	Three Months Ended		Six Months Ended	
(Millions)	2007	2006	2007	2006
Net income	$ 195.7	$ 428.9	$ 425.8	$ 726.3
Other comprehensive income (loss):				
Unrealized holding gains (losses) on investments:				
Unrealized holding gains (losses) arising in the period	-	11.8	(1.1)	24.2
Income tax expense (benefit)	-	4.1	(0.4)	8.5
	-	7.7	(0.7)	15.7
Less reclassification adjustments for gains included in net income for the period	-	-	(56.5)	-
Income tax expense	-	-	19.7	-
	-	-	(36.8)	-
Net unrealized gains (losses) in the period	-	11.8	(57.6)	24.2
Income tax expense (benefit)	-	4.1	(20.1)	8.5
	-	7.7	(37.5)	15.7
Foreign currency translation adjustment:				
Translation adjustments for the period	-	(19.7)	-	(2.1)
Reclassification adjustments for losses included in net income for the period	-	4.9	-	4.9
	-	(14.8)	-	2.8
Defined benefit pension plans:				
Amounts included in net periodic benefit cost for the period:				

Amortization of prior service cost	0.3	-	0.5	-
Amortization of net actuarial loss	1.2	-	2.4	-
	1.5	-	2.9	-
Income tax expense	0.6	-	1.1	-