

Exhibit No.:  
Issues: Policy-Financial  
Witness: Jeffery Gardner  
Sponsoring Party: Alltel Missouri, Inc.  
Type of Exhibit: Direct Testimony  
Case No.: TM-2006-0272  
Date Testimony Prepared: February 16, 2006

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

IN THE MATTER OF THE APPLICATION FOR THE )  
APPROVAL OF THE TRANSFER OF CONTROL OF )  
ALLTEL MISSOURI, INC. AND THE TRANSFER OF ) **CASE NO. TM-2006-0272**  
ALLTEL COMMUNICATIONS, INC. INTEREXCHANGE )  
SERVICE CUSTOMER BASE. )

**DIRECT TESTIMONY**

**OF**

**JEFFERY GARDNER**

**DIRECT TESTIMONY OF JEFFERY GARDNER**

***Q. Please state your name, business address, employer and position.***

A. My name is Jeffery Gardner. Until recently, I was the Chief Financial Officer of Alltel Corporation, and with the separation of Alltel Corporation's wireless and wireline businesses, I am the Chief Executive Officer of the separated wireline business of Alltel Corporation that will merge with Valor Communications Group, Inc. ("Valor") as described in the application that initiated this proceeding.

***Q. Please describe your educational background and business experience.***

A. As indicated, I was most recently the Chief Financial Officer of Alltel Corporation where I was responsible for the finance and accounting functions for Alltel. My responsibilities included Alltel's capital markets, budgeting and forecasting, strategic planning, accounting, procurement, tax and operational support. I have been in the communications industry since 1986 and joined the Company in 1998 when Alltel and 360° Communications merged. Prior to the merger, I held a variety of senior management positions with 360° Communications including: Senior Vice President of Finance, which included treasury, accounting and capital markets; President of the Mid-Atlantic Region; Vice President and General Manager of Las Vegas; and Director of Finance. I received a bachelor of science degree in finance from Purdue University and master's degree in business administration from William and Mary. I am a certified public accountant.

***Q. What is the purpose of your testimony?***

A. I am presenting testimony on behalf of Alltel Missouri, Inc. ("the Regulated Entity") to demonstrate that just as the Regulated Entity currently possesses the requisite financial

1 capability to provide service as an incumbent local exchange carrier ("ILEC") in  
2 Missouri, it will continue to possess that capability after completion of the separation of  
3 the Alltel Corporation wireline and wireless businesses and the merger of the wireline  
4 business with Valor (the "New Holding Company"). Specifically, I will show that, upon  
5 completion of the change of control of the Regulated Entity due to the separation and  
6 merger, we will possess the requisite financial capability to serve our present and  
7 prospective customers. The Regulated Entity will generate a sufficient level of cash flow  
8 to satisfy its existing obligations to its customers, employees and investors.

9  
10 The separation and subsequent merger of the Alltel and Valor wireline businesses will  
11 not be detrimental to the public interest and will produce significant benefits to the New  
12 Holding Company, which will accrue to all of the operating subsidiaries, including the  
13 Regulated Entity and its current and prospective customers. These benefits include a  
14 significantly larger wireline holding company when compared to other rural local  
15 exchange companies ("RLECs") with the related benefits of increased scale and scope  
16 and perhaps most importantly, an improved support level of the centralized services  
17 provided to the Regulated Entity by the New Holding Company.

18  
19 **Status of Federal Approvals**

20 ***Q. What is the status of any necessary federal approvals associated with the transaction?***

21 A The Federal Communications Commission ("FCC") order granting the "all-or-nothing"  
22 waiver request, the last remaining substantive action needed from the FCC in connection  
23 with this transaction, was received on January 31, 2006. The grant retains the status quo,  
24 enabling the New Holding Company to continue to operate under the existing regulatory

1 regime (*i.e.*, rate of return or price cap) applicable to each of its local exchange  
2 companies. To summarize the status of these federal approvals:

- 3 - Domestic Section 214 Application was granted by Public Notice January 25,  
4 2006.
- 5 - International Section 214 Application was granted automatically on January 26,  
6 2006. Public Notice granted on February 2, 2006.
- 7 - Wireless license transfers were granted on February 1, 2006.
- 8 - Alltel Corporation and Valor submitted filings required under the Hart-Scott-  
9 Rodino Antitrust Improvements Act of 1976 with the Department of Justice  
10 ("DOJ") and the Federal Trade Commission ("FTC") on December 21, 2005. The  
11 DOJ and FTC granted early termination of the waiting period requirements for  
12 these filings on January 3, 2006, thereby completing the DOJ's and FTC's review  
13 of the proposed transaction.

#### 14 15 **Financial Capability of the Regulated Entity**

##### 16 ***Q. What is the current financial condition of the Regulated Entity?***

17 A. The annual report most recently filed with this Commission on behalf of the Regulated  
18 Entity includes the company's balance sheet and income statement. The financial  
19 statements illustrate the financial condition of the Regulated Entity as of and for the  
20 twelve months ending December 31, 2004, the most recent annual period for which data  
21 are available. The statements were prepared and presented in accordance with this  
22 Commission's applicable reporting requirements and show the historically recorded data  
23 from the books and records of the Regulated Entity, which are maintained in accordance  
24 with the FCC's Uniform System of Accounts, 47 C.F.R. Part 32 ("Part 32"). These

1 financial statements clearly show that for the twelve months ending December 31, 2004,  
2 the Regulated Entity possessed the requisite financial capability. Clearly, the Regulated  
3 Entity generated sufficient cash flow to cover all operating expenses, invest in the  
4 network and provide high quality service to its customers. Furthermore, it generated  
5 sufficient cash to pay a dividend to its shareholder. These results demonstrate that the  
6 Regulated Entity possesses the requisite financial capability to adequately serve the  
7 citizens of the State of Missouri.

8  
9 ***Q. Will there be any material change to the Regulated Entity's financial statements as a***  
10 ***result of the separation and merger?***

11 A. No. The accounting entries with respect to the separation and merger will occur at the  
12 New Holding Company level. Ownership of the Regulated Entity's stock will simply  
13 transfer from Alltel Corporation's balance sheet to the New Holding Company's balance  
14 sheet as a result of the separation and merger. No material changes are expected to occur  
15 to the Regulated Entity's financial statements as a result of the separation and merger.  
16 Thus, accounting for day-to-day transactions within the Regulated Entity will remain  
17 essentially the same. The Regulated Entity will continue to use Part 32 to account for its  
18 assets, liabilities, revenues, and expenses in the same manner as it does today.

19  
20 ***Q. Will the Regulated Entity continue to possess the required financial capability after the***  
21 ***separation and merger?***

22 A. Yes, there will be no material change to the financial condition of the Regulated Entity.  
23 The Regulated Entity will continue to possess more than adequate financial capability  
24 after the separation and merger. Except for a name change from Alltel to a new brand, the

1 Regulated Entity will remain essentially unaffected by the separation and merger. The  
2 assets, liabilities, revenues, and expenses of the Regulated Entity will remain essentially  
3 the same after the separation and merger, and local operations in Missouri will continue  
4 to be managed and operated as before, except for an improved level of support received  
5 from the centralized services from the New Holding Company and a singular focus on  
6 wireline. Thus, the financial results for the Regulated Entity will not be materially  
7 affected.

8  
9 ***Q. Taking all of the above into consideration, what do you conclude about the financial***  
10 ***capability of the Regulated Entity after the separation and merger take place?***

11 A. The 2004 annual report referenced previously demonstrate that the Regulated Entity,  
12 when combined with the support of the New Holding Company, possesses the requisite  
13 financial capability to provide high quality, reliable telecommunications services to its  
14 current and prospective customers in Missouri. Since the Regulated Entity will not  
15 experience any material change in its local Missouri operations and overall financial  
16 condition as a result of the separation and merger, it will continue, along with the support  
17 of the New Holding Company, to possess the required financial capability to serve  
18 telecommunications consumers of Missouri.

19  
20 ***Q. How does the positive financial condition of the New Holding Company, in turn,***  
21 ***benefit the Regulated Entity?***

22 A. The financial characteristics of the New Holding Company will provide the financial  
23 stability to position itself favorably when compared to its industry peers to pursue  
24 necessary strategies for the Regulated Entity to succeed. With the solid financial structure

discussed below, the New Holding Company will produce sufficient cash flow to attract capital for investment in its local telephone company operations. These investments will facilitate a focused local strategy, and the local telephone operations (including those of the Regulated Entity) will benefit from the New Holding Company's continuing ability to deliver a full portfolio of services to meet the needs of current and prospective customers.

#### **Financial Capability of the New Holding Company**

***Q. Will the New Holding Company possess the financial capability to support the Regulated Entity following the separation and merger?***

A. Yes. Attached as PROPRIETARY Exhibit 1 is a pro forma balance sheet as of December 31, 2005 and income statement for the twelve months ending December 31, 2005, for the New Holding Company. This exhibit demonstrates that the New Holding Company will possess the requisite financial capability to succeed within the competitive telecommunications industry and support the Regulated Entity. Although a pro forma based on 2004 data was attached to the initial application filed in this proceeding, the 2004 pro forma was a preliminary estimate, and we are substituting the attached 2005 pro forma. The 2005 pro forma was prepared by internal accountants but has also been reviewed by Pricewaterhouse Coopers, LLP and will be included in Valor's future filing on Form S-4 with the Securities and Exchange Commission. Accordingly, its Proprietary status will be removed at that time.

As indicated in the initial application in this proceeding, after the separation and merger, the New Holding Company will be the largest rural wireline provider in the United States serving approximately 3.4 million customers in 16 states. We expect to generate annual

1 revenues of approximately \$3.4 billion and operating income before depreciation and  
2 amortization (“OIBDA”) of approximately \$1.7 billion. Clearly, the New Holding  
3 Company will have the financial wherewithal and scale and scope to successfully  
4 enhance the network, related products, and services of its wireline subsidiaries, including  
5 the Regulated Entity. Additionally, the New Holding Company will generate sufficient  
6 cash flows to pay its operating expenses, fund technology investments through capital  
7 expenditures, service its debt and distribute an appropriate dividend to its shareholders.  
8 The expected level of revenues, OIBDA and cash flow will be more than adequate to  
9 properly position the New Holding Company to attract the necessary capital for all of its  
10 subsidiaries, including the Regulated Entity.

11  
12 ***Q. Why is the pro forma in PROPRIETARY Exhibit 1 based on data for twelve months***  
13 ***ending December 31, 2005 although the separation and merger have not occurred?***

14 A. Use of actual historical data for the twelve months ending December 31, 2005, allowed  
15 us to examine the estimated prospective financial impact for a full year of operations.

16  
17 ***Q. How will the financial characteristics of the New Holding Company compare to those***  
18 ***of existing similarly situated publicly traded RLECs?***

19 A. The New Holding Company will be favorably comparable to existing similarly situated  
20 publicly traded RLECs. Exhibit 2 to my testimony illustrates that the New Holding  
21 Company will have significantly more access lines, revenues and OIBDA than the  
22 identified industry participants. The actual leverage (the net amount of debt compared to  
23 OIBDA) of many similarly situated publicly traded RLECs serving markets comparable  
24 to those of the New Holding Company range between 1.4 and 4.7 times. Indeed, most of



1 these RLECs carry net debt comparable to that of the New Holding Company. As  
2 described above, the New Holding Company will carry approximately \$5.4 billion of net  
3 debt which equates to approximately 3.2 times its estimated annual OIBDA. The New  
4 Holding Company's capital structure, therefore, will be comparable to similarly situated  
5 publicly traded RLECs presently operating successfully. (See Exhibit 3 attached to my  
6 testimony.) This comparison demonstrates that the financial condition of the New  
7 Holding Company will be comparable to its peer group, and the capital structure will  
8 allow the New Holding Company to continue to provide quality products and services,  
9 and invest appropriately in the future.

10  
11 **Q. *What level of dividend does the New Holding Company plan to pay?***

12 A. The New Holding Company plans to set its dividend at \$1.00 per share, which is  
13 expected to approximate \$474 million annually. The New Holding Company, on a pro-  
14 forma basis as outlined in Exhibit 1, is expected to produce annual operating income  
15 before depreciation and amortization of approximately \$1.7 billion. The remaining cash  
16 flows are more than sufficient to fund capital expenditures and debt service requirements.

17  
18 **Q. *How does the proposed dividend policy of the New Holding Company compare to***  
19 ***existing similarly situated publicly traded RLECs?***

20 A. The New Holding Company's targeted dividend policy will be comparable to that of  
21 existing similarly situated publicly traded RLECs. The New Holding Company expects to  
22 distribute between 65% to 70% of its annual free cash flow back to its shareholders. On  
23 average, similarly situated publicly traded RLECs distribute approximately 63% of their  
24 free cash flow to their shareholders in the form of dividends. Additionally, the planned

1 dividend of the New Holding Company, coupled with the capital structure mentioned  
2 above, will make the New Holding Company's stock attractive to investors which will  
3 allow us to raise the necessary capital to fund the future investment needs of our  
4 subsidiaries.

5  
6 ***Q. Can you explain the "synergy" savings to which the Application refers?***

7 A. Yes. When Alltel Corporation and Valor analyzed and negotiated the merger, they  
8 identified approximately \$40 million of possible net savings. While we continue to  
9 examine the exact amount and method of accomplishing these savings, all savings are  
10 expected to occur at the holding company and service company level, and none are  
11 planned at the operating company level in Missouri. An example of synergy savings is  
12 the reduction of duplicate corporate functions. For example, two corporate office  
13 locations are not needed. Therefore, if the corporate office currently occupied by Valor is  
14 not needed for other purposes, then the elimination of the associated expense becomes a  
15 synergy savings. To the extent that synergies result in a net reduction of overall corporate  
16 expense, then those savings or cost reductions would flow through to the subsidiaries  
17 (including the Regulated Entity) in the form of reduced corporate allocations.

18  
19 ***Q. Has the New Holding Company received independent acknowledgment that its***  
20 ***expected financial condition, including its capital structure and planned dividend , are***  
21 ***appropriate and financially sound?***

22 A. Yes. The New Holding Company received commitments from Merrill Lynch and J.P.  
23 Morgan ("Lenders"), two of the nation's largest banks, to fund its debt. The New Holding  
24 Company obtained commitments from the two banks only after we demonstrated that we

1 would be sufficiently strong financially to service the proposed new debt and meet all of  
2 our obligations, including providing high quality service to our customers. These  
3 commitments would not have been feasible if the New Holding Company and its  
4 subsidiaries, including the Regulated Entity, were not going to possess the financial  
5 capability to transact business as they do currently. Additionally, the New Holding  
6 Company is in the process of obtaining a solvency opinion from Duff & Phelps, LLC.

7  
8 ***Q. What does the above testimony demonstrate with respect to the overall financial***  
9 ***condition of the New Holding Company?***

10 A. I have demonstrated that the New Holding Company will have solid financial capabilities  
11 comparable to other similarly situated publicly traded RLECs. Upon separation and  
12 merger, the New Holding Company will generate more than sufficient revenues to pay all  
13 expenses and enable its subsidiaries to continue providing high quality service in addition  
14 to distributing an attractive dividend to its shareholders. My analysis and testimony  
15 illustrate that the New Holding Company's capital structure (discussed in greater detail  
16 below) and planned dividend are reasonable, and it will have the requisite ability to raise  
17 capital, service its debt, and make strategic investments. All of this affirms that the New  
18 Holding Company will have the required financial capability to support the Regulated  
19 Entity as it is presently supported.

20  
21 **Capital Structure of the New Holding Company and Debt Guarantees**

22 ***Q. What will be the capital structure of the New Holding Company?***

23 A. The New Holding Company will have total assets of approximately \$7.7 billion.  
24 Additionally, the New Holding Company will have a total enterprise value of over \$11.2

1 billion, which includes an equity value of \$5.7 billion, debt of \$5.5 billion, and a debt-to-  
2 enterprise value ratio of 49.1%. The New Holding Company debt will be comprised of  
3 newly issued debt and assumed debt from the pre-merger Alltel Corporation and Valor  
4 and their subsidiaries. The issuance and assumption of the debt is part of the process of  
5 establishing an overall capital structure for the New Holding Company, which is intended  
6 to balance the cost of capital with the need to maintain ample financial flexibility. The  
7 proposed capital structure is reasonable for the New Holding Company and provides  
8 adequate resources for debt service, reinvestment, maintaining access to capital markets,  
9 and payment of an attractive dividend to investors.

10  
11 **Q. *Can you describe the form of the debt of the New Holding Company?***

12 A. Yes. Attached as an exhibit to the amended application is a schedule of the proposed  
13 debt. This exhibit details both the secured and unsecured obligations that will be either  
14 issued or assumed by the New Holding Company.

15  
16 **Q. *Has the New Holding Company debt been rated by any public rating agency, and what***  
17 ***rating is the debt likely to receive?***

18 A. Because the New Holding Company has not yet begun its operation and the proposed  
19 debt has not yet been issued, the proposed debt has not been rated by a rating agency.  
20 While I cannot know for certain what the rating agencies will determine subsequent to  
21 their review of the New Holding Company debt and the rating it will receive, I can share  
22 comparisons of rated debt issued by other RLECs, although they have different credit  
23 profiles than the New Holding Company will have. In a recent report issued by Stifel  
24 Nicolaus (formerly known as Legg Mason) dated February 6, 2006, titled "Telecom

Services Weekly Valuation Update”, three RLECs received a BB- debt rating from S&P; these three RLECs had a higher net debt/EBITDA ratio (earnings before interest, taxes, depreciation and amortization) than the expected debt/EBITDA ratio of 3.2 times of the New Holding Company. (The New Holding Company's expected debt/EBITDA is supported in the attached 2005 pro forma financials.) One RLEC with a higher net debt/EBITDA ratio than the expected debt/EBITDA ratio of the New Holding Company received a B+ debt rating from S&P. Another RLEC with a slightly lower net debt/EBITDA ratio than the expected debt/EBITDA ratio of the New Holding Company received a BB+ debt rating from S&P. While there are many other factors that are used to determine a debt rating, these comparisons suggest that the New Holding Company debt is likely to receive a debt rating somewhere between BB- and BB+, or slightly below investment grade.

**Q. *Will the subsidiary operating companies of the New Holding Company (including the Regulated Entity) be financially responsible for this new debt?***

A. No. The debt will be issued or assumed by the New Holding Company. The subsidiary operating companies will not be responsible for servicing the debt. However, as described in the amended application, all of the subsidiaries of the New Holding Company are required to guarantee the debt and grant liens on their assets in favor of the lenders.

**Q. *Why will the subsidiary operating companies be guaranteeing the debt of the New Holding Company and granting liens?***

A. The guarantees and liens of the operating companies enhance the credit profile of the New Holding Company and allow it to obtain a more affordable interest rate which, in

1 turn, optimizes the capital structure. The guarantees allow the New Holding Company to  
2 incur debt on a consolidated basis at the New Holding Company level and provide  
3 substantial cost savings through the reduction of interest payments than would otherwise  
4 be charged by lenders if the debt was not secured.

5  
6 ***Q. Will the terms of the guarantees be just and reasonable and in line with prevailing***  
7 ***terms of similar obligations?***

8 A. Yes. The guarantees will be on standard industry terms and conditions that are quite  
9 common in domestic and international commerce.

10  
11 ***Q. Do guarantees provide the Lenders with any recourse or remedy they would not***  
12 ***otherwise have, either in the ordinary course of business or otherwise?***

13 A. Not in any meaningful way. Whether or not guarantees were required, the Lenders would  
14 have likely required a pledge of the New Holding Company's stock in the operating  
15 subsidiaries. Theoretically, as a result of a stock pledge, in the extreme circumstances of  
16 a default (which, it must be noted, Alltel has never experienced), the Lenders would have  
17 the legal right to seek control of the operating subsidiaries, subject to this Commission's  
18 change-of-control jurisdiction. This result is not materially different from the ultimate  
19 resolution under the guarantees. However, if the guarantees were not in place and the  
20 debt were secured by a pledge of the stock, the annual cost of servicing the New Holding  
21 Company debt would be significantly higher, thereby reducing the remaining cash flow  
22 available for network investment and support services.

1   **Q.**     *Will the giving of a guarantee circumvent the jurisdiction of this Commission in the*  
2           *event of a default by the New Holding Company?*

3   A.     No. The function of the liens is to preclude any other lender or creditor from obtaining a  
4           higher ranking of security over the Lenders for this new debt. However, neither the  
5           approval of the liens by this Commission, as requested in this proceeding, nor the  
6           presence of the liens would circumvent the jurisdiction of this Commission in the  
7           unlikely event of a default by the New Holding Company and an attempt by the Lenders  
8           to collect on the guarantees and liens. In the extreme and unlikely event of default and  
9           collection action by the Lenders, the Lenders would still have to come before this  
10          Commission for permission to act on the liens. Such action would clearly be considered a  
11          change of control or transfer of ownership that would require approval by this  
12          Commission for the Lenders to foreclose, and the Lenders would have to meet the same  
13          tests as any acquirer in order to obtain control or ownership. Therefore, by approving our  
14          requests in the application, the Commission is in no way foregoing its rights to protect the  
15          public interest in the unlikely event of a future default.

16  
17   **Q.**     *What “events of default” would trigger the obligations of the guarantees?*

18   A.     The debt instruments secured by the guarantees will contain provisions identifying the  
19           specific events of default, and they will be customary for debt arrangements of this type.  
20           The events of default are likely to include, for example, non-payment of principal and/or  
21           interest; bankruptcy or insolvency of the New Holding Company and its material  
22           subsidiaries, and other customary default provisions.

1    **Q.**     *Has Alltel ever experienced such an “event of default” and how likely is it that the New*  
2            *Holding Company would experience such?*

3    A.     No. Alltel has never experienced an event of default, and in my opinion, it is very  
4            unlikely that such an event will occur in the future.

6    **Q.**     *Will the guarantees assist the Regulated Entity in meeting its obligations to provide*  
7            *service?*

8    A.     Yes. While nothing will change in the ordinary course of business, capital will be  
9            generated by a single issuer (*i.e.*, New Holding Company) at lower interest rates. The  
10           debt will be serviced by the New Holding Company, and the cash flow generated by the  
11           operating companies will not be materially changed.

13   **Q.**     *The amended application describes savings in interest expense of the New Holding*  
14            *Company that are associated with the requirement for guarantees. Please explain.*

15   A.     As I alluded to above, by providing the guarantees and liens with respect to the New  
16           Holding Company debt, the related interest rate will be reduced by 100 to 200 basis  
17           points. This interest rate reduction translates to an annual estimated savings of  
18           approximately \$25.0 to \$50.0 million. This savings can be used for a number of  
19           initiatives including network investment, the hiring of additional support staff, debt  
20           reduction, and funding for acquisitions to increase the scale and scope of operations, to  
21           name a few.

23   **Centralized Services and Shared Assets**



1   **Q.**     *Will the existence of the guarantees discussed above affect the relationship between the*  
2           *New Holding Company and the operating subsidiaries relating to centralized services,*  
3           *cash management or similar matters?*

4   **A.**     No, this relationship will not change at all.

6   **Q.**     *The Commitment Letter attached to the amended application identified a Secured Cash*  
7           *Management Agreement and a Secured Hedge Fund Agreement. Please describe these*  
8           *arrangements and the involvement, if any, of the operating subsidiaries in them.*

9   **A.**     A cash management agreement is an arrangement between a company and a bank that  
10           enables the company to utilize the services of the bank in the day-to-day management of  
11           its influx and outflow of cash. For example, various payments in the form of personal  
12           checks from customers and carriers are processed through an account at the bank  
13           providing the cash management. Since the majority of those payments are remitted by  
14           checks that do not immediately “clear” to the bank, the cash management agreement  
15           provides the means for addressing recourse of the check to the company if some of the  
16           checks do not ultimately clear, due to insufficient funds of the payor. The cash  
17           management bank advances funds to the company instead of waiting for each individual  
18           check to “clear” and the cash management agreement provides protection to the bank, for  
19           example, in the form of liens or rights to the cash of the company. In order to obtain cash  
20           management services on more favorable terms, the New Holding Company may decide  
21           to enter into a secured cash management agreement that would allow the cash  
22           management bank to be secured or protected on the same basis as other secured lenders.  
23           To the extent a secured cash management agreement is utilized, the Regulated Entity is

1 required to guarantee such because it is also guaranteeing the New Holding Company  
2 debt.

3  
4 The Secured Hedge Agreement is a means whereby the New Holding Company can  
5 obtain protection from the risk of rising interest rates on variable rate portions of the New  
6 Holding Company debt. The New Holding Company should not have any significant  
7 obligations under the Secured Hedge Agreement unless interest rates fall, in which case  
8 the New Holding Company should receive a corresponding benefit through a reduction in  
9 the amount of interest that it must pay on its variable rate debt. Again, the Regulated  
10 Entity is required to guarantee such potential obligations because it is also guaranteeing  
11 the debt with respect to which the interest rates in the Secured Hedge Agreement is  
12 protecting. Just as with respect to the guarantee of the New Holding Company debt, the  
13 Regulated Entity's guarantee or responsibility on the Secured Cash Management  
14 Agreement and the Secured Hedge Agreement is secondary. The New Holding Company  
15 will be the party responsible for performance under these agreements, and the Regulated  
16 Entity is involved only in the very unlikely event of default by the New Holding  
17 Company.

18  
19 ***Q. Will the distribution of any Alltel Corporation assets that provide service to both***  
20 ***wireline and wireless business and related transactions impact the financial condition***  
21 ***of the New Holding Company?***

22 **A.** No. As explained in the application, upon separation of the wireline and wireless  
23 businesses, some of the shared Alltel Corporation assets will be transferred to the New  
24 Holding Company, and some will remain with Alltel Corporation and its affiliates. These

1 asset transfers and related transactions are not expected to have any substantial or long-  
2 term financial impact on the New Holding Company.

3  
4 ***Q. Please describe the separation of these shared assets.***

5 A. The Regulated Entity's operations are currently supported principally by employees who  
6 reside in their service areas and by assets owned and operated by the Regulated Entity.  
7 However, it also has access via lease and other similar arrangements to certain out-of-  
8 area assets that provide service to other operating companies and Alltel Corporation  
9 businesses, which the Regulated Entity does not own or operate. These shared assets are  
10 predominately owned and operated by other Alltel Corporation subsidiaries. For example,  
11 the Signaling System Seven ("SS7") platform which provides local number portability  
12 ("LNP") call routing information and related capabilities for the Regulated Entity was  
13 owned by another Alltel Corporation subsidiary, but is being transferred to the New  
14 Holding Company. The SS7 platform provides LNP capabilities not only to the  
15 individual operating telephone companies but also to facilities-based long distance and  
16 wireless affiliates.

17  
18 ***Q. Will there be any impact to the Regulated Entity financial statements as a result of***  
19 ***changes in the centralized services provided to the Regulated Entity by the New***  
20 ***Holding Company?***

21 A. No, there will be no material impact to the Regulated Entity's financial statements as a  
22 result of the changes in the centralized services provided by the New Holding Company  
23 as a result of the separation and merger. The Regulated Entity currently receives certain  
24 centralized services from Alltel Corporation and other affiliates. These services include

1 human resource management, finance, tax, corporate communications, legal, planning,  
2 general support, and information services. After the separation and merger, the Regulated  
3 Entity will continue to receive these and other services from the New Holding Company  
4 and other affiliates. Any changes in the costs of these support services as a result of the  
5 transition from Alltel Corporation to the New Holding Company are expected to be  
6 minimal. In fact, the effectiveness of the centralized services received from the New  
7 Holding Company is expected to improve for two reasons. First, while the Regulated  
8 Entity has received the financial benefits that accrue from a converged holding company  
9 (wireless and wireline), these benefits have been tempered by the constant need to  
10 balance the focus of the various corporate support groups between the two robust  
11 businesses they support. Subsequent to the separation, the sole focus of the corporate  
12 support services provided by the New Holding Company will be the wireline  
13 marketplace. I expect this concentration of effort to yield significant benefits in the  
14 development of strategies and execution of tactics designed to better serve and retain our  
15 customers. Second, the merger of the New Holding Company with Valor significantly  
16 improves the economics for the corporate support services through increased scale and  
17 scope.

18  
19 ***Q. How will the New Holding Company ensure that its telephone company subsidiaries***  
20 ***have adequate access to necessary shared assets and services?***

21 A. The New Holding Company will acquire the necessary capabilities from Alltel  
22 Corporation. The reverse is also the case for assets transferring to the New Holding  
23 Company at separation, which Alltel Corporation will need to use for a transitional period  
24 of time. These arrangements for the continued use of shared assets will be transacted

1 through Transition Service Agreements executed between the New Holding Company  
2 and Alltel Corporation. The transitional services subject to these agreements will be  
3 priced accordingly and will not increase the corporate shared service expenses. These  
4 agreements will be in place for approximately one year to allow sufficient time for the  
5 New Holding Company and Alltel Corporation to develop and implement their respective  
6 stand-alone capabilities. At the end of the transitional period, the New Holding Company  
7 and Alltel Corporation will discontinue the transitional operations and associated  
8 agreements and begin utilizing their own respective operating platforms and assets or if  
9 in their best interest, negotiate agreements for continued receipt and provision of any  
10 services which both parties determine should be continued.

11  
12 ***Q. Will the allocation of assets and provision of transitional services result in changes to***  
13 ***the Regulated Entity's current financial condition?***

14 **A.** No. Since the transfer of shared assets and the provision of transition services are being  
15 conducted at the holding company level, the financial statements of the Regulated Entity  
16 is not directly affected. While the costs associated with these assets and services  
17 ultimately are allocated to the subsidiaries which they benefit, the Regulated Entity is not  
18 appreciably affected through allocations, because the allocations will not appreciably  
19 change. The use of shared assets and centralized services are already reflected on the  
20 books of the Regulated Entity because the costs are allocated today. Therefore, there is no  
21 additional expense allocation expected to occur to the Regulated Entity. In other words,  
22 the financial impact of the Regulated Entity using the shared assets is already reflected in  
23 the Regulated Entity's 2004 financials previously filed with this Commission. The  
24 operating costs (including depreciation expense) of these shared assets have historically

1        been allocated to the individual local telephone companies each month. Additionally, the  
2        use of Transition Service Agreements described above will result in cost-based billing  
3        between the New Holding Company and Alltel Corporation for approximately one year  
4        after separation. These billings will ensure that the net book value, relative to the transfer  
5        of shared assets to the New Holding Company, is reduced to reflect Alltel Corporation's  
6        use of the assets during the transitional period following separation. Thus, the existing  
7        expense impacts already reflected on the Regulated Entity's annual reports are a  
8        reasonable representation of the expense impacts that will occur subsequent to the  
9        expiration of the transition period when the New Holding Company assumes ownership  
10       of the assets.

## 12    **Conclusions**

13    ***Q.    Based on the above, what do you conclude with respect to the overall financial***  
14    ***condition of the New Holding Company and the Regulated Entity?***

15    A.    The New Holding Company will have solid financial capabilities similar to that currently  
16        possessed by Alltel Corporation and favorably comparable to other similarly situated  
17        publicly traded RLECs. Additionally, the Regulated Entity will continue to possess the  
18        same financial capabilities that it possesses today. Upon separation and merger, the New  
19        Holding Company will generate more than sufficient revenues to pay all expenses;  
20        develop its networks and retain employees to enable its subsidiaries (including the  
21        Regulated Entity) to continue providing high quality service. The New Holding  
22        Company's capital structure and planned dividend are reasonable, as is the debt guarantee  
23        by the Regulated Entity. The New Holding Company will have the requisite ability to  
24        raise capital, service its debt, and make strategic investments. Undoubtedly, the New

1           Holding Company will possess the requisite financial capability to support the Regulated  
2           Entity as it is presently supported.

3

4    ***Q.   Does this conclude your testimony?***

5    A.   Yes, at this time.

6

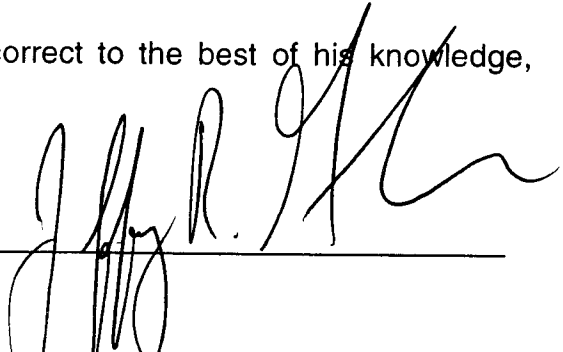
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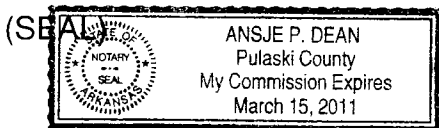
STATE OF ARKANSAS     )  
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COUNTY OF PULASKI    )


SS:

Jeffery Gardner, being duly sworn according to law, deposes and says that he is Chief Executive Officer, and that in this capacity he is authorized to and does make this Affidavit on behalf of Applicants and that the statements set forth in the foregoing Testimony are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_

Sworn and Subscribed to before me this 14<sup>th</sup> day of February, 2006.



  
\_\_\_\_\_  
Notary Public

My Commission Expires:

3-15-11