Exhibit No.:	
Issues:	Transaction Structure
Witness:	Matthew J. Barnes
Sponsoring Party:	MoPSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	TM-2006-0272
Date Testimony Prepared:	March 8, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

ALLTEL MISSOURI, INC.

CASE NO. TM-2006-0272

Jefferson City, Missouri
March, 2006

*** Denotes Proprietary Information ***

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application for Approval of the	)	
Transfer of Control of Alltel Missouri, Inc.	)	
and the Transfer of Alltel Communications, Inc.	)	Case No. TM-2006-0272
Interexchange Service Customer Base.	)	

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Matthew J. Barnes, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Matthew J. Barnes

Matthew J. Barnes

Subscribed and sworn to before me this 7th day of March 2006.

Toni M Charlton

Notary Public

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

TABLE OF CONTENTS

OF THE REBUTTAL TESTIMONY OF

MATTHEW J. BARNES

ALLTEL MISSOURI, INC.

CASE NO. TM-2006-0272

REBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

ALLTELL MISSOURI, INC.

CASE NO. TM-2006-0272

Q. Please state your name.

A. My name is Matthew J. Barnes.

Q. Please state your business address.

A. My business address is P.O. Box 360, Jefferson City, Missouri, 65102.

Q. What is your present occupation?

A. I am employed as a Utility Regulatory Auditor III for the Missouri Public Service Commission (Commission). I accepted the position of Utility Regulatory Auditor I in June 2003 and have since been promoted.

Q. Were you employed before you joined the Commission's Staff (Staff)?

A. Yes, I was employed by the Missouri Department of Natural Resources (MDNR). Prior to MDNR I was employed by the Missouri Department of Conservation as an Auditor Aide, and prior to that position I was in the U.S. Navy.

Q. What is your educational background?

A. I earned a Bachelor of Science degree in Business Administration with an emphasis in Accounting from Columbia College in December 2002. I earned a Masters in Business Administration with an emphasis in Accounting from William Woods University in May 2005.

Q. Have you filed testimony in other cases before this Commission?

A. Yes. I filed Supplemental Direct Testimony in BPS Telephone Company Case No. TC-2002-1076 and Rebuttal Testimony in Sprint Nextel Case No. IO-2006-0086.

Q. Have you made recommendations in any other cases before this Commission?

A. Yes, I have made recommendations on finance, merger and acquisition cases before this Commission.

Q. Have you attended any schools, conferences or seminars specific to utility finance and utility regulation?

A. Yes. I attended The Rate Case Process in Missouri presented by Staff of the Missouri Public Service Commission in March 2005.

Q. What is the purpose of your rebuttal testimony in this case?

A. My rebuttal testimony is presented to the Commission to provide a recommendation concerning Alltel Missouri, Inc.'s Application to spin-off their local telephone exchange operations and merge with Valor Communications (Valor) into a new company referred to in my testimony as the Merged Wireline Business.

<u>Alltel Corporation's (Alltel) Spin-Off of Local Telephone Exchange Operations and Merger with Valor Communications Valor</u>

Q. Please describe the spin-off of Alltel's local telephone exchange operations and merger with Valor Communications.

A. According to paragraph 2, 3, and 4 of Alltel Missouri Inc.'s Application:

> 2. …Alltel Corporation ("Alltel") is separating its Wireline Business from its wireless businesses and merging the Wireline Business with Valor. In order to carry out the separation, two new subsidiaries of Alltel have been created, Alltel Holding Corp. and Alltel Holding Corporate Services, Inc…
>
> 3. Alltel will first transfer ownership of Alltel Missouri, Inc. and Alltel's other incumbent local exchange company subsidiaries to Alltel Holding Corp. Likewise, the customer base of Alltel

> Communications, Inc.'s interexchange businesses will be transferred to Alltel Holding Corp. The ownership of Alltel Holding Corp. then will be transferred from Alltel to Alltel's shareholders, thereby establishing Alltel Holding Corp. (with its subsidiary, Alltel Holding Corporate Services, Inc.) as a stand-alone holding company…
>
> 4. In the final step of this process, Alltel Holding Corp. will merge into Valor, a holding company with its own exchange company subsidiaries operating in the states of Texas, New Mexico, Oklahoma and Arkansas (resulting in the "Merged Wireline Business"). Following this merger, the shareholders of Alltel will own 85% of the Merged Wireline Business, and the shareholders of Valor will own 15%...

Please see Attachments 1, 2, and 3 for the pre, post, and final corporate structure.

<u>Business Operations of Alltel and Valor</u>

Q. Please describe the business operations of Alltel Corporation.

A. According to Alltel's website, http://phx.corporate-ir.net:

> At Alltel, our first priority is responsible stewardship of our shareholders' investments. Each day we strive to grow without compromising our financial strength. Our strategy is to be in a position to take advantage of opportunities as they arise, but to do so in a fiscally responsible manner. That strategy has proven successful for our company over the past few years.
>
> Alltel's customer base has grown from 2.5 million communications customers in 1996 to 15.2 million customers today. Revenues over the same period increased from $3.2 billion to $9.8 billion. Operating income more than tripled, growing from $592 million to $2.3 billion. Total assets are up from $5.4 billion in 1996 to about $23.5 billion today. Alltel increased its quarterly dividend from 37 cents to 38 cents on the company's common stock in 2004 - the 44th consecutive annual dividend increase since the company's founding.
>
> What sets our company apart is our disciplined financial approach and operational focus. This approach is evident in our wireless and wireline businesses, which continually produce some of the leading margins in the communications industry. In addition, the company also has strong and growing cash flows.

> At Alltel, we'll continue to focus on what we have always done: follow a set of fundamentally sound management principles and pay close attention to our business priorities.

Q. Please explain the business operations of Valor.

A. According to paragraph 12 of Alltel Missouri, Inc.'s Application.

> Valor Communications Group, Inc. is a Delaware corporation and is the owner of local exchange operating companies that, as of June 30, 2005, provide local exchange service to approximately 530,000 access lines in four states. As a result of its merger with Alltel Holding Corp., Valor will become the owner of the Merged Wireline Business but itself will not be a certificated public utility.

Credit ratings by Standard & Poor's (S&P), Fitch, and Moody's

Q. What are S&P, Fitch, and Moody's?

A. S&P, Fitch, and Moody's are credit rating agencies who assign a rating to a company's securities (i.e. Common Stock, Preferred Stock, Short-Term Debt, and Long-Term Debt). The assigned ratings determine whether a company can meet its obligations and the risk of default. The highest credit rating is AAA while the lowest credit rating is C for Moody's and D for S&P. Any rating below Baa3 for Moody's or BBB- for S&P is considered junk or non-investment grade. Any rating above or at Baa3 for Moody's or above or at BBB- for S&P is considered investment grade. The table below summarizes Moody's and S&P's rating symbols. Fitch's rating symbols are equivalent to S&P.

Bond Rating		Grade	Risk
Moody's	**Standard & Poor's**		
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Baa	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default

http://www.investopedia.com/articles/03/102203.asp

Q. What is the current credit rating for Alltel from S&P?

A. The current credit rating for Alltel from S&P's report is A-, which is above investment grade. Please see Attachment 4.

Q. What is the current credit rating for Alltel from Fitch?

A. The current credit rating for Alltel from Fitch's report is A, which is above investment grade. Please see Attachment 5.

Q. What is the current credit rating for Alltel from Moody's?

A. The current credit rating for Alltel from Moody's report is A2, which is above investment grade and is equivalent to S&P and Fitch's rating of A. Please see Attachment 6.

Q. What is the current credit rating for Valor from Fitch and Moody's?

A. Fitch and Moody's currently do not rate Valor's debt.

Q. What is the current credit rating for Valor from S&P?

A. The current credit rating for Valor from S&P's report is BB-, which is below investment grade. Please see Attachment 7.

Q. Does S&P's report mention anything about the spin-off and the likely credit rating of the Merged Wireline Business?

A. Yes S&P mentions the spin-off and the likely credit rating of the Merged Wireline Business:

> Given our expectation that the new company's dividend policy will be fairly aggressive, coupled with the competitive challenges currently facing the Wireline sector, any potential upgrade is likely to remain in the speculative-grade category.

Q. Please elaborate what S&P means by speculative-grade category.

A. What S&P is saying is that after spin-off the Merged Wireline Business will likely be assigned a credit rating in the range of BB, which is below investment grade. Please see Attachment 7.

Q. Has Alltel or Valor pursued any Ratings Evaluation Service (RES) reports or indicative credit ratings for the Merged Wireline Business from S&P, Moody's, or Fitch?

A. No, Alltel has not pursued any RES or indicative credit ratings. I submitted Data Request 3 to Alltel asking, "Has the Merged Wireline Business received any indicative credit ratings from Standard & Poor's, Moody's, or Fitch? If so, please provide a copy of the indicative credit ratings and the analysis that supports the indicative credit ratings from all outside credit rating agencies (Standard & Poor's, Moody's, and Fitch)." The response from Alltel was: *

*

Merged Wireline Business Pro Forma Capital Structure

Q. Please explain the pro forma capital structure of the Merged Wireline Business.

A. The pro forma capital structure of the Merged Wireline Business as of December 31, 2005 is * * debt and * * equity which was calculated from the Merged Wireline Business's pro-forma Balance Sheet. This mixture of debt and equity optimizes the Merged Wireline Business's capital structure.

Q. Please explain why a company would utilize an optimal capital structure.

A. A company would utilize an optimal capital structure to maximize the value of the company's stock by issuing a mixture of debt and equity to keep their actual capital structure within a reasonable target. According to the college finance text book Fundamentals of Financial Management[1]:

> …each firm has an optimal capital structure, defined as that mix of debt, preferred, and common equity that causes its stock price to be maximized. Therefore, a value-maximizing firm will establish a target (optimal) capital structure and then raise new capital in a manner that will keep the actual capital structure on target over time.

Another source that describes the use of an optimal capital structure is the book written by Roger A. Morin, Regulatory Finance Utilities' Cost of Capital[2]:

> At zero debt ratio the cost of capital is coincident with the cost of equity. With each successive substitution of low-cost debt for high-cost equity, the average cost of capital declines as the weight of low-cost debt in the average increases. A low point is reached where the cost advantage of debt is exactly offset by the increased cost of equity. This is the optimal capital structure point. Beyond that point, the cost disadvantage of equity outweighs the cost advantage of debt, and the weighted cost of capital rises accordingly.

The Board of Directors of Alltel has a fiduciary responsibility to shareholders to make sure that the value of the Merged Wireline Business's stock is maximized. In order to do this, the new management of the Merged Wireline Business should strive to achieve the lowest cost of capital for its capital needs. This is done by targeting a capital structure that is, at least in the opinion of its management, optimal. Therefore Alltel believes that a mixture of debt * * and equity * * would be optimal for the Merged Wireline Business.

Merged Wireline Financial Ratios

Q. Please provide any financial ratios that you believe provide insight on the Merged Wireline Business's potential credit quality.

---

[1] Eugene F. Brigham and Joel F. Houston, Fundamentals of Financial Management, (Fort Worth: The Dryden Press, 1998), 362.
[2] Roger A. Morin Regulatory Finance Utilities' Cost of Capital, (Public Utilities Reports, Inc., 1994), 415.

A. The following three ratios provide insight on the Merged Wireline Business's credit quality: Total Debt/Earnings Before Interest Taxes Depreciation and Amortization (EBITDA), Dividend Payout ratio, and EBITDA Interest Coverage ratio. Total Debt/EBITDA determines a company's ability to pay their debt. If the ratio is high that means there are fewer earnings available to the company to pay their debt obligations. The Dividend Payout ratio determines a company's percentage of earnings paid out in dividends. The higher the ratio the less cash that is available for the company to reinvest or pay their debt obligations. The EBITDA Interest Coverage ratio determines a company's ability to pay the interest on their debt. The higher the ratio, the more cash that is available to the company to pay the interest payments on their debt obligations.

The pro forma Total Debt/EBITDA ratio for the Merged Wireline Business is * * times for 2006, 2007, 2008 respectively. The pro forma Dividend Payout ratio for the Merged Wireline Business is expected to be in the range of * * for 2005. The pro forma EBITDA Interest Coverage ratio for the Merged Wireline Business is * * times for 2006, 2007, and 2008 respectively.

Q. Do you have any of your own conclusions from the above financial ratios?

A. Yes. I compared the above ratios to Embarq in the Sprint Nextel Case No. IO-2006-0086 to the Merged Wireline Business as Sprint Nextel has very similar operations to the Merged Wireline Business. The pro-forma Total Debt/EBITDA for 2005 was determined to be * * times for the Merged Wireline Business. This is above the pro-forma Total Debt/EBITDA for Embarq. The pro forma dividend payout ratio for 2005 for the Merged Wireline Business is * *. This is significantly higher than the pro forma dividend payout ratio of Embarq. The pro forma EBITDA Interest Coverage ratio for 2005 was determined to be * * times. This is slightly lower compared to the pro-forma EBITDA Interest Coverage ratio for Embarq.

The last ratio that I believe is important to consider is the Total Debt/Total Capital ratio as this ratio is important to arrive at an appropriate capital structure. The Merged Wireline Business's pro forma Total Debt/Total Capital ratio for 2005 was determined to be * *, which is reasonable when compared to Embarq's Total Debt/Total Capital ratio.

Q. Embarq's ratios are highly confidential and are not listed in this testimony. Please provide the case number and the location of the ratios so the Commissioners can look at Embarq's ratios.

A. Embarq's ratios can be found as an Attachment to the Company's Application in Case No. IO-2006-0086 in the highly confidential Houlihan report on page 7 filed by company witness Kevin P. Collins.

<u>Debt and Stock Issuances and Interest Rates for the Merged Wireline Business</u>

Q. Please describe the Merged Wireline Business's issuance of debt.

A. Prior to the spin-off, the Merged Wireline Business will issue * * in Senior Secured Credit Facilities and Senior Unsecured Notes with a * * dividend to Alltel. The debt will be issued by JP Morgan and Merrill Lynch and will range from * * years in duration. Please see Attachment 8 for more details.

Q. What is the interest rate associated with the issuance of this debt?

A. The interest rate associated with the issuance of debt has not been determined at this time. The interest rate will be determined at the time of issuance which is expected closer to the close of the transaction.

Q. Please describe the Merged Wireline Business's issuance of stock.

A. Staff submitted Data Request 8 that says, "The Application states that Alltel shareholders will own 85% of the Merged Wireline Business and Valor will own 15%. Please explain this transaction in more detail." The response was:

> The merger agreement provides that all issued and outstanding shares of Spinco immediately prior to the merger shall be automatically converted into the right to receive an aggregate number of shares of Valor common stock equal to the product of: (a) 5.6667 multiplied by (b) the aggregate number of shares of Valor common stock issued and outstanding, on a fully diluted basis, immediately prior to close (the "Aggregate Merger Consideration"), with each such share of Spinco common stock issued and outstanding to be converted into the right to receive a number of shares of Valor common stock equal to (1) the Aggregate Merger Consideration divided by (2) the aggregate number of shares of Spinco common stock issued and outstanding immediately prior to close.
>
> For example, if there were just 1 share of Valor common stock outstanding and 1 share of Spinco common stock outstanding on the date of the merger, the Spinco common stockholder would receive 5.6667 shares of Valor common stock. The former Spinco common stockholder would then own 85% of the total issued and outstanding Valor common stock (5.6667/6.6667).

Q. For the Commission to approve this transaction, does Staff have any conditions?

A. Yes. The purpose of these conditions is to ensure that the stock of Alltel Missouri, Inc. is transferred to a financially viable entity that will provide the capital needed to provide safe and adequate service upon reasonable terms and conditions. These conditions are also designed to minimize the risk that Alltel Missouri, Inc. stock will be transferred to an entity that is not financially capable of providing the capital needed so Alltel Missouri, Inc. can provide safe and adequate operations. Thus, Staff recommends the Commission place the following conditions to an approval of Alltel's Application:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

2. That the Merged Wireline Business file with the Commission all final terms and conditions on this financing as described in the First Supplement to Application including, but not limited to the following: the aggregate principal amount to be sold or borrowed, price information, estimated expenses, loan or indenture agreement concerning each issuance.

3. That the Merged Wireline Business files with the Commission any credit rating agency reports concerning issuances by the Merged Wireline Business associated with this transaction.

4. In the event that two out of the three credit rating agencies do not assign an investment grade corporate credit rating to the Merged Wireline Business at the time of separation, then within 90 days of the date of separation, the Merged Wireline Business shall complete all of the following, which are the same recommendations Staff made in the Sprint Nextel Case No. IO-2006-0086:

> 1) Demonstrate that, the rating notwithstanding, its primary financial metrics (such as EBITDA Interest Coverage, Debt-to-EBITDA and Total Debt to Total Capital) presented to major bond rating agencies at the time of separation were substantially the same as those contained in the Application filed with the Commission on December 22, 2005;
> 2) Demonstrate that its primary financial metrics (such as those described above) all within investment grade ranges of at least BBB, and that the non-investment grade credit ratings reflect factors other than the financial metrics of the Company, and;
>
> 3) The Merged Wireline Business shall provide all written correspondence, reports and analysis to the Commission Staff of the credit rating agency(ies)

that has/have not assigned an investment grade corporate credit rating to the Merged Wireline Business that support the financial scenarios that Alltel provided to the credit rating agency(ies).

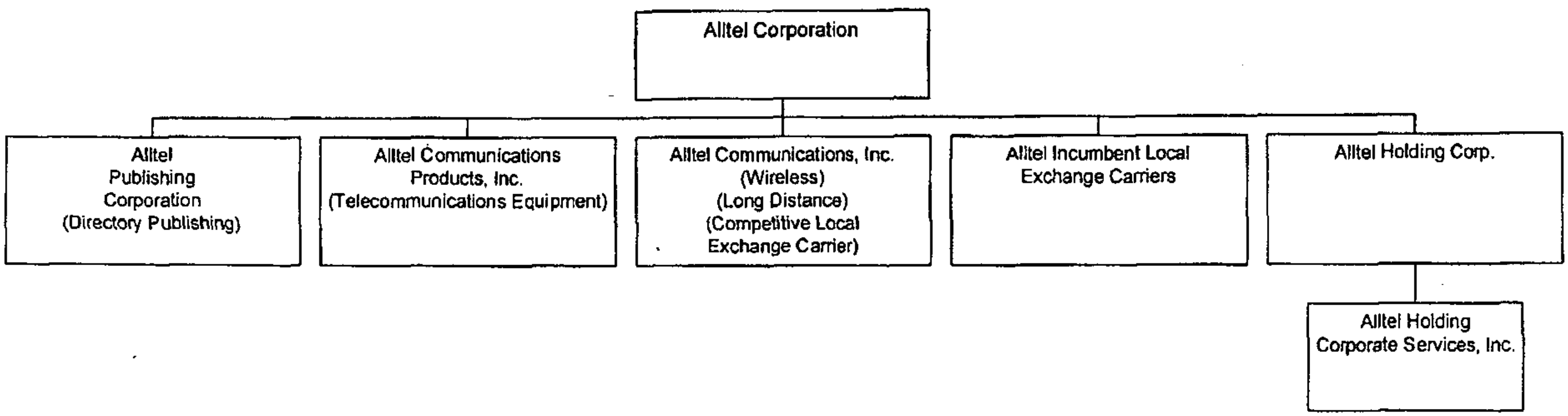
In the event the Merged Wireline Business is not expected to be investment grade Staff recommends these conditions be added to ensure customers and the existing quality of service be protected from any adverse impacts. Staff is doubtful that the Merged Wireline Business, as presented in the Application, Supplemental Application, Direct Testimony and responses to Data Requests by Alltel, will be investment grade. Staff will continue to work with the Company to put safeguards in place to ensure customers receive safe and adequate service at just and reasonable rates. Staff will discuss the three conditions above from the Sprint Nextel Case No. IO-2006-0086 with Alltel to explore a resolution that will not be detrimental to the public interest.

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

PRE-SEPARATION CORPORATE STRUCTURE

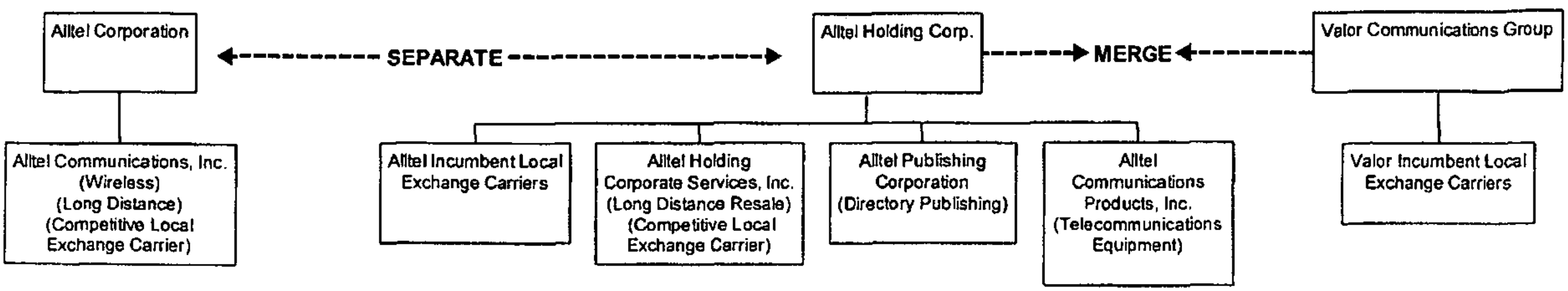
EXHIBIT 1



Attachment 1

POST-SEPARATION CORPORATE STRUCTURE

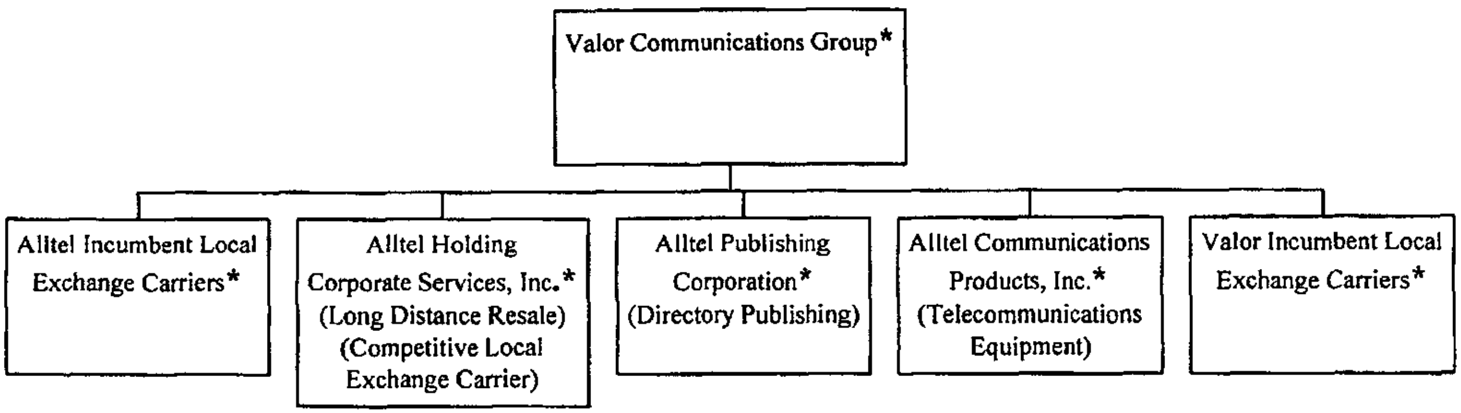
EXHIBIT 2



Attachment 2

MERGED WIRELINE BUSINESS

EXHIBIT 3



*** ACTUAL NAMES ARE YET TO BE DETERMINED.**

Attachment 3

STANDARD
&POOR'S

CORPORATE RATINGS

ALLTEL Corp. Ratings Lowered And Off CreditWatch

Credit Rating:
A-/Stable/A-2

Primary Credit Analysts:
Catherine Cosentino
New York
(1) 212-438-7828
catherine_cosentino@
standardandpoors.com

RatingsDirect
Publication Date
Jan. 18, 2006

Rationale

On Jan. 18, 2006, Standard & Poor's Ratings Services lowered the ratings on Little Rock, Ark.-based diversified communications carrier ALLTEL Corp., including its long-term corporate credit rating to 'A-' from 'A' and its short-term corporate credit rating to 'A-2' from 'A-1'. The ratings were simultaneously removed from CreditWatch with negative implications. The outlook is stable.

However, the corporate credit rating and senior unsecured debt rating on ALLTEL's local exchange carrier subsidiaries ALLTEL Georgia Communications Corp. andAlltel Communications Holdings of the Midwest Inc., remain on CreditWatch with negative implications, because debt at these entities will be assumed by a new holding company to be formed by the combination of the ALLTEL wireline business and that of local exchange carrier Valor Communications Group Inc. (BB-/Watch Pos/—).

Ratings had initially been placed on CreditWatch on Sept. 23, 2005, with developing indications due to management's pursuit of strategic alternatives for its wireline business. The implications were subsequently revised to negative on Dec. 9, 2005 with the announced plan to spin off and merge the wireline business with that of Valor. Pro forma for the spin-off of ALLTEL's wireline business, including an associated debt exchange, ALLTEL will have about $4 billion of debt before implementation of an anticipated $1 billion post spin-off debt reduction plan.

The downgrade reflects heightened business risk ascribed to the company as a regional wireless provider competing against larger national wireless carriers in an environment of slowing subscriber growth. This has translated into reduced subscriber additions, especially in the third quarter of 2005 when the company exhibited a relatively low growth level of less than 5% on an annualized basis for

Attachment 4-1

its more mature heritage markets. This performance weakening more than offsets the favorable effect of the divestiture of the company's smaller, mature wireline business.

ALLTEL benefits from a satisfactory business position, given the scale it has achieved over the past several years through acquisitions and new market buildouts, and currently has a network that covers about 75 million controlled population equivalents (pops) and has about 10 million customers, including about 1.4 million acquired in August 2005 with the purchase of Western Wireless. Through on-going marketing and retention efforts, the company has been able to maintain and expand this base, albeit modestly in recent periods, and its postpaid churn is in line with industry averages at 1.9%. Yet, despite its satisfactory business position, its ability to grow and retain its subscriber base over the next year will be challenged by expectations for increased competition from the national carriers.

Despite heightened business risk and the attendant downgrade, ALLTEL continues to benefit from significant financial strength and expectation that it will continue to generate substantial net free cash flow after capital expenditures and dividends, post spin-off of its wireline business. As a result, the company continues to benefit from very good liquidity and a solid balance sheet. With the spin-off of the wireline business, along with about $262 million of debt, and receipt of a $2.4 billion cash dividend from the spun off wireline entity, ALLTEL is expected to pay down about $1 billion of debt. As a result, ALLTEL's total debt to EBITDA is expected to be about 1.25x for 2006, pro forma for the full year spin-off of the wireline business.

Short-term credit factors

Our short-term rating on ALLTEL was lowered to 'A-2' from 'A-1' due to the downgrade of the long term rating to 'A-' from 'A'. While the company has strong liquidity and significant access to capital, it has indicated that it also plans to repurchase about $3 billion of its common stock over the two-year period following the spin-off of the wireline business , which will utilize a significant amount of its excess liquidity. Pro forma for the spin-off of the wireline business and related financial transactions, the Midwest Wireless acquisition and sale of its international assets, and a $1 billion planned debt reduction, ALLTEL will have a cash balance of about $1.8 billion. Net free cash flow, after working capital, capital expenditures, and common and preferred dividends, is expected to be in the area of $450 million for 2006. This magnitude of net free cash flow provides the company ample resources to repay future maturities. The company also has relatively modest long-term debt maturities of $183 million for 2006, pro forma for the anticipated $1 billion post wireline spin-off debt-reduction plan. The company also has access to borrowings under its $1.5 billion in revolving credit facilities, which mature in 2009 and its $700 million revolving credit maturing in July 2006.

While the company's short-term liquidity is very strong, its ability to access borrowings under its bank facility contains certain limitations. Under the company's $1.5 billion commercial paper program, borrowings are deducted from the revolving credit agreements in determining the amount available for borrowing under those agreements. Accordingly, the total amount outstanding under the commercial paper program and the indebtedness incurred under the revolving credit agreements may not exceed $1.5 billion. The revolving credit agreements contain various covenants and restrictions, including a requirement that, at the end of each calendar quarter, ALLTEL maintain a total debt-to-capitalization ratio of less than 65%.

Outlook

The outlook is stable. The company continues to face the challenge of expanding its subscriber base and operating cash flows in increasingly competitive wireless markets, especially for customers desiring national wireless plans. In particular, pricing competition is expected to continue to place pressures on overall ARPU and EBITDA margins and limit growth prospects for such metrics. Yet, the company is expected to be very conservatively leveraged. pro forma for the spin-off of the wireline business, with a debt to EBITDA of around the low-1x area. In addition, given the company's on-going subscriber base of more than 10 million and expectations that this base will continue to provide fairly significant levels of net free cash flow from operations after capital expenditures, the company has a good ability to reduce leverage even further over the next few years, even with anticipated stock repurchases in the area of $3 billion. However, if the company's operating performance does not improve in 2006, then its outlook would be revised to negative. Longer term, the outlook could be revised to positive if the company is able to demonstrate that it can maintain profitability metrics in the face of heightened competitive threats.

Ratings List

Ratings Lowered, Off CreditWatch

ALLTEL Corp.	To	From
Corporate credit rating	A-/Stable/A-2	A/Watch Neg/A-1
Senior unsecured debt	A-	A/Watch Neg
Preferred stock	BBB	BB+/Watch Neg
Ratings Lowered, Remain On CreditWatch		
ALLTEL Georgia Communications Corp.		
Corporate credit rating	A-/Watch Neg/—	A/Watch Neg/—
Senior unsecured debt	A-/Watch Neg	A/Watch Neg
ALLTEL Communications Holdings of the Midwest Inc.		
Corporate credit rating	A-/Watch Neg/—	A/Watch Neg/—
Senior unsecured debt	A-/Watch Neg	A/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

Telecom/U.S. and Canada
Credit Update

ALLTEL Corporation

Ratings

Security Class	Current Rating	Previous Rating	Date Changed
Commercial Paper cp	F1	NR	06/23/99
Senior Unsecured debentures	A	NR	06/23/99
Senior Unsecured notes	BBB-	A	12/09/05

Rating Watch.. None
Rating Outlook..Stable

Analysts

Bill C. Densmore
312-368-3125
bill.densmore@fitchratings.com

John C. Culver, CFA
312-368-3216
john.culver@fitchratings.com

Profile

ALLTEL is the largest regional wireless carrier in the United States with a customer base of approximately 10.4 million subscribers, covering 75.4 million POPs. ALLTEL is also the second-largest independent incumbent local exchange carrier (ILEC) with 2.9 million lines and 1.8 million long-distance customers.

Related Research

- Press Release, Dec. 9, 2005.
- Credit Update, Nov. 29, 2005.
- Press Release, Nov. 18, 2005.

Key Credit Strengths

- Material FCF generation of wireless operations.
- Focus on small/diverse metropolitan and rural operations utlizing 850 MHz spectrum.
- Significant deleveraging resulting from planned spin-off.
- Management team has made solid value-oriented business decisions.

Key Credit Concerns

- Increased business risk as a mono-line operator.
- Financial resources of much larger competitors.
- Competitive pressures from nationwide wireless operators.
- New shareholder friendly initiatives.

Rating Rationale

On December 9, 2005, Fitch Ratings affirmed the 'A' rating assigned to Alltel Corporation's debt following the announcement that Alltel will spin-off its wireline operations. In addition, Fitch Ratings has downgraded the ratings on $262 million of operating company debt including Alltel Georgia and Alltel Communications Holdings Company of the Midwest to 'BBB-' from 'A'. The ratings for the $262 million of operating company debt are also on Rating Watch Negative. The Rating Outlook for Alltel is Stable.

In a tax-free exchange, Alltel will spin-off its wireline business and merge it with Valor Communications Group in a transaction valued at approximately $9.1 billion. As part of the spin-off, Alltel will receive cash proceeds and debt reduction totaling $4.2 billion. The transaction, which requires approval from Valor shareholders, regulators and a favorable ruling regarding the tax-free status from the IRS, is expected to close by mid-2006.

The rating affirmation reflects the significant deleveraging that will occur at Alltel as a result of the planned spin-off of its wireline operations, the expansive rural focused wireless operations primarily utilizing spectrum at 850 MHz and the material FCF generation, which Fitch expects will increase as the company fully integrates the two most recent acquisitions and grows subscribers. These factors are balanced against the increased business risk as a mono-line operator, the wireless competitive environment, the financial resources of much larger competitors and the new shareholder friendly initiatives. Fitch's rating action on the wireline operating company debt reflects our confidence that the transaction will ultimately attain approval and that the capitalization structure and credit protection metrics of the new wireline business will not be consistent with the current ratings of Alltel.

Fitch expects the leverage of the new wireline operations to be approximately 3.2x with a dividend payout of 70%. However, these levels do not likely afford the company sufficient financial flexibility to maintain an investment grade rating given Fitch's expectation for continued EBITDA erosion. The decline in voice service revenue is occurring due to ongoing technology and wireless substitution as well as increased pressure from cable operators rolling out telephony service. In addition, Fitch remains concerned over the lack of growth opportunities and service diversity as a standalone wireline operator. The operating profile for the wireline business does have less overall business risk compared to the RBOCs and the operations generate relatively stable cash flows. Fitch will finalize the ratings upon closing of the proposed wireline separation. The Rating Watch Negative designation indicates a further downward rating action could occur, depending on the ultimate capital structure of the spinco, and the position of the operating company bonds within the new capital structure.

Recent Developments

In acquiring Midwest Wireless, ALLTEL will gain approximately 400,000 wireless subscribers, primarily postpaid, in three Midwestern states that are adjacent to existing ALLTEL wireless properties. Midwest Wireless' covers approximately 1.9 million persons of population (POPs), and the company holds personal communications services (PCS) licenses for 2 million additional POPs, including some overlap of Midwest Wireless' existing 850 megahertz (MHz) network. This transaction also incrementally improves ALLTEL's position and scale as a leading roaming partner for each of the nation's top four wireless carriers, since the national carriers do not have much economic incentive to build out in sparsely populated rural markets and are more likely to devote their capital to high-speed wireless data deployment in urban areas.

Liquidity and Debt Structure

Fitch anticipates Alltel will have a considerable cash position to fund the Midwest Wireless acquisition and the several planned shareholder initiatives owing to $1.6 billion in after tax proceeds from the international asset sales, over $2 billion in cash proceeds related to the wireline spin and the FCF generation from its operations, which on a LTM basis was approximately $800 million. Following the separation of the wireline operations, Fitch expects Alltel to initiate the following programs:

--A $1 billion debt reduction program.
--A $1.5 billion debt exchange.
--A $3 billion multi-year share repurchase program.
--Annual dividend of $0.50 per share.

Given consideration to the above shareholder initiatives, Fitch expects Alltel's leverage to approximate 1.0x by the end of 2006.

ALLTEL was active during the first half of 2005 to ensure that the company had enough financial flexibility during the closing of the Western Wireless acquisition through asset sales, additional credit agreements and equity issuance. In 2005, ALLTEL strengthened its financial position with the issuance of approximately 24.5 million of its common shares to settle the purchase contract obligation related to the company's equity units for $1.4 billion; the sale of its investment in Fidelity National Bank for $350 million; and the early retirement of $450 million of long-term debt that was scheduled to mature in 2006 as well as retiring the $200 million, 6.75% senior note due September 2005. ALLTEL completed the merger with Western Wireless by issuing 54 million shares of stock valued at $3.4 billion, paying $933 million of cash and assuming approximately $2.1 billion of debt.

The company also repaid approximately $1.3 billion of term loans outstanding under Western Wireless' credit facility, which became payable at the time of closing. In addition, ALLTEL announced a tender offer to purchase Western Wireless' 9.25% $600 million senior notes due 2013 as well as a related consent solicitation to amend the indenture governing the notes. On Aug. 12, ALLTEL indicated that approximately 97% of bondholders had tendered, and the price for those 97% early tenders was $1,140.75 per $1,000 principal. To finance the Midwest Wireless acquisition, Alltel received after-tax proceeds of $420 million from the Irish wireless assets during the fourth quarter. In the first quarter of 2006, ALLTEL expects to receive $1.2 billion in after-tax proceeds for its Austrian business, tele.ring, from a subsidiary of Deutsche Telekom AG. ALLTEL is currently waiting for theEuropean Union to conclude its review of the transaction.

ALLTEL has a $1.5 billion, five-year credit facility maturing in 2009. On Aug. 1, 2005, ALLTEL entered into an additional $700 million, 364-day revolving credit agreement that expires on July 31, 2006. As of Sept. 30, 2005, the company had $928 million outstanding under its commercial paper (CP) program. ALLTEL also has approximately $23 million in current maturities of long-term debt.

This Analysis provides a discussion of the factors underpinning the credit rating/s and should be read in conjunction with our Credit Opinion. The most recent ratings, opinion, and other research specific to this issuer are provided on Moodys.com. Click here to link.

Analysis

UNITED STATES
Americas

January 2006

Contact	Phone
New York	
Dennis Saputo	1.212.553.1653
Gerald Granovsky	
Julia Turner	

ALLTEL Corporation

Significant changes in Alltel's business model have created rating pressure

On December 9, 2005, Alltel announced its plans to operate as a standalone wireless company by spinning off its wireline operations. The wireline operations will merge with Valor Telecommunications (Valor) in a reverse Morris Trust transaction, a transaction structured to be tax free to Alltel. Moody's expects the transaction will close in the middle of 2006, and that substantially all existing debt will remain unchanged at Alltel. As a result of the announcement, Moody's affirmed Alltel's A2 long-term ratings, but revised its outlook for the ratings to negative to reflect Alltel's loss of cash flow diversification because of the spin-off of the wireline assets and the adoption of a more shareholder friendly financial policy.

Moody's believes that the bifurcation of Alltel's wireless and wireline operations will:

- Reduce the benefits of revenue diversification. The wireless operations will lose the implicit support provided by the predictable, though increasingly pressured, wireline free cash flow.
- Motivate Alltel to modify its financial strategy for both business segments to one that is more market-friendly.
- Have a minimal impact on the daily operations, product marketing, and customer retention of the wireless business. Alltel has not emphasized bundling wireless and wireline product, and it is Moody's understanding that except for certain back office functions, Alltel operates its wireline and wireless business as essentially two separate companies.

Moody's believes that Alltel will continue to focus on a high growth strategy for its retained wireless business, primarily in rural markets, through both organic subscriber growth and acquisitions. Moody's considers the recent acquisition of Western Wireless (WW) and the announced acquisition of Midwest Wireless (Midwest) as extensions of Alltel's wireless expansion strategy, and believes the combination of these operations has significant potential for strategic and operational synergies.

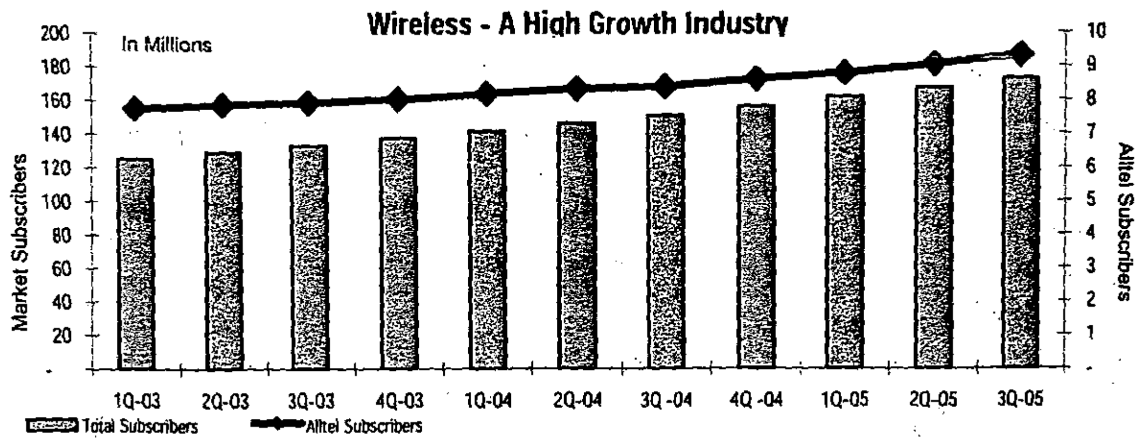
As part of the wireline asset spinoff, Alltel will also retain certain Communication Support Services, specifically those related to Communication Products and the Interexchange Network. Moody's believes that the true benefit of retaining these operations will be a lower sustainable wireless cost structure, rather than the profitability associated with these individual product lines.

Attachment 6-1

Alltel has increased its exposure to a higher growth industry segment.

Moody's considers wireless services a relatively high growth segment within the telecommunications industry, growing on average 13.9% in the last two years, in terms of subscribers. Across the industry, increasing market penetration, coupled with increased customer penetration, i.e., a higher number of products sold to each subscriber, is driving strong top-line growth.

The significant steps Alltel has taken, specifically, the recent acquisition of WW, an exchange of wireless properties with Cingular, the pending acquisition of Midwest, and the announced spin-off of its wireline operations strengthens its long-term wireless growth and earnings prospects. Wireless asset contribution, which produced 60% of the company's revenue mix in 2004, will increase to approximately 92% after the completion of the above mentioned transactions. This strategic realignment to a solitary focus into an area where Alltel has proven itself as a solid operator supports its A2 long-term credit rating. Moody's anticipates that the financial impact of declining roaming rates will be offset by increased minutes of use and continued subscriber growth in the wireless sector.



Source: Company Filings & Moody's Estimates. Market defined as Sprint Nextel, Cingular, VZ Wireless, US Cell, T-Mobile & Alltel

The competitive environment will remain challenging.

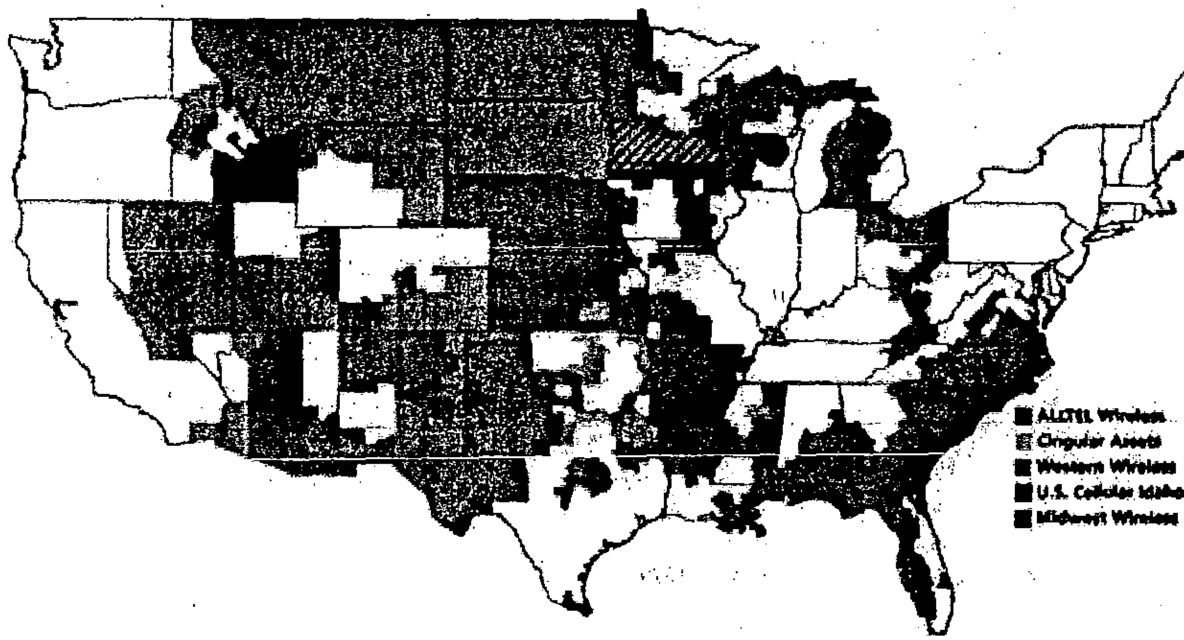
Although Moody's expects that in-market consolidation will improve the rural wireless competitive environment, we believe wireless competition will remain robust, with as many as seven providers in a given market. Alltel's ability to offer national coverage gives it a competitive edge over certain regional carriers, and places it on even footing with other national carriers, but it still lacks the scale in terms of marketing and purchasing power, as well as the ability to bundle products, that its largest competitors enjoy.

The Western Wireless and Midwest Wireless assets improve Alltel's wireless market position.

Alltel's acquisition of Western Wireless in August 2005 and the announced acquisition of MidWest Wireless in November 2005 meaningfully strengthened its position as the largest rural cellular provider in the US with over 10 million customers. Moody's believes Alltel's coverage in rural western states improved dramatically, given minimal pre-acquisition overlap between the companies' footprints. The company (post WW acquisition) not only became the largest rural provider of cellular service in the US, but also the largest rural US roaming partner. This significantly strengthened its negotiating position vis-à-vis other carriers.

Attachment 6-2

Alltel's U.S. Wireless Coverage



Source: Alltel

By retaining certain support services and its long-haul network, the spinoff of Alltel's wireline assets should not disrupt the company's current low wireless cost structure. Furthermore, Moody's believes that anticipated operational synergies should also lower the cost structure of the wireless company over the longer term because:

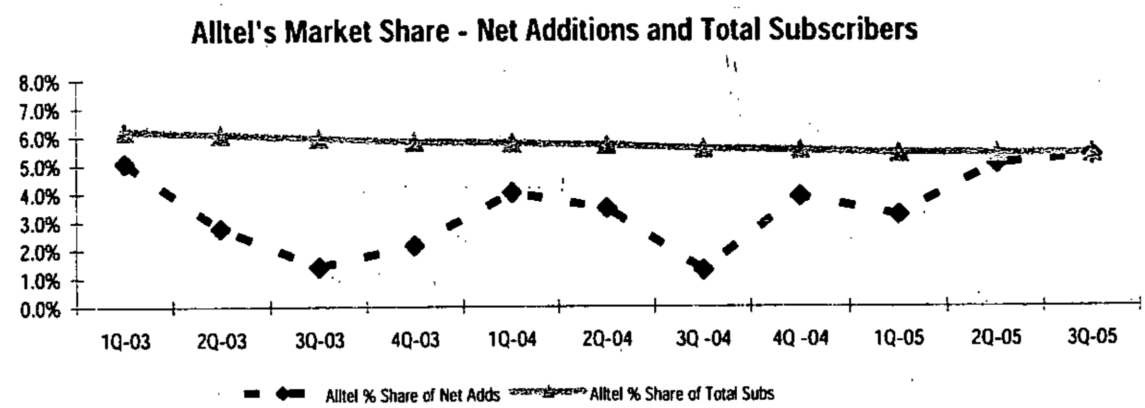
- The increased wireless scale should improve Alltel's negotiating position with suppliers, and provide operational economies of scale in areas such as call centers.
- Alltel's relative exposure to rural/suburban markets increased from 64% to 70% of revenues with recent acquisitions. Higher rural exposure should improve churn rates and margins.
- As the largest rural cellular provider, Alltel should be an attractive roaming partner for the four national players.
- Alltel's national plans may attract new customers in Western Wireless's core markets.
- In addition to benefits from a favorable roaming agreement with Verizon, the improved pro forma footprint should result in lower overall roaming costs for the company.

Moody's believes Alltel will face significant integration risk as it assimilates WW and Midwest. Alltel's strong track record for effectively integrating acquisitions partially offsets some of this risk.

Attachment 6-3

Maintaining market share has proven challenging for Alltel.

Alltel's ability to offer price competitive national coverage gives it an edge over certain regional carriers, and places it on even footing with other national carriers. Nonetheless, from the beginning of 2003, Alltel's subscriber growth has lagged other providers despite acquisitions, as its market share dropped from 6.2% in Q1-03 to 5.4% in Q3-05. The company's ratings will strengthen to the extent it can reverse this trend and successfully gain market share, which has proven to be challenging vis-à-vis the national carriers.



Note: Market defined as Sprint Nextel, Cingular, VZ Wireless, US Cellular, T-Mobile & Alltel
Source: Company Filings & Moody's Estimates

Revenue and cash flow growth, coupled with low leverage, support the rating.

Moody's believes that Alltel's financial flexibility is reflected in its conservative capital structure, which allows the company to pursue strategic initiatives, and free cash flow generation, which provides the means to reduce leverage afterwards.

Overall, Moody's anticipates that the operating performance of Alltel's wireless business will remain strong in a challenging market so long as industry continues to grow. By focusing on expanding its rural operations rather than those in urban markets, the company should benefit from lower churn rates and high margins afforded by lower competition. Alltel's relative exposure to rural/suburban markets increased to over 70% on a proforma basis from 64% as a result of recent acquisitions. Alltel will still, however, derive 30% of its wireless revenue from large more-competitive urban markets. Moody's is also concerned that price compression associated with roaming rates, which has moderated somewhat, will still continue to erode Alltel's wholesale margins. Despite continued pressure on margins, Moody's expects Alltel's wireless earnings and cash flows to grow steadily over the next few years due to growth in its customer base, increased penetration of higher ARPU national plans, and controlled capital investment.

Alltel maintains high margins through excellent cost control.

Alltel's wireless operations generate among the highest EBITDA margins in the industry, at 36% for the twelve months ending 9/30/05.

Effective wireless sales distribution channels and significant progress in completing the transition to CDMA technology, in part, drive the company's good wireless cost structure. Alltel's wireless-cash-cost-per-user is one of the lowest in the industry. Although cash-cost-per-customer has risen in recent quarters because of increased advertising cost, redundant operation costs associated with the WW acquisition, and an increase average minutes of use without a proportionate rise in revenue per MOU, Moody's anticipates that the company will maintain its competitive position in the intermediate term as it completes the integration of WW and continues to take advantage of its strong distribution channels. As shown in the following table, Alltel is able to maintain regional economies of scale. Relative to other large cellular providers, Alltel is among the market leaders in terms of monthly operating income per subscriber and cash contribution per customer (based on the twelve months ending 9/30/05), exceeded in both categories by only Sprint Nextel and Verizon Wireless.

Attachment 6-4

TTM - Q3 '05	Average Number of Customers (mm)	Average ARPU ($)	Wireless Operating Costs ($)	Depr/Amort per Customer ($)	Monthly Operating Income per Customer ($)	Monthly Cash Operating Income per Customer ($)
ALLTEL	8.8	50.59	32.26	8.25	10.08	18.33
Verizon Wireless	45.7	49.65	29.07	8.58	11.99	20.57
Cingular	50.7	49.67	35.85	10.24	3.58	13.82
Sprint	33.9	64.57	41.01	11.81	11.75	23.56
T-Mobile	18.3	54.50	41.01	8.78	4.72	13.49
US Cellular	5.1	44.83	33.08	8.29	3.46	11.74

Source: Company reports; Moody's Estimates

Despite operational and strategic benefits, the planned mergers significantly increase Alltel's integration risk, particularly in the following areas:

- Marketing and product branding
- Technology integration – at close, 20% of Western Wireless' customers used analog systems
- Back-office consolidation

In the third quarter of 2005, Alltel's churn increased due to handset conversion problems. The loss of sixty-seven thousand customers in the 3rd quarter of 2005 in properties acquired from Cingular in April 2005 contributed to 34 bps increase in average quarterly sequential churn. Moody's expects Alltel to complete the handset transitions by the end of 2005, and churn to return to lower levels. In the event that future integration creates an unexpected drain on the company's managerial and financial resources such that wireless cash flow generation is impaired, Alltel's rating will likely come under pressure.

Moody's expects wireless free cash flow (defined as CFFO less CAPEX and Dividends) to steadily grow to approximately $650 million by the end of 2007, with capital expenditures hovering just over $1.0 billion. We expect the improvement in operating cash flow to drive free cash flow to over 20% of adjusted debt over the intermediate term. We also expect fund from operations interest coverage (FFO + interest expense)/interest expense to exceed 7.5x over the intermediate term.

Change in AT's financial strategy has changed Moody's rating outlook to negative.

In the December 9, 2005 press release which announced the spinoff of its wireline assets, Alltel announced its plan for an open market $3 billion share repurchase program.

Moody's considers the company's willingness to return to shareholders proceeds associated with the spinoff a change in Alltel's long-followed conservative financial policy. To the extent Alltel increases its distribution to shareholders beyond the announced share repurchase plan, the ratings may come under pressure. Moody's believes Alltel's senior management is still committed to maintaining the company's A2/P-1 rating, and expects senior management to continue this fiscal discipline as the company grows.

Moody's expects the company to continue to grow through acquisition and to leverage its balance sheet from time to time to do so. Moody's believes that management will continue to take a disciplined approach in selecting future acquisitions and pursue only those that improve its competitive position, generate free cash flow, and strengthen the company's balance sheet. After such acquisitions, Moody's expects the company to use its strong free cash flow to reduce leverage quickly to levels consistent with an A2 rating. If Alltel should, however, pursue strategic options, including another wireless acquisition, that precludes the company from restoring free cash flow to 20% of adjusted debt over the intermediate term, the ratings could fall.

Alltel will continue to benefit from strong wireline cash flow until divestiture is complete.

At the same time, Moody's expects Alltel's wireline business to grow slowly, if at all, as it is facing rapidly expanding competitive challenges from wireless, broadband substitution, and cable companies. Moody's believes strong DSL growth, generally favorable regulation, and an improved cost structure will offset some of the negative impact of access line loss. For the twelve months ending 9/30/05, DSL subscribers rose 66% to 360K, representing 18% penetration rate of addressable lines. Given Alltel's high wireline EBITDA margins of over 57% (the highest in the industry), Moody's believes that despite top-line pressure, wireline operations will continue to generate stable operating cash flow. Any increases in wireline cash flow are likely to result from margin improvement given Moody's expectations for stable revenues and capital expenditures.

Attachment 6-5

Related Research

Special Comments:

ILEC Capital Investment I: What It Will Take for the Telecoms to Compete, November 2005 (# 95404)

ILEC Capital Investment II: Why Wireline Telecom Capital Spending Has Not Been as Low as Metrics Suggest, December 2005 (#95532)

North American Cable-Telecom Convergence, June 2004 (# 87579)

Potential Impact of IP Telephony on North American Telecom and Cable Company Rating Quality, June 2004 (# 87529)

North American Cable/Telco's Convergence and "High Speed" Race to the Home, December 2004 (# 90323)

Wi-Fi & WiMax: The potential impact on North American teleco, cableco & satellite DTH credit quality, July 2005 (# 93451)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Attachment 6-6

Valor Communications Group Inc.
Ratings Placed On Watch Positive After Merger Announcement

Primary Credit Analyst: Susan Madison, New York, (1) 212-438-4516; susan_madison@standardandpoors.com

Rationale

On Dec. 9, 2005, Standard & Poor's Ratings Services placed its ratings on Valor Communications Group Inc., including the 'BB-' corporate credit rating, on CreditWatch with positive implications after the announcement that Valor will merge with the newly formed wireline company created by the spin-off of **ALLTEL Corp.**'s wireline business. Valor, an Irving, Texas-based rural local exchange provider, has approximately $1.2 billion of outstanding debt.

The CreditWatch placement reflects our expectation that the business and financial profiles for the new company will be stronger than Valor's current profiles. The new company will be significantly larger and more geographically diverse, serving approximately 3.4 million access lines across 16 states. As a result, opportunities for cost savings due to increased operating efficiencies and the elimination of duplicate overhead may result in improved margins. The enhanced geographic diversity and predominantly rural nature of the new company should also provide some protection from competitive pressure.

Valor's debtholders will also benefit from the lower overall leverage of the proposed company. Pro forma for the proposed transaction, debt to EBITDA for the merged entity will be in the low 3x area, a material improvement from Valor's current 4.3x leverage. The company has also identified a number of merger synergies, which should result in substantial cost savings. Given our expectation that the new company's dividend policy will be fairly aggressive, coupled with the competitive challenges currently facing the wireline sector, any potential upgrade is likely to remain in the speculative-grade category.

Valor and ALLTEL expect to complete the proposed spin-off and merger transactions over the next 12 months. The merger is conditional upon numerous state and federal regulatory approvals, approval by Valor shareholders, and receipt of an IRS ruling approving the tax-free treatment of the transactions.

Standard & Poor's review will focus on the merged company's ability to integrate operations and realize synergies, the impact of wireless substitution and cable competition on the company's revenue base, the ability of the combined company to effectively market new products and services, and leverage and dividend policies.

Ratings List

Valor Communications Group Inc.

	To	From
Corporate credit rating	BB-/Watch Pos/--	BB-/Negative/--

Valor Telecommunications Enterprises LLC

	To	From
Senior secured bank loan	BB-/Watch Pos	BB-
Recovery rating	3/Watch Pos	3
$400 mil. senior unsecured notes due 2015*	B/Watch Pos	B

*Co-issued by
Valor Telecommunications Enterprises Finance Corp.

<<BOILERPLATE>>

Exhibit 9

Schedule of Proposed Debt
Of New Holding Company
("Newco")

Debt	Guarantees	Liens	Comments
1. Senior Secured Credit Facilities:			
a. Borrower: Newco b. Lenders: JP Morgan; Merrill Lynch c. Borrowings Available: Up to $4.2 billion available as follows: • Revolving Loans up to $500 million • Term Loans in amounts up to: o Tranches A and B - $3.3 billion o Tranche C - $400 million	Yes	Yes	A. To be Guaranteed by all Newco Subsidiaries and secured by personal property and other necessary assets of Newco and all Subsidiaries of Newco. B. If Senior Unsecured Notes discussed below exceed $1.54 billion, Tranche A and B Loan amounts will be reduced dollar-for-dollar by excess. C. Tranche C loans would be used solely to repurchase Valor senior notes discussed below.
2. Senior Unsecured Notes:			
a. Issuer: Newco b. Purchasers: To be determined c. Amounts: No less than $1.54 billion	Yes	No	Notes will receive same Guarantees as Senior Secured Credit Facilities but will not be secured.
3. Existing Alltel Wireline Debt to be Assumed by Newco:			
a. Nebraska Notes - 6.75% Notes of Alltel Communications Holdings of the Midwest, Inc. due 2028 in principal amount of $100 million	No	Yes (issuer only)	Notes must receive equal and ratable security in assets of Alltel Communications Holdings of the Midwest, Inc. and its subsidiaries.
b. Georgia Debentures - 6.5% Debentures of Alltel Georgia Communications Corp. due 2013 in principal amount of $80 million	No	Yes (issuer only)	Notes must receive equal and ratable security in assets of Alltel Georgia Communications Corp.
c. Teleview Notes - 7.0% Notes of Teleview in amount of $1.1 million	No	No	
4. Existing Valor Indebtedness to be assumed by Newco.			
a. Senior Notes - 7.75% Senior Notes of Valor Communications Group, Inc. due 2015 in amount of $400 million	Yes	See Comment	Notes may receive equal and ratable security in assets of Newco and its subsidiaries. Transactions will trigger "put" right of holders of notes to require Newco to purchase notes at 101% of par

4847-6355-2768.1

Schedule 1

SOURCES AND USES OF FUNDS

($ in millions)

Sources		Uses	
Senior Credit Facilities			
Revolving Credit Facility	$ 90[1]	Dividend to Alltel	$ 2,400
Term Facilities		Refinance Merger Partner Bank Facility (including the payment of related premiums)	$ 783
Tranche A and Tranche B	$ 3,300		
Tranche C[2]	$ 0	Assumed Merger Partner Bonds	$ 0
		Refinance Alltel Bonds (including the payment of related premiums)	$ 92
Distributed Notes	$ 1,538	Debt-for-Debt Exchange	$ 1,538
Assumed Spinco Debt	$ 181	Assumption of Alltel Debt	$ 181
		Transaction Costs	$ 115
Total Sources	$ 5,109	Total Uses	$ 5,109

[1] The remainder of the $500 million of commitments under the Revolving Credit Facility will not be utilized at closing, except for Letters of Credit that may be issued to replace letters of credit under Merger Partner's existing bank facility identified on Schedule 2 hereto.

[2] Tranche C Term Loans will be funded to the extent that Merger Partner Bonds are put to the issuer pursuant to a change of control offer required under the applicable indenture.

Schedule 2

INDEBTEDNESS

1. Set forth below is a list of all indebtedness of Spinco and Merger Partner (or any of their respective subsidiaries) that will be repaid on the Closing Date, including with the proceeds of the Facilities or the Refinancing Notes:

Description	Principal Amount to be Repaid
Merger Partner Bank Facility – Amended and Restated Credit Facility dated as of February 14, 2005 among Merger Partner, certain of its affiliates as guarantors and Bank of America, N.A., as Administrative Agent, and the lenders and other agents party thereto (as amended by Amendment No. 1 dated as of August 9, 2005)	$775 million of secured loans to be repaid in full with the proceeds of the Senior Credit Facilities and/or Refinancing Notes
Merger Partner Bonds – 7-3/4% Senior Notes due 2015 issued by Merger Partner	Merger Partner Bonds to be repaid with the proceeds of Tranche C Term Loans to the extent put to the issuer as described in footnote 2 of Schedule 1 (assumed to be $0)
Alltel Bonds – Various bonds issued by Alltel wireline subsidiaries	Approximately $81 million of Alltel wireline bonds to be repurchased with the proceeds of the Senior Credit Facilities and/or Refinancing Notes (expected total payments of $92 million including the related make-whole premiums)

2. Set forth below is a list of all indebtedness of Spinco and Merger Partner (or any of their respective subsidiaries) that will be outstanding on the Closing Date after giving effect to the Transaction:

Description	Principal Amount
Senior Credit Facilities	
Revolving Credit Facility	Aggregate commitments of $500 million
Term Facilities and/or Refinancing Notes	Aggregate of $3.3 billion[3]
Distributed Notes	$1.538 billion of senior notes to be issued by Spinco to Alltel as consideration for the Contribution
Assumed Spinco Debt – 6-1/2% Notes due 2028 issued by Aliant Communications Inc. and 6-1/2% Debentures due 2013 issued by ALLTEL Georgia Communications Corp.	Approximately $181 million of Alltel wireline bonds to be assumed by Spinco in connection with the Contribution
Merger Partner Bonds – 7-3/4% Senior Notes due 2015 issued by Merger Partner	$400 million of Merger Partner Bonds assumed to remain outstanding (see "Merger Partner Bonds" in Part 1 and "Tranche C" under "Term Facilities" in Part 2 above)

[3] Tranche C Term Loans will be funded to the extent Merger Partner Bonds are put to the issuer as described under "Merger Partner Bonds" in Part 1 above (assumed to be $0).