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April 12, 2006

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PUBLIC SERVICE
COMMISSION

Ms. Beth O'Donnell
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602-0615

RE: ***P.S.C. Case No. 2005-00534***

Dear Ms. O'Donnell:

In conformity with my letter of April 7, 2006, enclosed please find a paper copy of the public documents previously provided on CD-ROM in response to the Intervenors' Supplemental Data Requests.

Sincerely yours,

STITES & HARBISON, PLLC

Mark R. Overstreet

Enclosures
cc: Counsel of Record (without enclosures)

KE242:000KE:13935:1:FRANKFORT

JOINT APPLICANTS' RESPONSE TO CWA SUPPLEMENTAL DATA REQUEST NO. 1

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PUBLIC SERVICE COMMISSION

Standard & Poor's

Long-Term Issuer Credit		Short-Term Issuer Credit
AAA	BB+	A-1+
AA+	BB	A-1
AA	BB-	A-2
AA-	B+	A-3
A+	B	B
A	B-	B-1
A-	CCC+	B-2
BBB+	CCC	B-3
BBB	CCC-	C
BBB-	CC	R
	R	SD and D
	SD and D	

Note: white = investment grade, yellow = non-investment grade

1) Long-Term Issuer Credit Ratings Definitions

2) Short-Term Issuer Credit Ratings Definitions

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Standard & Poor's
Long-Term Issuer Credit Ratings

AAA An obligor rated 'AAA' has EXTREMELY STRONG capacity to meet its financial commitments. 'AAA' is the hightest Issuer Credit Rating assigned by Standard & Poor's.

AA An obligor rated 'AA' has VERY STRONG capacity to meet its financial commitments. It differs from the highest rated obligors only in small degree.

A An obligor rated 'A' has STRONG capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB An obligor rated 'BBB' has ADEQUATE capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.

Standard & Poor's
Long-Term Issuer Credit Ratings

Obligors rated 'BB', 'B', 'CCC', and 'CC' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'CC' the highest. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

BB An obligor rated 'BB' is LESS VULNERABLE in the near term than other lower-rated obligors. However, it faces major ongoing uncertainties and exposure to adverse business, financial, or economic conditions which could lead to the ogligor's inadequate capacity to meet its financial commitments.

B An obligor rated 'B' is MORE VULNERABLE than the obligors rated 'BB', but the obligor currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitments.

Standard & Poor's
Long-Term Issuer Credit Ratings

CCC An obligor rated 'CCC' is CURRENTLY VULNERABLE, and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments.

CC An obligor rated 'CC' is CURRENTLY HIGHLY VULNERABLE.

R An obligor rated 'R' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision the regulators may have the power to favor one class of obligations over others or pay some obligations and not others. Please see Standard & Poor's issue credit ratings for a more detailed description of the

effects or regulatory supervision on specific issues or classes of obligations.

SD and D

An obligor rated 'SD' (Selective Default) or 'D' has failed to pay one or more of its financial obigations (rated or unrated) when it came due. A 'D' rating is assigned when Standard & Poor's believes that the default will be general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. An 'SD' rating is assigned when Standard & Poor's believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. Please see Standard & Poor's issue credit ratings for a more detailed description of the effects of a default on specific issues or classes of obligations.

Plus (+) or minus (-): The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Public Information Ratings

Ratings with a 'pi' subscript are based on an analysis of an issuer's published financial information, as well as additional information in the public domain. They do not, however, reflect indepth meetings with an issuer's management and are therefore based on less comprehensive information than ratings without a 'pi' subscript. Ratings with a 'pi' subscript are reviewed annually based on a new year's financial statements, but may be reviewed on an interim basis if a major event occurs that may affect the issuer's credit quality. Outlooks are not provided for ratings with a 'pi' subscript, nor are they subject to potential CreditWatch listings. Ratings with a 'pi' subscript generally are not modified with '+' or '-' designations. However, such designations may be assigned when the issuer's credit rating is constrained by sovereign risk or the credit quality of a parent company or affiliated group.

Moody's Investors Service

Long-Term Debt		Short-Term Debt
Aaa	Ba1	P-1
Aa1	Ba2	P-2
Aa2	Ba3	P-3
Aa3	B1	NP
A1	B2	WR
A2	B3	
A3	Caa1	
Baa1	Caa2	
Baa2	Caa3	
Baa3	Ca	
	C	
	WR	

Note: white = investment grade, yellow = non-investment grade

1) Long-Term Debt Ratings Definitions
2) MOODY'S, S&P & COMP Rating Scale Comparison
3) Short-Term Debt Ratings Definitions
4) Expected/Provisional Rating Definitions

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Aaa Bonds and preferred stock which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged". Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa Bonds and preferred stock which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk appear somewhat larger than Aaa securities.

A Bonds and preferred stock which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa Bonds and preferred stock which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba Bonds and preferred stock which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainity of position characterizes bonds in this class.

B Bonds and preferred stock which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa Bonds and preferred stock which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca Bonds and preferred stock which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or

have other marked shortcomings.

C Bonds and preferred stock which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

WR Withdrawn

Moody's applies numerical modifiers 1, 2, and 3 in each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Fitch

International Long-Term Credit		
AAA	BB+	DDD
AA+	BB	DD
AA	BB-	D
AA-	B+	WD
A+	B	PIF
A	B-	
A-	CCC+	
BBB+	CCC	
BBB	CCC-	
BBB-	CC	
	C	

International Short-Term Credit
F1+
F1
F2
F3
B
C
D

Note: white = investment grade, yellow = non-investment grade

1) International Long-Term Credit Ratings Definitions
2) International Short-Term Credit Ratings Definitions

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
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Investment Grade

AAA Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA Very high credit quality. 'AA' ratings denote a very low expectation of credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A High credit quality. 'A' ratings denote a low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than is the case for higher ratings.

BBB Good credit quality. 'BBB' ratings indicate that there is currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity. This is the lowest investment-grade category.

Speculative Grade

BB Speculative. 'BB' ratings indicate that there is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met. Securities rated in this category are not investment grade.

B Highly speculative. 'B' ratings indicate that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

CCC, CC, C
High default risk. Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. A 'CC' rating indicates that default of some kind appears probable. 'C' ratings signal imminent default.

DDD, DD, D
Default. Securities are not meeting current obligations and are extremely speculative. 'DDD' designates the highest potential for recovery of amounts outstanding on any securities involved. For U.S. corporates, for example, 'DD' indicates expected recovery of 50%-90% of

such outstandings, and 'D' the lowest recovery potential, i.e. below 50%.

PIF and WD

PIF (Paid in Full) is only used for structured finance transactions. The tranche has reached maturity, regardless of whether it was amortized or called early. As the issue no longer exists, it is no longer rated.

WD (withdrawn) means the rating has been removed and the issue is no longer rated by Fitch.

Rating Watch and Rating Outlook Ratings are placed on Rating Watch or Rating Outlook to indicate that there is a reasonable likelihood of a rating change as well as the likely direction of such change. Rating Watch is typically resolved over a relatively shorter period (12 months), than Rating Outlook (beyond 1 to 2 years).

Indicators are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings are raised, lowered, or maintained.

"+" or "-" may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the 'AAA' long-term rating category or to categories below 'CCC'.

JOINT APPLICANTS' RESPONSE TO CWA SUPPLEMENTAL DATA REQUEST NO. 2

						September 20, 2005			September 21, 2005			September 22, 2005			December 8, 2005			December 9, 2005			March 15, 2006		
Issuer	Issue Type	Maturity	Coupon	Amount	Ratings	Price	Spread	Yield	Price	Spread	Yield	Price	Spread	Yield	Price	Spread	Yield	Price	Spread	Yield	Price	Spread	Yield
Alltel Corp.	Sr Nts	07/01/12	7.000%	$800.0	A2/A-	111.82	68	4.93%	112.16	68	4.87%	111.98	72	4.90%	109.22	85	5.31%	108.92	83	5.37%	107.97	75	5.48%
Valor	Sr Nts	02/15/15	7.750%	$400.0	B1/B	98.50	375	7.98%	97.00	406	8.21%	97.50	399	8.13%	99.00	347	7.90%	104.75	242	6.90%	104.25	226	6.96%

JOINT APPLICANTS' RESPONSE TO CWA SUPPLEMENTAL DATA REQUEST NO. 3(A)

Valor Communications Group Inc.
Unaudited Pro Forma Combined Condensed Statement of Income
For the Year Ended December 31, 2005

(Millions, except per share amounts)	ALLTEL Holding, as reported	Valor as Reported	Pro Forma Add (Deduct) Adjustments		Combined
Revenues and sales	2,923.5	505.9	(15.9)	(k)	$ 3,413.5
Costs and expenses:					
Cost of services	796.1	107.6	-		903.7
Cost of products sold	374.8	-	-		374.8
Selling, general, administrative and other	336.1	139.7	(15.9)	(k)	459.9
Depreciation and amortization	474.2	89.9	13.5	(l)	577.6
Royalty expense to Parent	268.8	-	(268.8)	(m)	-
Restructuring and other charges	35.7	1.7	(31.3)	(n)	6.1
Operating income	637.8	167.0	286.6		1,091.4
Other income (expense), net	11.5	(33.9)	3.0	(n)	(19.4)
Intercompany interest income	23.3	-	(23.3)	(o)	-
Interest expense	(19.1)	(83.2)	(272.2)	(p)	(374.5)
Income before income taxes	653.5	49.9	(5.9)		697.5
Income taxes	269.5	14.3	(1.8)	(n,q)	282.0
Income before cumulative effect of accounting change	$ 384.0	$ 35.6	$ (4.1)		$ 415.5
Earnings per share:					
Basic		$.51			$.88
Diluted		$.51			$.88
Average common shares outstanding:					
Basic		69.4	404.8	(r)	474.2
Diluted		69.7	404.8	(r)	474.5

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

Valor Communications Group Inc.
Unaudited Pro Forma Combined Condensed Balance Sheet
As of December 31, 2005

(Millions)	ALLTEL Holding, as reported	Additional Transfers of Assets and Liabilities from Alltel	Issuance of Debt Securities	Payment of Dividends to Alltel	ALLTEL Holding, as adjusted	Valor as Reported	Pro Forma Add (Deduct) Adjustments	Combined
Assets								
Cash and short-term investments	$ 11.9	$ (5.2) (a)	4,777.9 (b)	$ (3,965.0) (b)	$ 819.6	$ 64.2	$ (825.3) (l)	$ 58.5
Other current assets	383.3	-	-	-	383.3	71.7	(3.1) (e)	451.9
Total current assets	395.2	(5.2)	4,777.9	(3,965.0)	1,202.9	135.9	(828.4)	510.4
					-			-
Investments	2.0	-	-	-	2.0	-	15.7 (c)	17.7
Goodwill	1,218.7	-	-	-	1,218.7	1,057.0	97.9 (d,l)	2,373.6
Other intangibles	317.7	-	-	-	317.7	-	378.0 (l)	695.7
Property, plant and equipment, net	2,963.6	82.9 (a)	-	-	3,046.5	717.5	-	3,764.0
Other assets	32.6	182.8 (a)	70.3 (b)	-	285.7	52.4	(49.4) (c,d,e,g)	288.7
Total assets	$ 4,929.8	$ 260.5	$ 4,848.2	$ (3,965.0)	$ 6,073.5	$ 1,962.8	$ (386.2)	$ 7,650.1
Liabilities and Shareholders' Equity								
Current liabilities	$ 316.8	$ 0.1 (a)	$ (12.1) (f)	$ -	$ 304.8	$ 100.3	$ (3.1) (e)	$ 402.0
Long-term debt	238.7	-	4,860.3 (b,f)	-	5,099.0	1,180.6	(762.6) (f)	5,517.0
Deferred income taxes	680.5	88.2 (a)	-	-	768.7	84.1	118.4 (j)	971.2
Other liabilities	153.3	5.8 (a)	-	-	159.1	26.1	22.0 (e,g)	207.2
Common stock	-	-	-	-	-	-	-	-
Additional paid-in capital	-	-	-	(257.2) (b)	(257.2)	918.9	(108.0) (h,i)	553.7
Treasury stock	-	-	-	-	-	(0.1)	-	(0.1)
Parent company investment	1,504.1	167.8 (a)	-	(1,671.9) (b)	-	-	-	-
Accumulated other comprehensive income	0.5	(0.5) (a)	-	-	-	(7.3)	7.3 (h)	-
Deferred equity compensation	-	-	-	-	-	(18.5)	18.5 (h)	-
Retained earnings (deficit)	2,035.9	(0.9) (a)	-	(2,035.9) (b)	(0.9)	(321.3)	321.3 (h)	(0.9)
Total liabilities and shareholders' equity	$ 4,929.8	$ 260.5	$ 4,848.2	$ (3,965.0)	$ 6,073.5	$ 1,962.8	$ (386.2)	$ 7,650.1

The accompanying notes are an integral part of these unaudited pro forma combined condensed financial statements.

Merged Wireline Business
Statement of Cash Flows
For the year ended December 31, 2005

(in millions)	
Cash Provided from Operations:	
Net income	$ 415.5
Adjustments to reconcile net income to net cash provided from operations:	
Depreciation and amortization	577.6
Other, net	31.6
Changes in operating assets and liabilities, net	(45.6)
Net cash provided from operations	979.1
Cash Flows from Investing Operations:	
Additions to property, plant and equipment	(400.5)
Proceeds from sale of investments	24.4
Net cash used in investing activities	(376.1)
Cash Flows from Financing Activities:	
Dividends on common stock	(62.4)
Change in intercompany balance with Alltel	(597.3)
Net cash used in financing activities	(659.7)
Decrease in cash and short-term investments	(56.7)
Cash and Short-Term Investments:	
Beginning of year	115.2
End of year	$ 58.5

Preliminary Purchase Price Allocation
as of December 31, 2005
(Dollars in thousands)

	Calculation of Deferred Taxes-Basis Differences			
	Book Basis	Tax Basis	Basis Difference	Deferred Taxes
Plant and other tangible assets	$ 869.0	$ 385.9	483.1	$ 188.0
Current and long-term liabilities	(563.3)	(521.1)	(42.2)	(16.4)
Customer list	81.0 a	-	81.0	31.5
Franchise rights	297.0 a	-	297.0	115.5
Net operating losses	-	-	-	(120.1)
Valuation allowance-NOLs	-	-	-	4.0
Goodwill	(391.5)	-	(391.5)	-
	$ 292.2	$ (135.2)	$ 427.4	$ 202.5

Journal Entries:	Journal Entry	
	Debit	Credit
Current assets	$ 132.8	
Property, plant and equipment	717.5	
Investments and other assets	18.7	
Customer list	81.0	
Franchise rights	297.0	
Goodwill	1,154.9	
Current liabilities		$ 97.2
Long-term debt		1,198.6
Other liabilities		48.1
Cash		44.7
Common stock		-
Additional paid-in capital		810.8
Deferred income taxes		202.5
Record preliminary purchase price allocation		
	$ 2,401.9	$ 2,401.9

Calculation of book goodwill:		
Total consideration given:		
Implied value of Valor business	$ 2,009.5	
Value of Valor treasury stock	(0.1)	
Transaction costs (legal, investment banker fees, etc.)	44.7	
	2,054.1	
Adjustments:		
Plant and other tangible assets	(869.0)	
Customer list	(81.0)	
Franchise rights	(297.0)	
Current liabilities	97.2	
Other liabilities	48.1	
Deferred tax (asset)/liability	202.5	
Book Goodwill	$ 1,154.9	$ 1,532.9
		(0.25)

a-Based on preliminary estimates of fair value of acquired intangible assets.

Tangible Assets and Liabilities Book and Tax Basis:

	Book Basis	**Tax Basis**
Current assets	$ 132.8	$ 132.8
Wireless Property, Plant and Equipment:		
Net Book Value	717.5	202.9
Austria Write-Up	-	-
Investments and other assets	18.7	50.2
Plant and other tangible assets	$ 869.0	$ 385.9
Current liabilities	$ (97.2)	$ (97.2)
Long-term debt	(418.0)	(400.0)
Other liabilities	(48.1)	(23.9)
Current and long-term liabilities	$ (563.3)	$ (521.1)

Merger Consideration:

Shares of Valor stock outstanding at 12/31/05	71,130,634	
Average Valor stock price	11.400	
Market value of combined company	$ 810,889,228	
Valor debt assumed in merger transaction	1,198,600,000	
Implied value of Valor business	$ 2,009,489,228	

Value of customer list:		
Customers	540,000	
Value per customer	150	
Total value of customer list	$ 81,000,000	
Assumed life	6	
Annual depreciation	$ 13,500,000	

Value of franchise rights:		
Customers	540,000	
Value per customer	550	
Total value of franchise rights	$ 297,000,000	

Value of bonds:		
Face value	400,000,000	
Market price 12/31/05	104.5%	
Total value of bonds	$ 418,000,000	

Shares of VCG stock, 12/31/05	71,130,634	
Shares to be issued to AT shareholders	5.6667	403.0724
	403,075,964	1.052656

	12/31/2005	12/31/2004	Change	Operating Income	Depr	Non-Cash	Change	Investing Capex	Investmts	Financing Dividend	Parent	Difference
Cash	58.5	115.2	(56.7)									(56.7)
Other current assets	451.9	460.1	(8.2)				8.2					-
Investments	17.7	34.0	(16.3)			2.3	(10.4)		24.4			-
Goodwill	2,373.6	2,373.6	0.0									0.0
Other intangibles	695.7	695.7	-									-
PP&E, net	3,764.0	3,941.1	(177.1)		577.6			(400.5)				-
Other assets	288.7	328.8	(40.1)			29.3	10.8					-
Current liabilities	(402.0)	(365.3)	(36.7)				36.7					-
Long-term debt	(5,517.0)	(5,517.0)	-									-
Deferred taxes	(971.2)	(986.0)	14.8				(14.8)					-
Other liabilities	(207.2)	(283.3)	76.1				(76.1)					-
Equity	(552.7)	(796.9)	244.2	415.5						(62.4)	(597.3)	-
	(0.0)	-		415.5	577.6	31.6	(45.6)	(400.5)	24.4	(62.4)	(597.3)	
							979.1		(376.1)		(659.7)	(56.7)

Unaudited Pro Forma Combined Condensed Financial Information

The following unaudited pro forma combined condensed balance sheet as of December 31, 2005 and the unaudited pro forma combined condensed statement of income for the year ended December 31, 2005 are based on the historical financial statements of ALLTEL Holding Corp. ("ALLTEL Holding"), a wholly-owned subsidiary of ALLTEL Corporation ("Alltel"), and Valor Communications Group, Inc. ("Valor"). ALLTEL Holding represents Alltel's incumbent local exchange carrier, competitive local exchange carrier, Internet, long-distance, telecommunications information services, directory publishing, and product distribution operations. The unaudited pro forma combined condensed financial statements give effect to (1) the contribution of Alltel's wireline operations to ALLTEL Holding, (2) the spin off of ALLTEL Holding to Alltel's stockholders and (3) the merger of ALLTEL Holding with Valor accounted for as a reverse acquisition of Valor by ALLTEL Holding, with ALLTEL Holding considered the accounting acquirer, based on the assumptions and adjustments described in the accompanying notes to the unaudited pro forma combined condensed financial statements.

The unaudited pro forma combined condensed financial statements have been prepared using the purchase method of accounting as if the transaction had been completed as of January 1, 2005 for purposes of the combined condensed statement of income and on December 31, 2005 for purposes of the combined condensed balance sheet.

The unaudited pro forma combined condensed financial statements present the combination of historical financial statements of ALLTEL Holding and Valor adjusted to (1) give effect to the transfer of certain assets and liabilities from Alltel to ALLTEL Holding immediately prior to the spin off that are not included in ALLTEL Holding's historical balance sheet as of December 31, 2005, (2) give effect to the issuance of $4.9 billion of long-term debt by ALLTEL Holding as further discussed in Notes (b) and (f) below, (3) give effect to the spin off of ALLTEL Holding to Alltel's stockholders through a tax free stock dividend, payment of a special dividend by ALLTEL Holding to Alltel in an amount not to exceed Alltel's tax basis in ALLTEL Holding and the distribution by ALLTEL Holding of certain of its debt securities to Alltel, as further discussed in Note (b) below and (4) give effect to the merger of ALLTEL Holding with Valor. (See Note (i) below.)

The unaudited pro forma combined condensed financial statements were prepared using (1) the audited combined financial statements of ALLTEL Holding as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 included in this proxy statement/prospectus and (2) the consolidated financial statements of Valor included in Valor's Annual Report on Form 10-K for its fiscal year ended December 31, 2005, as filed on February _, 2006, which are incorporated herein by reference.

Although Valor will issue approximately 403 million of its common shares to effect the merger with ALLTEL Holding, the business combination will be accounted for as a reverse acquisition with ALLTEL Holding considered the accounting acquirer. As a result, the fair value of Valor's common stock issued and outstanding as of December 31, 2005 will be allocated to the underlying tangible and intangible assets and liabilities of Valor based on their respective fair market values, with any excess allocated to goodwill. The pro forma purchase price allocation was based on an estimate of the fair market value of the tangible and intangible assets and liabilities of Valor. Certain assumptions have been made with respect to the fair market value of identifiable intangible assets as more fully described in the accompanying notes to the unaudited pro forma combined condensed financial statements. As of the date of this filing, ALLTEL Holding has not commenced the appraisals necessary to arrive at the fair market value of the assets and liabilities to be acquired and the related allocations of purchase price. Once ALLTEL Holding has completed the appraisals necessary to finalize the required purchase price allocation after the consummation of the merger, the final allocation of purchase price will be determined. The final purchase price allocation based on third party appraisals may be different than that reflected in the pro forma purchase price allocation, and this difference may be material.

ALLTEL Holding, together with the management of the newly combined company, is developing a plan to integrate the operations of Valor and ALLTEL Holding after the merger. In connection with that plan, management anticipates that certain non-recurring charges, such as severance and relocation expenses and branding and signage costs, will be incurred in connection with this integration. Management cannot identify the timing, nature and amount of such charges as of the date of this proxy statement/prospectus. However, any such charge could affect the combined results of operations of ALLTEL Holding and Valor in the period in which such charges are recorded. The unaudited pro forma combined condensed financial statements do not include the effects of the costs associated with any restructuring or integration activities resulting from the transaction. In addition, the unaudited pro forma combined condensed financial statements do not include the realization of any cost savings from operating efficiencies, synergies or other restructurings resulting from the transaction.

The unaudited pro forma combined condensed financial statements are not intended to represent or be indicative of the combined results of operations or financial condition of ALLTEL Holding and Valor that would have been reported had the merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial condition of ALLTEL Holding and Valor. The unaudited pro forma combined condensed financial statements should be read in conjunction with the separate historical financial statements and accompanying notes of ALLTEL Holding and Valor that are included or incorporated by reference in this proxy statement/prospectus.

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

a. Immediately prior to the effective date of the spin off, Alltel will transfer to ALLTEL Holding property, plant and equipment (net book value of $82.9 million), pension assets ($182.8 million), additional other postretirement liabilities ($2.9 million) and deferred compensation obligations ($14.8 million) related to the wireline operations and associatied deferred income taxes ($88.2 million deferred tax liability). In addition, ALLTEL Holding will transfer to Alltel certain tax contingency reserves that will be retained by Alltel pursuant to the spin agreement ($11.9 million), as well as certain international operations. The amounts of the transferred assets and liabilities reflected in the pro forma combined condensed balance sheet have been based upon the December 31, 2005 carrying values and are subject to change. The actual carrying values of the transferred assets and liabilities will be determined as of the date of the spin off. In particular, the amounts of assets and liabilities associated with employee benefit plans were determined based on employees identified as of the announcement date (December 9, 2005), which did not include employees performing a shared function at that time. As employees performing shared functions are identified to join ALLTEL Holding, those amounts may change.

b. Prior to the spin off and merger with Valor, ALLTEL Holding will borrow approximately $4.9 billion through a new senior secured credit agreement and the issuance of unsecured debt securities in a private placement or through a public offering. Proceeds from the debt issuance will be used to pay a special dividend to Alltel in an amount not to exceed Alltel's tax basis in ALLTEL Holding, to distribute to Alltel $1.565 billion of ALLTEL Holding's debt securities, and for other purposes, including the repayment of certain debt obligations of Valor and ALLTEL Holding, as further discussed in Note (f) below. ALLTEL Holding expects to capitalize $70.3 million of debt issuance costs associated with the issuance of the $4.9 billion of long-term debt.

   Effective with the spin off, Alltel will distribute all of the assets and liabilities of its wireline business to ALLTEL Holding in exchange for the issuance to Alltel of ALLTEL Holding's common stock to be distributed pro rata to Alltel's stockholders as a tax free stock dividend, the payment of a special dividend to Alltel in an amount not to exceed Alltel's tax basis in ALLTEL Holding (estimated to be $2.4 billion at December 31, 2005) and the distribution by ALLTEL Holding of $1.565 billion of debt securities to Alltel. Immediately after the consummation of the spin off, ALLTEL Holding will merge with and into Valor, with Valor continuing as the surviving corporation. As a result of the merger, all of the issued and outstanding shares of ALLTEL Holding common stock will be converted into the right to receive an aggregate number of shares of common stock of Valor that will result in Alltel's stockholders holding 85 percent of the outstanding equity interests of the surviving corporation immediately after the merger and the stockholders of Valor holding the remaining 15 percent of such equity interests. It is presently estimated that 1.05 shares of Valor common stock will be distributed to Alltel stockholders for each share of ALLTEL Holding common stock they are entitled to receive. The final number of shares of Valor common stock issued to effect the merger will be determined based on the actual number of Valor shares outstanding as of the merger date.

c. This adjustment is to reclassify Valor's investments in certain wireless partnerships and RTFC equity certificates as of the merger date from other assets to investments to conform to ALLTEL Holding's financial statement presentation.

d. This adjustment is to eliminate as of the merger date the recorded values of Valor's goodwill of $1,057.0 million and customer list of $0.5 million and to write-off Valor's remaining unamortized debt issuance costs of $30.7 million.

e. This adjustment is to eliminate as of the merger date Valor's current and long-term portion of deferred activation fees of $3.1 million and $2.2 million, respectively and the corresponding amounts of deferred acquisition costs in accordance with Emerging Issues Task Force ("EITF") No. 01-3, "Accounting in a Business Combination for Deferred Revenue of an Acquiree".

f. Immediately following the merger, the surviving corporation will repay with available cash on hand all borrowings outstanding under Valor's existing credit facility ($780.6 million at December 31, 2005) and $80.0 million of long-term debt obligations of ALLTEL Holding. The following table presents the estimated long-term debt outstanding of the combined company immediately following the merger on a pro forma basis (amounts in millions):

Bank Debt:	
Senior secured five-year revolving credit facility	$ 63
Term loan A – 5 year maturity	500
Term loan B – 7 year maturity	2,800
Total bank debt	3,363
Notes:	
ALLTEL Holdings – 6.75%, due April 1, 2028	100
ALLTEL Holdings – 6.50%, due in annual installments through November 15, 2013	81
Valor – 7.75%, due November 15, 2015	418
ALLTEL Holdings – 10 year fixed maturity	1,565
Total notes	2,164
Total bank debt and notes	5,527
Current portion of long-term debt	10
Total long-term debt	$ 5,517

The above table presents the total pro forma long-term debt obligation of the combined company. The final amount of bank debt and notes that will be issued will be determined near close of the transaction. To the extent additional notes are issued, the bank debt will be reduced by a corresponding amount.

g. This adjustment is to recognize, as of December 31, 2005, Valor's unfunded pension and other postretirement benefits liabilities of $46.7 million and to eliminate Valor's pension asset of $0.3 million and pension and other postretirement benefits liabilities of $22.5 million in accordance with SFAS No. 87, "Employers' Accounting for Pensions" and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions".

h. This adjustment is to eliminate Valor's additional paid in capital, accumulated other comprehensive income, deferred equity compensation and retained deficit accounts as of the merger date.

i. This adjustment represents the estimated purchase price allocation as of December 31, 2005. For purposes of determining the purchase price allocation, the fair market value of all tangible and intangible assets and liabilities of Valor were estimated at December 31, 2005. The allocation of purchase price was as follows:

Consideration:	
Value of Valor shares issued and outstanding at December 31, 2005 (1)	$ 810.9
Valor treasury stock	(0.1)
Repayment of Valor credit facility	780.6
Direct costs of acquisition (2)	44.7
Total	1,636.1
Allocated to:	
Current assets	132.8
Property, plant and equipment	717.5
Investments and other tangible assets	18.7
Identifiable intangible assets (3)	378.0
Current liabilities acquired	(97.2)
Long-term debt assumed (including fair value adjustment) (4)	(418.0)
Other long-term liabilities acquired (including deferred taxes)	(250.6)
Goodwill (3)	$ 1,154.9

(1) The value of Valor's common stock was calculated on the basis of (1) 71,130,634 shares outstanding as of December 31, 2005 and (2) the closing price of Valor common stock on December 31, 2005 of $11.40. The final value of Valor shares will be based on the actual number of shares outstanding and the closing price of Valor stock as of the merger date.

(2) Direct cash costs consist of estimates for professional fees (including banking fees) and other direct costs of the transaction that are expected to be incurred and capitalized as part of the merger transaction.

(3) The identifiable intangibles consisted of (1) value assigned to the Valor customer base as of December 31, 2005 of $81.0 million and (2) value assigned to the Valor franchise rights as of December 31, 2005 of $297.0 million. For purposes of preparing the unaudited pro forma combined condensed statement of income, ALLTEL Holding expects to amortize the fair value of the customer base on a straight-line basis over its average estimated life of six years. The franchise rights have been classified as indefinite-lived intangible assets and are not subject to amortization because ALLTEL Holding expects both the renewal by the granting authorities and the cash flows generated from the franchise rights to continue indefinitely. Goodwill of $1,154.9 million represents the excess of the purchase price of the acquired business over the fair value of the underlying identifiable net tangible and intangible assets at December 31, 2005. The premium paid by ALLTEL Holding in this transaction is due to the potential for greater long-term returns as the combination of ALLTEL Holding and Valor will create the largest telecommunications carrier in the United States primarily focused on rural markets. Subsequent to this merger, due to the resulting increased size and economies of scale, the combined company should have greater financial flexibility to develop and deploy products, expand the capacity of its network, respond to competitive pressures and improve the cost structure of its operations. The preliminary allocation of value to the intangible assets was based on assumptions as to the fair value of customers and franchise rights. These values were determined by use of a market approach, which seeks to measure the value of assets as compared to similar transactions in the marketplace. To determine market values, ALLTEL Holding utilized a third party valuation firm to derive current market values for the customer base (computed on a per customer basis) and franchise rights licenses (computed on a per access line basis) from publicly available data for similar transactions in the wireline industry. These valuations are preliminary and do not necessarily represent the ultimate fair value of such assets that will be determined by an independent valuation firm subsequent to the consummation of the merger.

(4) Fair value adjustments of $18.0 million have been made to the carrying value of Valor's long term debt that was outstanding as of the merger date and not immediately repaid. The effect of the fair value adjustment to Valor's long-term debt will be amortized as a reduction to interest expense over the term of each debt issue. The effect of the fair value adjustment to long-term debt has been included in the adjustments to the unaudited pro forma combined condensed statement of income. See Note (p).

j. This adjustment is to record the incremental deferred taxes required under SFAS No. 109, "Accounting for Income Taxes", for the difference between the revised book basis, i.e., fair value, of Valor's assets other than goodwill and liabilities recorded under purchase accounting and the carryover tax basis of those assets and liabilities. Because certain of the identifiable intangible assets recognized in the purchase price allocation had no tax basis at the time of the transaction, a deferred tax liability has been recognized for the difference in book and tax basis of the identifiable intangible assets. The pro forma adjustment to deferred income taxes was based on ALLTEL Holding's effective tax rate of 38.9 percent.
A summary of the effects of the pro forma adjustments (c) to (i) on goodwill, other assets, other liabilities and additional paid in capital was as follows:

Effects of pro forma adjustments on goodwill:	
Eliminate carrying value of Valor's goodwill – Note (d)	$ (1,057.0)
Record goodwill in connection with ALLTEL Holding's reverse acquisition of Valor – Note (i)(3)	1,154.9
Net increase in goodwill resulting from pro forma adjustments	$ 97.9
Effects of pro forma adjustments on other assets:	
Eliminate carrying value of Valor's unamortized debt issuance costs – Note (d)	$ (30.7)
Reclassification of Valor's investments in wireless partnerships and RTFC equity certificates – Note (c)	(15.7)
Eliminate long-term portion of Valor's deferred activation costs– Note (e)	(2.2)
Eliminate Valor's pension asset and customer list – Note (d) and Note (g)	(0.8)
Net decrease in other assets resulting from pro forma adjustments	$ (49.4)
Effects of pro forma adjustments on other liabilities:	
Eliminate long-term portion of Valor's deferred activation fees – Note (e)	(2.2)
Record additional pension and other postretirement benefit liabilities – Note (g)	24.2
Net increase in other liabilities resulting from pro forma adjustments	$ 22.0
Effects of pro forma adjustments on additional paid in capital	
Issuance of Valor common stock to effect the merger transaction – Note (i)(1)	$ 810.9
Eliminate Valor's additional paid in capital balance – Note (h)	(918.9)
Net increase in additional paid in capital resulting from pro forma adjustments	$ (108.0)

k. This adjustment is to eliminate the intercompany revenues and related expenses associated with ALLTEL Holding's agreement to provide customer billing services to Valor.

l. This adjustment reflects the amortization of the finite-lived identifiable intangible assets recorded in this transaction as previously described in Note (i)(3) above. For purposes of determining the amount of the adjustment, the estimated life of Valor's customer base was assumed to be six years.

m. This adjustment is to eliminate royalty expense charged to ALLTEL Holding by Alltel pursuant to a licensing agreement with an Alltel affiliate under which ALLTEL Holding's incumbent local exchange carrier subsidiaries were charged a royalty fee for the use of the Alltel brand name in marketing and distributing telecommunications products and services. Following the spin off and merger with Valor, ALLTEL Holding will no longer incur this charge, and accordingly, this expense has been eliminated in the pro forma combined condensed statement of income.

n. This adjustment is to eliminate spin off-related costs incurred by ALLTEL Holding and merger-related costs incurred by Valor during 2005. Following the spin off and merger, neither company will incur these charges, and accordingly, these expenses have been eliminated in the pro forma combined condensed statement of income. In addition, this adjustment is to eliminate the operating results of the international operations to be transferred from ALLTEL Holding to Alltel upon consummation of the merger as discussed in Note (a).

o. This adjustment is to eliminate the intercompany interest income earned by ALLTEL Holding from Alltel on certain interim financing that ALLTEL Holding provides to Alltel in the normal course of business. In conjunction with the spin off, all intercompany balances between ALLTEL Holding and Alltel will be repaid through the special dividend discussed in Note (b). Accordingly, the intercompany interest income has been eliminated in the pro forma combined condensed statement of income.

p. The adjustment is to record (1) the estimated annual interest expense recognized on newly issued debt of the combined company as calculated below, (2) the amortization of debt issuance costs capitalized associated with the newly issued debt as computed below, (3) reversal of interest expense and amortization of debt issuance costs related to pre-existing debt of ALLTEL Holding and Valor that will be repaid immediately upon consummation of the merger as discussed in Note (f) above, and (4) the effects of amortizing the fair value adjustment to Valor's long-term debt discussed in Note (i)(4) above. As of January 1, 2005, the fair value adjustment to Valor's long-term debt was estimated to be $18 million.

Calculation of estimated annual interest expense for newly issued debt of the combined company is as follows:

Senior secured five-year revolving credit facility	$ 4.0
Term loan A – 5 year maturity	30.2
Term loan B – 7 year maturity	176.4
Senior notes – 10 year fixed maturity	113.5
Total	$ 324.1

The weighted average interest rate for the newly issued debt was estimated to be 6.576%, resulting in annual interest expense of $324.1 million. A change in the weighted average interest rate of one-eighth of one percent would change interest by $6.2 million.

Debt issuance costs are amortized over the life of the related debt. Debt issuance costs, the related amortization period and cost per year are estimated as follows:

		Amortization	
	Issuance Fee	Number of Years	Per Year
Senior secured five-year revolving credit facility	$ 5.0	5.0	$ 1.0
Term loan A – 5 year maturity	6.0	5.0	1.2
Term loan B – 7 year maturity	19.0	7.0	2.7
Senior notes	40.3	10.0	4.0
Totals	$ 70.3		$ 8.9

A summary of the effects of the adjustments on interest expense are as follows:

Estimated annual interest expense related to newly issued debt of the combined company (per above)	$ 324.1
Amortization of estimated capitalized debt issuance costs associated with the newly issued debt (per above)	8.9
Reversal of interest expense and amortization of debt issuance costs related to repayment of borrowings outstanding under Valor's existing credit agreement and repurchase of certain debt obligations of ALLTEL Holding	(59.0)
Reduction in interest expense due to amortizing fair value adjustment – Note (i)(4)	(1.8)
Net increase in interest expense	$ 272.2

q. This adjustment is to reflect the tax effect of the pro forma adjustments described in Notes (k) through (o) above and was based on ALLTEL Holding's effective tax rate of 38.9 percent.

r. The adjustment to both the weighted average shares outstanding and the diluted weighted average shares outstanding is to reflect the additional Valor common shares of 403.1 issued to effect the merger with ALLTEL Holding, as well as 1.7 million shares of unvested restricted stock issued by Valor that will vest upon consummation of the merger.

JOINT APPLICANTS' RESPONSE TO CWA SUPPLEMENTAL DATA REQUEST NO. 3(C)

EXECUTION COPY

DISTRIBUTION AGREEMENT

BY AND BETWEEN

ALLTEL CORPORATION

AND

ALLTEL HOLDING CORP.

DATED AS OF DECEMBER 8, 2005

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DISTRIBUTION AGREEMENT

This DISTRIBUTION AGREEMENT (this "Agreement"), dated as of December 8, 2005, by and between ALLTEL Corporation, a Delaware corporation ("AT Co."), and ALLTEL Holding Corp., a newly formed Delaware corporation and a wholly owned subsidiary of AT Co. ("Spinco").

RECITALS

WHEREAS, AT Co., Spinco and Valor Communications Group, Inc., a Delaware corporation (the "Company"), have entered into an Agreement and Plan of Merger, of even date herewith (the "Merger Agreement"), pursuant to which, at the Effective Time (as defined in the Merger Agreement), Spinco will merge with and into the Company, with the Company continuing as the surviving corporation (the "Merger");

WHEREAS, this Agreement and the other Transaction Agreements (as defined herein) set forth certain transactions that are conditions to consummation of the Merger;

WHEREAS, prior to the Distribution Date (as defined herein), (i) pursuant to certain preliminary restructuring transactions, including one or more distributions and/or contributions of assets and equity securities, (A) AT Co. will transfer or cause to be transferred to one or more of the Spinco Subsidiaries (as defined herein) all of the Spinco Assets (as defined herein) not held by Spinco or the Spinco Subsidiaries as of the date hereof, (B) AT Co. will transfer or cause to be transferred to one or more of the AT Co. Subsidiaries (as defined herein) all of the AT Co. Assets (as defined herein) not held by AT Co. or the AT Co. Subsidiaries as of the date hereof, (C) AT Co. will transfer or cause to be transferred to one or more of the Spinco Subsidiaries all of the Spinco Liabilities (as defined herein) not held by Spinco or the Spinco Subsidiaries as of the date hereof (and one or more of the Spinco Subsidiaries will assume or cause to be assumed such Spinco Liabilities), and (D) AT Co. will transfer or cause to be transferred to one or more of the AT Co. Subsidiaries all of the AT Co. Liabilities (as defined herein) not held by AT Co. or the AT Co. Subsidiaries as of the date hereof (and one or more of the AT Co. Subsidiaries will assume or cause to be assumed such AT Co. Liabilities) (collectively, the "Preliminary Restructuring"), and (ii) in exchange for the contribution to Spinco, directly or indirectly, of all of the issued and outstanding capital stock or other equity securities of the Spinco Subsidiaries, Spinco will issue to AT Co. the Spinco Common Stock (as defined herein), distribute to AT Co. the Spinco Exchange Notes (as defined herein) and pay to AT Co. the Special Dividend (as defined herein), all upon the terms and subject to the conditions set forth herein (the transactions described in this clause (ii), collectively, the "Contribution");

WHEREAS, upon the terms and subject to the conditions set forth in this Agreement, AT Co. will distribute (the "Distribution") all of the issued and outstanding shares of common stock, par value $.01 per share, of Spinco ("Spinco Common Stock") to the holders as of the Record Date (as defined herein) of the outstanding shares of common stock, par value $1.00 per share, of AT Co. ("AT Co. Common Stock"); and

WHEREAS, the parties to this Agreement intend that the Contribution, together with the Debt Exchange (as defined herein), qualify as a tax-free reorganization under Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"), that the Distribution qualify as a distribution of Spinco stock to AT Co. stockholders pursuant to Section 355 of the Code, and that the Merger qualify as a tax-free reorganization under Section 368 of the Code, and that no gain or loss be recognized as a result of such transactions for federal income tax purposes by any of AT Co., Spinco, the Company and their respective stockholders (except to the extent of cash received in lieu of fractional shares.).

NOW, THEREFORE, in consideration of the promises, and of the representations, warranties, covenants and agreements set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

ARTICLE I
DEFINITIONS

Section 1.1 General. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

Additional Spinco Indebtedness: as defined in Section 4.1(d) of this Agreement.

Affiliate: means a Person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, a specified Person. The term "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as applied to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or other ownership interest, by contract or otherwise; provided, however, that for purposes of this Agreement, from and after the Distribution Date, no member of either Group shall be deemed an Affiliate of any member of the other Group.

Agent: the distribution agent to be appointed by AT Co. to distribute the shares of Spinco Common Stock pursuant to the Distribution.

Agreement: as defined in the preamble to this Agreement.

Asset: any and all assets, properties and rights, wherever located, whether real, personal or mixed, tangible or intangible, including the following (in each case, whether or not recorded or reflected or required to be recorded or reflected on the books and records or financial statements of any Person): (i) notes and accounts and notes receivable (whether current or non-

current); (ii) certificates of deposit, banker's acceptances, stock (including the capital stock or other equity securities in any Subsidiary), debentures, bonds, notes, evidences of indebtedness, certificates of interest or participation in profit-sharing agreements, collateral-trust certificates, preorganization certificates or subscriptions, transferable shares, investment contracts, letters of credit and performance and surety bonds, voting-trust certificates, puts, calls, straddles, options and other securities of any kind, and all loans, advances or other extensions of credit or capital contributions to any other Person; (iii) intangible property rights, inventions, discoveries, know-how, United States and foreign patents and patent applications, trade secrets, confidential information, registered and unregistered trademarks, service marks, service names, trade styles and trade names and associated goodwill; statutory, common law and registered copyrights; applications for any of the foregoing, rights to use the foregoing and other rights in, to and under the foregoing; (iv) rights under leases (including Real Property Leases), contracts, licenses, permits, distribution arrangements, sales and purchase agreements, joint operating agreements, other agreements and business arrangements; (v) Owned Real Property; (vi) Leased Real Property, fixtures, trade fixtures, machinery, equipment (including oil and gas, transportation and office equipment), tools, dies and furniture; (vii) office supplies, production supplies, spare parts, other miscellaneous supplies and other tangible property of any kind, including all antennas, apparatus, cables, electrical devices, fixtures, equipment, furniture, office equipment, broadcast towers, motor vehicles and other transportation equipment, special and general tools, test devices, transmitters and other tangible personal property; (viii) computers and other data processing equipment and software; (ix) raw materials, work-in-process, finished goods, consigned goods and other inventories; (x) prepayments or prepaid expenses; (xi) claims, causes of action, rights under express or implied warranties, rights of recovery and rights of setoff of any kind; (xii) the right to receive mail, payments on accounts receivable and other communications; (xiii) lists of customers, records pertaining to customers and accounts, personnel records, lists and records pertaining to customers, suppliers and agents, and all accounting and other books, records, ledgers, files and business records of every kind (whether in paper, microfilm, computer tape or disc, magnetic tape or any other form); (xiv) advertising materials and other printed or written materials; (xv) goodwill as a going concern and other intangible properties; (xvi) employee contracts, including any rights thereunder to restrict an employee from competing in certain respects; and (xvii) licenses and authorizations issued by any governmental authority. "Assets" shall not include any asset relating to Taxes, which shall be governed exclusively by Article VI of this Agreement, the Tax Sharing Agreement, and, to the extent applicable, the Merger Agreement or any asset relating to benefit plans, programs, agreements, and arrangements, which shall be governed exclusively by Article V of this Agreement, the Employee Benefits Agreement and, to the extent applicable, the Merger Agreement.

Asset Separation Process: as defined in Section 2.8 of this Agreement.

AT Co.: as defined in the preamble to this Agreement.

AT Co. Assets: collectively: (i) all of the right, title and interest of AT Co. and its Subsidiaries in all Assets held by them other than the Spinco Assets, (ii) the rights to use shared Assets as provided in Article II hereof, (iii) all other Assets of AT Co. and AT Co. Subsidiaries

to the extent specifically assigned to or retained by any member of the AT Co. Group pursuant to this Agreement or any other Transaction Agreement, (iv) the capital stock of each AT Co. Subsidiary, (v) all rights of AT Co. under the Transaction Agreements and (vi) any additional Assets set forth on Section 1.1(a) of the Disclosure Letter.

AT Co. Business: all of the businesses and operations conducted by AT Co. and the AT Co. Subsidiaries (other than the Spinco Business) at any time, whether prior to, on or after the Distribution Date.

AT Co. Common Stock: as defined in the Recitals to this Agreement.

AT Co. Designees: as defined in Section 2.8 of this Agreement.

AT Co. Financial Instruments: all credit facilities, guaranties, commercial paper, interest rate swap agreements, foreign currency forward exchange contracts, comfort letters, letters of credit and similar instruments related to the AT Co. Business under which any member of the Spinco Group has any primary, secondary, contingent, joint, several or other Liability after the Distribution Date.

AT Co. Group: AT Co. and the AT Co. Subsidiaries.

AT Co. Indemnitees: AT Co., each Affiliate of AT Co. immediately after the Contribution and each of their respective present and former Representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

AT Co. Liabilities: collectively, (i) all Liabilities of AT Co. or any of the AT Co. Subsidiaries, including the Liabilities of AT Co. under the Transaction Agreements, in each case, other than the Spinco Liabilities, (ii) all Liabilities set forth on Section 1.1(b) of the Disclosure Letter and (iii) all expenses allocated to AT Co. on Section 12.2 of the Disclosure Letter.

AT Co. Subsidiaries: all direct and indirect Subsidiaries of AT Co. immediately after the Distribution Date.

AT Co. Trademarks: as defined in Section 8.7(c) of this Agreement.

AT Co./Spinco Designees: as defined in Section 2.8 of this Agreement.

AT Excess Expenses: as defined in Section 12.2 of this Agreement.

Business: the Spinco Business or the AT Co. Business, as the case may be.

Business Day: any day other than a Saturday, Sunday or a day on which banking institutions in the City of Little Rock, Arkansas or the City of New York, New York are authorized or obligated by law or executive order to close.

Cash and Cash Equivalents: as defined in Section 4.1(f) of this Agreement.

Claims Administration: the processing of claims made under the Policies, including the reporting of claims to the insurance carrier, management and defense of claims, and providing for appropriate releases upon settlement of claims.

Claims Made Policies: as defined in Section 8.6(a) of this Agreement.

Closing Date: as defined in the Merger Agreement.

Closing Net Spinco Indebtedness: as defined in Section 4.1(a) of this Agreement.

Closing Spinco Balance Sheet: as defined in Section 4.1(a) of this Agreement.

Closing Statement: as defined in Section 4.1(a) of this Agreement.

Code: as defined in the Recitals to this Agreement.

Company: as defined in the Recitals to this Agreement.

Company Consent: the written consent of the Company, which consent shall not be unreasonably withheld, conditioned or delayed.

Company Designees: as defined in Section 2.8 of this Agreement.

Contribution: as defined in the Recitals to this Agreement.

Debt Exchange: as defined in Section 2.6(b) of this Agreement.

Delayed Transfer Assets: as defined in Section 2.5 of this Agreement.

Delayed Transfer Liabilities: as defined in Section 2.5 of this Agreement.

Disclosure Letter: the schedule prepared and delivered by AT Co. to Spinco as of the date of this Agreement.

Distribution: as defined in the Recitals to this Agreement.

Distribution Date: the date and time that the Distribution shall become effective.

Effective Time: as defined in the Merger Agreement.

Employee Benefits Agreement: the Employee Benefits Agreement to be entered into between AT Co. and Spinco, substantially in the form of Exhibit A hereto.

Final Adjustment Amount: as defined in Section 4.1(d) of this Agreement.

Final Closing Statement: as defined in Section 4.1(b) or 4.1(c) of this Agreement.

Final Net Spinco Indebtedness: as defined in Section 4.1(d) of this Agreement.

GAAP: as defined in Section 4.1(f) of this Agreement.

Governmental Authority: as defined in the Merger Agreement.

Group: the AT Co. Group or the Spinco Group, as the case may be.

Indebtedness: as defined in Section 4.1(f) of this Agreement.

Indemnifiable Losses: all Losses, Liabilities, damages, claims, demands, judgments or settlements of any nature or kind, including all costs and expenses (legal, accounting or otherwise) that are reasonably incurred relating thereto, suffered by an Indemnitee, including any costs or expenses of enforcing any indemnity hereunder that are reasonably incurred and all Taxes resulting from indemnification payments hereunder.

Indemnifying Party: a Person that is obligated under this Agreement to provide indemnification.

Indemnitee: a Person that may seek indemnification under this Agreement.

Independent Accounting Firm: as defined in Section 4.1(f) of this Agreement.

Information: all records, books, contracts, instruments, computer data and other data and information.

Leased Real Property: all leasehold or subleasehold estates and other rights to use or occupy any land, buildings, structures, improvements, fixtures or other interest in real property.

Liability or Liabilities: all debts, liabilities and obligations whether absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, and whether or not the same would properly be reflected on a balance sheet. "Liabilities" shall not include any liabilities for or in respect of Taxes, which shall be governed solely by Article VI of this Agreement, the Tax Sharing Agreement, and, to the extent applicable, the Merger Agreement, or any liabilities for or in respect of any benefit plans, programs, agreements, and arrangements, which shall be governed exclusively by Article V of this Agreement, the Employee Benefits Agreement and, to the extent applicable, the Merger Agreement.

Litigation Matters: all pending or threatened litigation, investigations, claims or other legal matters that have been or may be asserted against, or otherwise adversely affect, AT Co. and/or Spinco (or members of either Group).

Losses: as defined in the Merger Agreement.

Merger: as defined in the Recitals to this Agreement.

Merger Agreement: as defined in the Recitals to this Agreement.

Net Spinco Indebtedness: as defined in Section 4.1(f) of this Agreement.

Occurrence Basis Policies: as defined in Section 8.6(a) of this Agreement.

Owned Real Property: all land, together with all buildings, structures, improvements and fixtures located thereon, and all easements and other rights and interests appurtenant thereto that is owned.

Person or person: a natural person, corporation, company, partnership, limited partnership, limited liability company, or any other entity, including a Governmental Authority.

Policies: all insurance policies, insurance contracts and claim administration contracts of any kind of AT Co. and its Subsidiaries (including members of the Spinco Group) and their predecessors which were or are in effect at any time at or prior to the Distribution Date, including primary, excess and umbrella, commercial general liability, fiduciary liability, product liability, automobile, aircraft, property and casualty, business interruption, directors and officers liability, employment practices liability, workers' compensation, crime, errors and omissions, special accident, cargo and employee dishonesty insurance policies and captive insurance company arrangements, together with all rights, benefits and privileges thereunder, but not including any insurance policies, insurance contracts or claim administration contracts subject to the provisions of the Employee Benefits Agreement.

Preliminary Restructuring: as defined in the Recitals to this Agreement.

Prime Rate: as defined in Section 4.1(e) of this Agreement.

Privileged Information: with respect to either Group, Information regarding a member of such Group, or any of its operations, Assets or Liabilities (whether in documents or stored in any other form or known to its employees or agents) that is or may be protected from disclosure pursuant to the attorney-client privilege, the work product doctrine or another applicable privilege, that a member of the other Group may come into possession of or obtain access to pursuant to this Agreement or otherwise.

Real Property Leases: all leases, subleases, concessions and other agreements (written or oral) pursuant to which any Leased Real Property is held, including the right to all security deposits and other amounts and instruments deposited thereunder.

Reclassification: as defined in Section 3.4 of this Agreement.

Record Date: the close of business on the date to be determined by the Board of Directors of AT Co. as the record date for determining stockholders of AT Co. entitled to receive the Distribution, which date shall be a business day preceding the day of the Effective Time.

Registration Statement: the Registration Statement on Form S-4 to be filed by the Company with the SEC to effect the registration under the Securities Act of the issuance of the shares of Company Common Stock (as defined in the Merger Agreement) into which shares of Spinco Common Stock will be converted pursuant to the Merger.

Representative: with respect to any Person, any of such Person's directors, managers or persons acting in a similar capacity, officers, employees, agents, consultants, financial and other advisors, accountants, attorneys and other representatives.

SEC: the U.S. Securities and Exchange Commission.

Securities Act: the Securities Act of 1933, as amended, together with the rules and regulations of the SEC promulgated thereunder.

Sell-off Period: as defined in Section 8.7(c) of this Agreement.

Senior Debt Commitment Letter: means the commitment letter attached hereto as Exhibit B.

Shared Assets Agreement: has the meaning set forth in Section 2.1(b) of this Agreement.

Shared Contracts Agreement: has the meaning set forth in Section 2.1(c) of this Agreement.

Special Dividend: a dividend in an amount to be set forth in a certificate delivered by AT Co. to Spinco, with a copy to the Company, no later than thirty (30) days prior to the Distribution Date, which amount shall not exceed AT Co.'s tax basis in Spinco, and which will be declared and paid by Spinco to AT Co. in cash prior to the Distribution.

Special Dividend Record Date: as defined in Section 2.6(a) of this Agreement.

Spinco: as defined in the preamble to this Agreement; provided that with respect to any period following the Effective Time, all references to Spinco herein shall be deemed to be references to the Surviving Corporation.

Spinco Assets: collectively, (i) all of the right, title and interest of AT Co. and its Subsidiaries in all Assets that are primarily used or held for use in, or primarily relating to or arising from, the Spinco Business, including those set forth on the Spinco Audited Balance Sheet

and those acquired by Spinco, any Spinco Subsidiary, AT Co. or any AT Co. Subsidiary after the date of the Spinco Audited Balance Sheet, (ii) the rights to use shared Assets as provided in Article II hereof, (iii) all other Assets of Spinco and the Spinco Subsidiaries to the extent specifically assigned to or retained by any member of the Spinco Group pursuant to this Agreement or any other Transaction Agreement, (iv) the capital stock of each Spinco Subsidiary, (v) all rights of Spinco under the Transaction Agreements, and (vi) any additional Assets set forth on Section 1.1(c) of the Disclosure Letter.

Spinco Audited Balance Sheet: as defined in Section 4.1(f) of this Agreement.

Spinco Business: the business conducted by AT Co. and its Subsidiaries engaged in the operation of AT Co.'s wireline telecommunications business, including AT Co.'s ILEC, CLEC and internet access operations, related marketing and sales operations, and other operations comprising what is referred to in AT Co.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as the Wireline Segment of AT Co., as well as all of AT Co.'s directory publishing operations, telecommunication information services operations, product distribution operations (other than any such operations supporting AT Co.'s wireless telecommunications business, as set forth on Schedule 1.1 hereof), network management services operations, and wireline long-distance services operations (other than the fiber backbone supporting those operations and the revenues attributable to AT Co.'s wireless telecommunications business as a result of its use of the fiber backbone), but excluding, for the avoidance of doubt, all other businesses conducted by AT Co. and its Subsidiaries.

Spinco Credit Agreement: means the definitive loan agreement with respect to the senior credit facility of Spinco containing substantially the terms contemplated by the Senior Debt Commitment Letter.

Spinco Common Stock: as defined in the Recitals to this Agreement.

Spinco Designees: as defined in Section 2.8 of this Agreement.

Spinco Exchange Notes and Spinco Notes: means the notes to be issued by Spinco, as detailed in Section 2.6 hereof.

Spinco Financial Instruments: all credit facilities, guaranties, commercial paper, interest rate swap agreements, foreign currency forward exchange contracts, comfort letters, letters of credit and similar instruments related to the Spinco Business under which any member of the AT Co. Group has any primary, secondary, contingent, joint, several or other Liability after the Distribution Date.

Spinco Financing: as defined in Section 2.6(c) of this Agreement.

Spinco Group: Spinco and the Spinco Subsidiaries.

Spinco Indemnitees: Spinco, the Company, each Affiliate of Spinco and the Company immediately after the Contribution and each of their respective present and former Representatives and each of the heirs, executors, successors and assigns of any of the foregoing.

Spinco Liabilities: collectively: (i) all Liabilities of AT Co. or any of its Subsidiaries (including Spinco and the Spinco Subsidiaries) primarily relating to or arising from the Spinco Business, including the Liabilities set forth on the Spinco Audited Balance Sheet or arising after the date thereof and the Liabilities of Spinco under the Transaction Agreements and (ii) all Liabilities set forth on Section 1.1(d) of the Disclosure Letter.

Spinco Notes Offering: means the sale of Spinco Notes as part of the Spinco Financing, if applicable, and the distribution of Spinco Exchange Notes to AT Co. for purposes of effecting the Debt Exchange.

Spinco Subsidiaries: all direct and indirect Subsidiaries of Spinco immediately after the Contribution.

Steering Committee: as defined in Section 2.8 of this Agreement.

Subsidiary: as defined in the Merger Agreement.

Surviving Corporation: as defined in the Merger Agreement.

Target Net Spinco Indebtedness: as defined in Section 4.1(d) of this Agreement.

Taxes: as defined in the Merger Agreement.

Tax Sharing Agreement: the Tax Sharing Agreement to be entered into between AT Co. and its Affiliates and Spinco and its Affiliates, substantially in the form of Exhibit C hereto.

Third-Party Claim: any claim, suit, derivative suit, arbitration, inquiry, proceeding or investigation by or before any court, any governmental or other regulatory or administrative agency or commission or any arbitration tribunal asserted by a Person who or which is neither a party hereto nor an Affiliate of a party hereto.

Transaction Agreements: this Agreement, the Employee Benefits Agreement, the Merger Agreement, the Tax Sharing Agreement, the Shared Assets Agreement, the Shared Contracts Agreement, and the Transition Services Agreement.

Transition Services Agreement: the Transition Services Agreement to be entered into by and between AT Co. and Spinco, substantially on the terms set forth in Exhibit D hereto.

Wireline Subsidiaries: as defined in Section 2.1(a) of this Agreement.

Section 1.2 References to Time. All references in this Agreement to times of the day shall be to New York City time.

ARTICLE II
PRELIMINARY TRANSACTIONS

Section 2.1 Business Separation.

(a) On or prior to the Distribution Date, AT Co. shall take or cause to be taken all actions necessary to cause the transfer, assignment, delivery and conveyance to Spinco or one or more Spinco Subsidiaries designated by Spinco of (i) all of the stock of Subsidiaries of AT Co. that hold primarily Spinco Assets (the "Wireline Subsidiaries") (which such Subsidiaries are set forth on Schedule 2.1(a) hereof); provided that any AT Co. Assets or AT Co. Liabilities held by any such Wireline Subsidiary shall be transferred from such Wireline Subsidiary to AT Co. or an AT Co. Subsidiary prior to the Distribution Date, (ii) all of the Spinco Assets held by AT Co. or a subsidiary of AT Co. that are not transferred as a result of the transfer of a Wireline Subsidiary to Spinco and (iii) all Spinco Liabilities held by AT Co. or a subsidiary of AT Co. that are not transferred as a result of the transfer of a Wireline Subsidiary to Spinco. Spinco shall assume or cause to be assumed, and thereafter timely pay, perform and discharge, or cause to be paid, performed and discharged, all of the Spinco Liabilities.

(b) The separation of the AT Co. Assets and the Spinco Assets, as contemplated by this Agreement shall be effected in a manner that does not unreasonably disrupt either the AT Co. Business or the Spinco Business. Notwithstanding the foregoing, AT Co. and Spinco agree, and agree to cause their respective Subsidiaries, to use their reasonable best efforts to obtain, before the Distribution Date, any consent, approval or waiver from, and to satisfy any notification requirements to, any Governmental Authority or other third party. Prior to the Distribution Date, AT Co. and Spinco shall use their reasonable best efforts to identify all Assets that cannot be separated in a commercially reasonable manner, and Spinco and AT Co. will enter into appropriate arrangements regarding such shared Assets (the "Shared Assets Agreement"), including the costs related to the use of such shared Assets.

(c) Prior to the Contribution, AT Co. and Spinco will use their respective reasonable best efforts to amend, in form and substance reasonably satisfactory to the

Company, all contractual arrangements between or among AT Co., Spinco, their respective Affiliates and any other Person (other than the contractual arrangements relating to the Contribution, the Distribution and the Merger) that either (i) relate to the AT Co. Business but relate primarily to the Spinco Business or (ii) relate solely to the Spinco Business, but, by their terms, contain provisions relating to a member of the AT Co. Group, so that, after the Contribution, such contractual arrangements (x) will relate solely to the Spinco Business and (y) will eliminate any provisions relating to a member of the AT Co. Group and, in either event, will inure to the benefit of the Spinco Group on substantially the same economic terms as such arrangements exist as of the date hereof. Prior to the Contribution, AT Co. and Spinco will use their respective reasonable best efforts to amend, in form and substance reasonably satisfactory to the Company, all contractual arrangements between or among AT Co., Spinco, their respective Affiliates and any other Person (other than the contractual arrangements relating to the Contribution, the Distribution and the Merger) that either (i) relate to the Spinco Business but relate primarily to the AT Co. Business or (ii) relate solely to the AT Co. Business, but, by their terms, contain provisions relating to a member of the Spinco Group, so that, after the Contribution, such contractual arrangements (x) will relate solely to the AT Co. Business and (y) will eliminate any provisions relating to a member of the Spinco Group and, in either event, will inure to the benefit of the AT Co. Group on substantially the same economic terms as such arrangements exist as of the date hereof. If, in any case, such amendment cannot be obtained, or if an attempted amendment thereof would be ineffective or would adversely affect the rights of AT Co. or Spinco thereunder, AT Co. and Spinco will cooperate in negotiating a mutually agreeable arrangement with respect to such contractual arrangements (the "Shared Contracts Agreement"), in form and substance reasonably satisfactory to the Company, under which AT Co. or Spinco, as applicable, will obtain the benefits and assume the obligations thereunder. Notwithstanding the foregoing, no action will be required of AT Co. or Spinco that would cause the representation contained in Section 2.1(d) below to be breached.

(d) AT Co. hereby represents and warrants to Spinco that immediately following the Contribution, the Assets of Spinco and the Spinco Subsidiaries, taken together with the services available from AT Co. pursuant to the Transition Services Agreement, the Shared Assets Agreement and the Shared Contracts Agreement, will constitute all of the Assets primarily used in or necessary for, and will be sufficient for the operation of, the Spinco Business in all material respects as currently conducted and as proposed to be conducted on the date the Contribution is consummated. The representations and warranties of AT Co. set forth in this Section 2.1(d) will survive the execution and delivery of this Agreement and the Distribution Date and will continue in full force and effect for two years following the Distribution Date.

(e) From the date hereof until the Effective Time, AT Co. shall be entitled to use, retain or otherwise dispose of all cash generated by the Spinco Business and the Spinco Assets in accordance with the ordinary course operation of AT Co.'s cash management system.

(f) Except as otherwise specifically set forth herein, the rights and obligations of the parties with respect to Taxes shall be governed exclusively by Article VI of this Agreement, the Tax Sharing Agreement and to the extent applicable, the Merger Agreement. Accordingly, Taxes shall not be treated as Assets or Liabilities for purposes of, or otherwise be governed by, this Section 2.1. In addition, except as otherwise specifically set forth herein, the

rights and obligations of the parties with respect to benefit plans, programs, agreements and arrangements shall be governed exclusively by Article V of this Agreement, the Employee Benefits Agreement and to the extent applicable, the Merger Agreement. Accordingly, assets and liabilities relating to any benefit plans, programs, agreements and arrangements shall not be treated as Assets or Liabilities for purposes of, or otherwise be governed by, this Section 2.1.

Section 2.2 Conveyancing and Assumption Agreements. In connection with the transfer of the Spinco Assets and the assumption of the Spinco Liabilities contemplated by this Article II, AT Co. and Spinco shall execute, or cause to be executed by the appropriate entities, conveyancing and assumption instruments in such forms as shall be reasonably acceptable to AT Co., Spinco and the Company.

Section 2.3 Certain Resignations. At or prior to the Distribution Date, AT Co. shall cause each employee and director of AT Co. and its Subsidiaries who will not be employed by Spinco or a Spinco Subsidiary after the Distribution Date to resign, effective not later than the Distribution Date, from all boards of directors or similar governing bodies of Spinco or any Spinco Subsidiary on which they serve, and from all positions as officers of Spinco or any Spinco Subsidiary in which they serve. Spinco will cause each employee and director of Spinco and its Subsidiaries who will not be employed by AT Co. or an AT Co. Subsidiary after the Distribution Date to resign, effective not later than the Distribution Date, from all boards of directors or similar governing bodies of AT Co. or any AT Co. Subsidiary on which they serve, and from all positions as officers of AT Co. or any AT Co. Subsidiary in which they serve.

Section 2.4 Other Agreements. Each of AT Co. and Spinco shall, prior to the Distribution Date, enter into, or cause the appropriate members of the Group of which it is a member to enter into, the other Transaction Agreements.

Section 2.5 Transfers Not Effected Prior to the Distribution; Transfers Deemed Effective as of the Distribution Date. Subject to Section 2.1(d), to the extent that any transfers of Assets or Liabilities contemplated by this Article II shall not have been consummated on or prior to the Distribution Date, the parties shall cooperate and use reasonable best efforts to effect the transfer of such Assets ("Delayed Transfer Assets") and such Liabilities ("Delayed Transfer Liabilities") as promptly following the Distribution Date as shall be practicable. On the Closing Date, AT Co. shall use its reasonable best efforts to deliver to Spinco a schedule setting forth all material Delayed Transfer Assets and Delayed Transfer Liabilities existing as of the Closing Date. Nothing herein shall be deemed to require the transfer of any Assets or the assumption of any Liabilities which by their terms or operation of law cannot be transferred or assumed until such time as all legal impediments to such transfer or assumption have been removed; provided, however, that AT Co. and Spinco shall, and shall cause their respective Subsidiaries to, use its reasonable best efforts to obtain any necessary consents or approvals for the transfer of all Assets and the assumption of all Liabilities contemplated to be transferred or assumed pursuant to this Article II. In the event that any such transfer of Assets or assumption of Liabilities has not been consummated, effective on or before the Distribution Date, the party retaining such Asset or Liability shall thereafter hold such Asset in trust for the use and benefit of the party entitled

thereto (at the expense of the party entitled thereto) and retain such Liability for the account of the party by whom such Liability is to be assumed pursuant hereto, and take such other action as may be reasonably requested by the party to which such Asset is to be transferred, or by whom such Liability is to be assumed, as the case may be, in order to place such party, insofar as reasonably practicable, in substantially the same position as would have existed had such Asset or Liability been transferred or assumed as contemplated hereby. As and when any such Asset becomes transferable or such Liability can be assumed, such transfer or assumption automatically and without any further action shall be effected forthwith. Subject to the foregoing, the parties agree that, as of the Distribution Date (or such earlier time as any such Asset may have been assigned or Liability assumed), each party hereto shall be deemed to have acquired complete and sole beneficial ownership over all of the Assets, together with all rights, powers and privileges incident thereto, and shall be deemed to have assumed in accordance with the terms of this Agreement all of the Liabilities, and all duties, obligations and responsibilities incident thereto, which such party is entitled to acquire or required to assume pursuant to the terms of this Agreement.

Section 2.6 Special Dividend; Spinco Financing; Debt Exchange.

(a) The Spinco Board will establish a special dividend record date (the "Special Dividend Record Date") and will authorize Spinco to pay out of funds legally available therefor the Special Dividend immediately prior to the Distribution Date to AT Co., as the holder of record of Spinco Common Stock as of the Special Dividend Record Date.

(b) Prior to the Distribution Date, AT Co. shall enter into all necessary or appropriate arrangements regarding (i) the exchange of outstanding AT Co. short-term debt obligations (the "AT Co. Notes") having an aggregate fair market value as of the date of the Debt Exchange equal to the net proceeds of the Spinco Exchange Notes or (ii) other transfer of the Spinco Exchange Notes to the creditors of AT Co. (the "Debt Exchange"). The principal amount of the Spinco Exchange Notes will be an amount equal to (x) $3.965 billion less (y) the amount of the Special Dividend, with the precise aggregate principal amount of the Spinco Exchange Notes to be exchanged or transferred in the Debt Exchange to be set forth on a certificate to be delivered by AT Co. to Spinco, with a copy to the Company, no later than thirty (30) days prior to the Distribution Date.

(c) At or prior to the Distribution Date, Spinco will (i) enter into the Spinco Credit Agreement and consummate the Spinco Notes Offering, pursuant to which Spinco will borrow up to $3.965 billion in the aggregate (the "Spinco Financing"), and use such proceeds to pay the Special Dividend and (ii) distribute Spinco Exchange Notes to AT Co., which AT Co. intends to exchange for outstanding AT Co. Notes or otherwise transfer in the Debt Exchange.

(d) Notwithstanding the provisions of Sections 2.6(b) and 2.6(c), the amounts of indebtedness set forth in this Section 2.6 are approximations based on facts and circumstances existing on the date hereof and are subject to change prior to the Distribution Date, it being understood that such amounts will at all times remain subject to the provisions of Section 4.1 hereof.

(e) AT Co. and Spinco shall use their respective reasonable best efforts to cause the Spinco Financing and the Debt Exchange to be consummated. Without limiting the generality of the foregoing, each of AT Co. and Spinco shall use its reasonable best efforts to cause their respective employees, accountants, counsel and other representatives to reasonably cooperate with each other in carrying out the transactions contemplated by the Spinco Financing and the Debt Exchange and in delivering all documents and instruments deemed reasonably necessary by AT Co. or Spinco (including providing standard accountants' "comfort" letters and legal opinions and otherwise cooperating and assisting in satisfying the conditions to the Spinco Financing and the Debt Exchange and assisting with the syndication or marketing of the Spinco Credit Agreement and the consummation of the Spinco Notes Offering including, by (i) providing direct contact between prospective lenders and the officers and directors of each of AT Co. and Spinco, (ii) providing assistance in preparation of confidential information memoranda and other materials to be used in connection with consummating the Spinco Financing and the Debt Exchange, (iii) disclosing the Debt Exchange and Spinco Financing, as required under the Securities Act, in the Registration Statement and any other filings to be made with the SEC, and (iv) entering into such agreements and other arrangements as are reasonably required to effectuate any arrangements made by AT Co. with respect to the exchange of Spinco Notes for AT Co. Notes in connection with the Debt Exchange, and (v) taking all other actions reasonably necessary in connection with the Spinco Financing and the Debt Exchange). Each of AT Co. and Spinco shall cooperate in connection with the preparation of all documents and the making of all filings required in connection with the Spinco Financing and the Debt Exchange and shall use their respective reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all other things necessary, proper or advisable to consummate the Spinco Financing and the Debt Exchange and the transactions contemplated hereby.

Section 2.7 Financial Instruments.

(a) Spinco will, at its expense, take or cause to be taken all actions, and enter into (or cause the Spinco Subsidiaries to enter into) such agreements and arrangements, as shall be reasonably necessary to effect the

(b) release of and substitution for each member of the AT Co. Group, as of the Distribution Date, from all primary, secondary, contingent, joint, several and other Liabilities in respect of Spinco Financial Instruments to the extent related to the Spinco Group or the Spinco Business (it being understood that all such Liabilities in respect of Spinco Financial Instruments are Spinco Liabilities).

(c) AT Co. will, at its expense, take or cause to be taken all actions, and enter into (or cause its Subsidiaries to enter into) such agreements and arrangements, as shall be necessary to effect the release of and substitution for each member of the Spinco Group, as of the Distribution Date, from all primary, secondary, contingent, joint, several and other Liabilities, if any, in respect of AT Co. Financial Instruments to the extent related to the AT Co. Group or the AT Co. Business (it being understood that all such Liabilities in respect of AT Co. Financial Instruments are AT Co. Liabilities).

(d) The parties' obligations under this Section 2.7 will continue to be applicable to all Spinco Financial Instruments and AT Co. Financial Instruments identified at any time by AT Co. or Spinco, whether before, at or after the Distribution Date.

Section 2.8 Coordination of Asset Separation Transactions. As promptly as practicable after the date hereof, AT Co. and Spinco shall establish a steering committee (the "Steering Committee") for the purpose of (i) overseeing the process of separating Spinco Assets from AT Co. Assets, (ii) reviewing the form, terms and provisions of each agreement necessary for the Preliminary Restructuring and the Contribution to the extent not finalized at or prior to the date hereof, (iii) reviewing any proposed amendments to any such document that has previously been finalized, (iv) implementing the specific terms of each of the Transaction Agreements, including the Employee Benefits Agreement and (v) overseeing the implementation of the Spinco Financing (collectively, the "Asset Separation Process"). The Steering Committee shall be comprised of up to two (2) designees selected by AT Co. (the "AT Co. Designees"), up to two (2) designees selected by Spinco (the "Spinco Designees" and, collectively with the AT Co. Designees, the "AT Co./Spinco Designees") and up to two (2) designees selected by the Company, who shall be reasonably acceptable to AT Co. and Spinco (the "Company Designees"). All material decisions with respect to the Asset Separation Process, including the terms of any breakage or termination fees payable by AT Co. or Spinco, any consent payments or similar arrangements required in connection with the Asset Separation Process and the terms of any material contract, agreement, arrangement or understanding to be entered into with any third party in connection therewith, shall be subject to the review of the Steering Committee. In the event either Company Designee in good faith asserts that any contract, agreement, arrangement or understanding to be entered into between AT Co. and Spinco, which by its terms will continue after the Distribution Date, would, individually or in the aggregate, materially and adversely affect the economic benefits as a whole to be derived by the Company from the Merger, the execution of such contract, agreement, arrangement or understanding shall require a Company Consent.

ARTICLE III
THE DISTRIBUTION

Section 3.1 Record Date and Distribution Date. Subject to the satisfaction, or to the extent permitted by applicable Law, waiver, of the conditions set forth in Section 11.1, the Board of Directors of AT Co., consistent with the Merger Agreement and Delaware law, shall establish the Record Date and the Distribution Date and any necessary or appropriate procedures in connection with the Distribution.

Section 3.2 Spinco Reclassification. Immediately prior to the Distribution Date, AT Co. and Spinco shall take all actions necessary to issue to AT Co. such number of shares of Spinco Common Stock, including, if applicable, by reclassifying the outstanding shares of Spinco Common Stock or by declaring a dividend payable to AT Co. in shares of Spinco Common Stock (the "Reclassification"), for the purpose of increasing the outstanding shares of Spinco Common Stock such that, immediately prior to the Distribution Date, Spinco will have an

aggregate number of shares of Spinco Common Stock to be determined by AT Co. and Spinco prior to the Distribution Date, all of which will be held by AT Co.

Section 3.3 Net Spinco Indebtedness. Immediately prior to the Effective Time, after giving effect to the Contribution and the other transactions contemplated hereby other than the Merger and the refinancing of the Company indebtedness, Spinco shall have Net Spinco Indebtedness (as defined below) of not more than the Target Net Spinco Indebtedness (as defined below).

Section 3.4 The Agent. Prior to the Distribution Date, AT Co. shall enter into an agreement with the Agent on terms reasonably satisfactory to Spinco providing for, among other things, the distribution to the holders of AT Co. Common Stock in accordance with this Article III of the shares of Company Common Stock into which the shares of Spinco Common Stock that would otherwise be distributed in the Distribution will be converted pursuant to the Merger.

Section 3.5 Delivery of Shares to the Agent. At or prior to the Distribution Date, AT Co. shall authorize the book-entry transfer by the Agent of all of the outstanding shares of Spinco Common Stock to be distributed in connection with the Distribution. After the Distribution Date, upon the request of the Agent, Spinco shall provide all book-entry transfer authorizations that the Agent shall require in order to effect the distribution of the shares of Company Common Stock into which the shares of Spinco Common Stock that would otherwise be distributed in the Distribution will be converted pursuant to the Merger.

Section 3.6 The Distribution. Upon the terms and subject to the conditions of this Agreement, following consummation of the Reclassification, AT Co. shall declare and pay the Distribution of all of the shares of Spinco Common Stock held by AT Co. At the Effective Time (as defined in the Merger Agreement), all such shares of Spinco Common Stock shall be converted into the right to receive shares of Company Common Stock pursuant to, and in accordance with the terms of, the Merger Agreement, immediately following which the Agent shall distribute by book-entry transfer in respect of the outstanding shares of AT Co. Common Stock held by holders of record of AT Co. Common Stock on the Record Date, all of the shares of Company Common Stock into which the shares of Spinco Common Stock that would otherwise be distributed in the Distribution have been converted pursuant to the Merger. The Agent shall make cash payments in lieu of any fractional shares resulting from the conversion of Spinco Common Stock into Company Common Stock in the Merger pursuant to the terms of the Merger Agreement.

ARTICLE IV
NET DEBT ADJUSTMENT

Section 4.1 Post-Closing Adjustment to Net Spinco Indebtedness.

(a) Within ninety (90) days after the Closing Date (as defined in the Merger Agreement), the Surviving Corporation (as defined in the Merger Agreement) shall cause to be prepared and delivered to AT Co. (i) a combined balance sheet of Spinco and the Spinco Subsidiaries as of 12:01 a.m. on the Distribution Date (the "Closing Spinco Balance Sheet") and (ii) a statement derived from the Closing Spinco Balance Sheet and prepared in accordance with this Section 4.1 (the "Closing Statement"), setting forth the Net Spinco Indebtedness (as defined below) as of 12:01 a.m. on the Distribution Date (the "Closing Net Spinco Indebtedness"), including reasonable detail regarding the calculation thereof. The Closing Spinco Balance Sheet shall be prepared in accordance with GAAP, consistently applied, utilizing the same methodology and adjustments as were utilized in preparing the Spinco Audited Balance Sheet, and the Closing Statement shall be derived from the Closing Spinco Balance Sheet.

(b) Following the Distribution Date, each of AT Co. and Spinco shall give the other party and any representatives of such other party access at all reasonable times to the properties, books, records, working papers and personnel of the Spinco Business to the extent required to prepare and review the Closing Spinco Balance Sheet and the Closing Statement. AT Co. shall have thirty (30) days following delivery of the Closing Spinco Balance Sheet and the Closing Statement during which to notify the Surviving Corporation of any dispute of any item contained in the Closing Statement, which notice shall (i) set forth in reasonable detail the nature and amount of any such dispute and (ii) include only disputes based on mathematical errors or the calculation of amounts not in accordance with the procedures set forth in this Section 4.1. If AT Co. fails to notify the Surviving Corporation of any such dispute within such thirty (30) day period, or if the dispute involves amounts less than $5 million in the aggregate, the Closing Statement delivered to AT Co. shall be deemed to be the "Final Closing Statement," final, conclusive and binding on the parties hereto. In the event that AT Co. shall so notify the Surviving Corporation of a dispute, AT Co. and the Surviving Corporation shall cooperate in good faith to resolve such dispute as promptly as possible.

(c) If AT Co. and the Surviving Corporation do not resolve any such disputed item within thirty (30) days of the delivery of such notice, such disputed item shall be resolved by the Independent Accounting Firm (as defined below). In connection therewith, the Independent Accounting Firm shall address only items disputed by the parties and may not assign an amount to any disputed item greater than the greatest amount for such item that is claimed by a party or less than the smallest amount for such item that is claimed by a party. The Independent Accounting Firm shall make its determination with respect to any such disputed item as promptly as practicable and such determination shall be final, conclusive and binding on the parties and shall be enforceable in any court of competent jurisdiction and may be entered as a judgment in any such court. Any expenses relating to the engagement of the Independent Accounting Firm shall be shared equally between AT Co. and the Surviving Corporation. The Closing Statement, as modified by resolution of any disputed items between AT Co. and Spinco

or by the Independent Accounting Firm, shall be the "Final Closing Statement," final, conclusive and binding on the parties hereto.

(d) Provided that the Spinco Financing has been consummated, if the amount of the Net Spinco Indebtedness, as set forth in the Final Closing Statement (the "Final Net Spinco Indebtedness"), exceeds the sum of (x) $4.2 billion plus (y) the principal amount of any additional Indebtedness (the "Additional Spinco Indebtedness") incurred in respect of the fees and expenses related to the Spinco Notes (the sum of clause (x) plus clause (y) being referred to herein as "Target Net Spinco Indebtedness"), AT Co. shall pay to Spinco an amount equal to such excess and if the amount of the Final Net Spinco Indebtedness is less than the amount of the Target Net Spinco Indebtedness, Spinco shall pay to AT Co. an amount equal to such deficit (such payment amount being referred to herein as the "Final Adjustment Amount").

(e) Any payment to be made by AT Co. or the Surviving Corporation, as the case may be, in respect of the Final Adjustment Amount pursuant to Section 4.1(d) hereof shall be made by wire transfer of immediately available funds within five (5) Business Days after the date upon which the Closing Statement becomes the Final Closing Statement (either upon mutual agreement pursuant to Section 4.1(a) or by resolution of any dispute with respect to the Statement in accordance with Sections 4.1(b) and/or 4.1(c)) in an amount determined pursuant to Section 4.1(d) hereof, together with interest thereon from the Distribution Date through the date such payment is made, at the prime lending rate as reported as of the date of such payment by *The Wall Street Journal* (the "Prime Rate"). Notwithstanding the foregoing, in the event that the aggregate amount required to be paid by the Surviving Corporation to AT Co. pursuant to Section 4.1(d) exceeds $50 million, then the Surviving Corporation (i) shall pay $50 million of such amount to AT Co. in cash as provided in the immediately preceding sentence and (ii) shall pay the remaining amount due through the issuance of a promissory note having a maturity of not more than ninety (90) days and bearing interest at the Prime Rate, or through any combination of the foregoing.

(f) As used herein, the following terms shall have the following meanings: (i) "Net Spinco Indebtedness" shall mean (A) the aggregate amount of Indebtedness (as defined below) of Spinco and its Subsidiaries immediately prior to the Distribution Date which shall remain an obligation of Spinco or any of the Spinco Subsidiaries following the Distribution Date minus (B) the aggregate amount of Cash and Cash Equivalents (as defined below) of Spinco and the Spinco Subsidiaries as of the Distribution Date. The Net Spinco Indebtedness shall be calculated in good faith in accordance with GAAP, consistently applied, utilizing the same methodology and adjustments as were used in preparing the Spinco Audited Balance Sheet; (ii) "Indebtedness" of any Person (as defined in the Merger Agreement) at any date shall mean (x) any obligation of such Person (A) with respect to indebtedness of such Person for borrowed money or for the deferred purchase price of property or services, including all accrued and unpaid interest, premiums, penalties and fees thereon (other than accounts payable, accrued expenses (including book overdrafts) and other current liabilities arising in the ordinary course of business), (B) evidenced by a note, bond, debenture or similar instrument (including a purchase money obligation) or (iii) under any lease or similar arrangement that would be required to be accounted for by the lessee as a capital lease in accordance with GAAP; (y) any guarantee (or keepwell agreement) by such Person of any indebtedness of others described in the preceding clause (x); and (z) all obligations to reimburse any bank or other

Person for amounts paid under a letter of credit or similar instrument; (iii) "Cash and Cash Equivalents" shall mean all cash, cash equivalents, including certificates of deposit or bankers' acceptances maturing within one year from the date of acquisition thereof, marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or an agency thereof, and investments in money market funds with assets of $5,000,000 or greater, and other liquid investments, including all deposited but uncleared bank deposits; (iv) "Spinco Audited Balance Sheet" shall mean the audited combined balance sheet of Spinco and the Spinco Subsidiaries as of December 31, 2004; (v) "GAAP" shall mean United States generally accepted accounting principles; and (vi) "Independent Accounting Firm" shall mean an internationally recognized accounting firm mutually selected and agreed upon by AT Co. and Spinco.

ARTICLE V
EMPLOYEE BENEFIT MATTERS

Section 5.1 Employee Benefit Matters. Subject to the terms and conditions set forth herein at or prior to the Distribution Date, AT Co. and Spinco shall each execute and deliver the Employee Benefits Agreement, substantially in the form of Exhibit A hereto.

ARTICLE VI
TAX SHARING

Section 6.1 Tax Sharing. Subject to the terms and conditions set forth herein at or prior to the Distribution Date, AT Co. and Spinco shall each execute and deliver the Tax Sharing Agreement, substantially in the form of Exhibit C hereto.

ARTICLE VII
SURVIVAL AND INDEMNIFICATION

Section 7.1 Survival of Agreements. Except as otherwise provided herein with respect to any specific representation, warranty or covenant, all representations, warranties, covenants and agreements of the parties hereto contained in this Agreement shall survive the Distribution Date for a period of two (2) years. For the avoidance of doubt, this Section 7.1 shall in no event alter or otherwise affect the operation of Section 12.1 of the Merger Agreement.

Section 7.2 Mutual Release. Effective as of the Distribution Date and except as otherwise specifically set forth in the Transaction Agreements, each of AT Co., on behalf of itself and each of the AT Co. Subsidiaries, on the one hand, and Spinco, on behalf of itself and each of the Spinco Subsidiaries, on the other hand, hereby releases and forever discharges the other party and its Subsidiaries, and its and their respective officers, directors, managers or other persons acting in a similar capacity, agents, record and beneficial security holders (including

trustees and beneficiaries of trusts holding such securities), advisors and Representatives (in each case, in their respective capacities as such) and their respective heirs, executors, administrators, successors and assigns, of and from all debts, demands, actions, causes of action, suits, accounts, covenants, contracts, agreements, damages, claims and other Liabilities whatsoever of every name and nature, both in law and in equity, which the releasing party has or ever had or ever will have, which exist or arise out of or relate to events, circumstances or actions taken by such other party occurring or failing to occur or any conditions existing at or prior to the Distribution Date whether or not known on the Distribution Date, including in connection with the transactions and all other activities to implement the Contribution and the Distribution; provided, however, that the foregoing general release shall not apply to (i) any Liabilities or other obligations (including Liabilities with respect to payment, reimbursement, indemnification or contribution) under the Merger Agreement or the other Transaction Agreements or any Contracts (as defined therein) contemplated thereby, or assumed, transferred, assigned, allocated or arising under any of the Merger Agreement or the other Transaction Agreements or any Contract contemplated thereby (including any Liability that the parties may have with respect to payment, performance, reimbursement, indemnification or contribution pursuant to the Merger Agreement or any other Transaction Agreement or any Contract contemplated thereby for claims brought against the parties by third Persons or any Indemnitee), and the foregoing release will not affect any party's right to enforce the Merger Agreement or the other Transaction Agreements or the Contracts contemplated thereby in accordance with their terms or (ii) any Liability the release of which would result in the release of any Person other than a Person released pursuant to this Section 7.2 (provided, that the parties agree not to bring suit or permit any of their Subsidiaries to bring suit against any such Person with respect to any Liability to the extent such Person would be released with respect to such Liability by this Section 7.2 but for this clause (ii)). Each party to this Agreement agrees, for itself and each member of its Group, not to make any claim or demand or commence any action or assert any claim against any member of the other Party's Group with respect to the Liabilities released pursuant to this Section 7.2.

Section 7.3 Indemnification.

(a) Except as specifically otherwise provided in the other Transaction Agreements, Spinco shall indemnify, defend and hold harmless the AT Co. Indemnitees from and against all Indemnifiable Losses arising out of or due to the failure of any member of the Spinco Group (i) to pay or satisfy any Spinco Liabilities (including the Spinco Group's Delayed Liabilities), or (ii) to perform any of its obligations under this Agreement.

(b) Except as specifically otherwise provided in the other Transaction Agreements, AT Co. shall indemnify, defend and hold harmless the Spinco Indemnitees from and against all Indemnifiable Losses arising out of or due to the failure of any member of the AT Co. Group (i) to pay or satisfy any AT Co. Liabilities (including the AT Co. Group's Delayed Liabilities), (ii) to transfer to Spinco or any member of the Spinco Group all of the Spinco Assets transferred or to be transferred to Spinco or the Spinco Group pursuant to Article II hereof, or (iii) to perform any of its obligations under this Agreement.

(c) Notwithstanding anything to the contrary set forth herein, indemnification relating to any arrangements between any member of the AT Co. Group and any

member of the Spinco Group for the provision after the Distribution Date of goods and services in the ordinary course shall be governed by the terms of such arrangements and not by this Section or as otherwise set forth in this Agreement and the other Transaction Agreements.

(d) Indemnification for matters subject to the Tax Sharing Agreement is governed by the terms, provisions and procedures of the Tax Sharing Agreement and not by this Article VII and indemnification for matters subject to the Merger Agreement is governed by the terms, provisions and procedures of the Merger Agreement and not by this Article VII.

Section 7.4 Procedures for Indemnification for Third-Party Claims.

(a) AT Co. shall, and shall cause the other AT Co. Indemnitees to, notify Spinco in writing promptly after learning of any Third-Party Claim for which any AT Co. Indemnitee intends to seek indemnification from Spinco under this Agreement. Spinco shall, and shall cause the other Spinco Indemnitees to, notify AT Co. in writing promptly after learning of any Third-Party Claim for which any Spinco Indemnitee intends to seek indemnification from AT Co. under this Agreement. The failure of any Indemnitee to give such notice shall not relieve any Indemnifying Party of its obligations under this Article VII except to the extent that such Indemnifying Party is actually prejudiced by such failure to give notice. Such notice shall describe such Third-Party Claim in reasonable detail considering the Information provided to the Indemnitee and shall indicate the amount (estimated if necessary) of the Indemnifiable Loss that has been claimed against or may be sustained by such Indemnitee.

(b) Except as otherwise provided in paragraph (c) of this Section 7.3, an Indemnifying Party may, by notice to the Indemnitee and to AT Co., if Spinco is the Indemnifying Party, or to the Indemnitee and Spinco, if AT Co. is the Indemnifying Party, within 30 days after receipt by such Indemnifying Party of such Indemnitee's notice of a Third-Party Claim, undertake (itself or through another member of the Group of which the Indemnifying Party is a member) the defense or settlement of such Third-Party Claim, at such Indemnifying Party's own expense and by counsel reasonably satisfactory to the Indemnitee. If an Indemnifying Party undertakes the defense of any Third-Party Claim, such Indemnifying Party shall control the investigation and defense or settlement thereof, and the Indemnitee may not settle or compromise such Third-Party Claim without the prior written consent of the Indemnifying Party, except that such Indemnifying Party shall not (i) require any Indemnitee, without its prior written consent, to take or refrain from taking any action in connection with such Third-Party Claim, or make any public statement, which such Indemnitee reasonably considers to be against its interests, or (ii) without the prior written consent of the Indemnitee and of AT Co., if the Indemnitee is an AT Co. Indemnitee, or the Indemnitee and of Spinco, if the Indemnitee is a Spinco Indemnitee, consent to any settlement that does not include as a part thereof an unconditional release of the relevant Indemnitees from liability with respect to such Third-Party Claim or that requires the Indemnitee or any of its Representatives or Affiliates to make any payment that is not fully indemnified under this Agreement or to be subject to any non-monetary remedy. Subject to the Indemnifying Party's control rights, as specified herein, the Indemnitees may participate in such investigation and defense, at their own expense. Following the provision of notices to the Indemnifying Party, until such time as an Indemnifying Party has undertaken the defense of any Third-Party Claim as provided herein, such Indemnitee

shall control the investigation and defense or settlement thereof, without prejudice to its right to seek indemnification hereunder.

(c) If an Indemnitee reasonably determines that there may be legal defenses available to it that are different from or in addition to those available to its Indemnifying Party which make it inappropriate for the Indemnifying Party to undertake the defense or settlement thereof, then such Indemnifying Party shall not be entitled to undertake the defense or settlement of such Third-Party Claim; and counsel for the Indemnifying Party shall be entitled to conduct the defense of such Indemnifying Party and counsel for the Indemnitee (selected by the Indemnitee) shall be entitled to conduct the defense of such Indemnitee, in which case the reasonable fees, costs and expenses of such counsel for the Indemnitee (but not more than one counsel (in addition to local counsel, if any) reasonably satisfactory to the Indemnifying Party) shall be paid by such Indemnifying Party, it being understood that both such counsel shall cooperate with each other to conduct the defense or settlement of such action as efficiently as possible.

(d) In no event shall an Indemnifying Party be liable for the fees and expenses of more than one counsel for all Indemnitees (in addition to local counsel and its own counsel, if any) in connection with any one action, or separate but similar or related actions, in the same jurisdiction arising out of the same general allegations or circumstances.

(e) If the Indemnifying Party undertakes the defense or settlement of a Third-Party Claim, the Indemnitee shall make available to the Indemnifying Party and its counsel all information and documents reasonably available to it which relate to any Third-Party Claim, and otherwise cooperate as may reasonably be required in connection with the investigation, defense and settlement thereof, subject to the terms and conditions of a mutually acceptable joint defense agreement.

Section 7.5 Reductions for Insurance Proceeds, Tax Benefits and Other Recoveries. The amount that any Indemnifying Party is or may be required to pay to any Indemnitee pursuant to this Article VII shall be reduced (retroactively or prospectively) by (i) any insurance proceeds or other amounts actually recovered from third parties by or on behalf of such Indemnitee in respect of the related Indemnifiable Losses (net of all costs of recovery, including deductibles, co-payments or other payment obligations) and (ii) any tax benefit actually realized by the Indemnitee in respect of the related Indemnifiable Losses. The existence of a claim by an Indemnitee for insurance or against a third party in respect of any Indemnifiable Loss or the availability of potential tax benefits shall not, however, delay or reduce any payment pursuant to the indemnification provisions contained herein and otherwise determined to be due and owing by an Indemnifying Party. The Indemnifying Party shall make payment in full of such amount so determined to be due and owing by it and, if, and to the extent that, there exists a claim against any third party (other than an insurer) in respect of such Indemnifiable Loss, the Indemnitee shall assign such claim against such third party to the Indemnifying Party. Any tax benefit actually received by an Indemnified Party shall be paid over to the Indemnifying Party to the extent such tax benefit relates to an Indemnifiable Loss for which indemnification has already been received. Notwithstanding any other provisions of this Agreement, it is the

intention of the parties hereto that no insurer or any other third party shall be (i) entitled to a benefit it would not be entitled to receive in the absence of the foregoing indemnification provisions or (ii) relieved of the responsibility to pay any claims for which it is obligated. If an Indemnitee shall have received the payment required by this Agreement from an Indemnifying Party in respect of any Indemnifiable Losses and shall subsequently actually receive insurance proceeds, tax benefits or other amounts in respect of such Indemnifiable Losses, then such Indemnitee shall hold such insurance proceeds in trust for the benefit of such Indemnifying Party and shall pay to such Indemnifying Party a sum equal to the amount of such insurance proceeds, tax benefits or other amounts actually received, up to the aggregate amount of any payments received from such Indemnifying Party pursuant to this Agreement in respect of such Indemnifiable Losses.

Section 7.6 Consequential Damages. In no event shall an Indemnifying Party be liable for special, punitive, exemplary, incidental, consequential or indirect damages, or lost profits, whether based on contract, tort, strict liability, other law or otherwise.

Section 7.7 Survival of Indemnities. Except as otherwise provided herein with respect to any specific covenant or obligation, for a period of two (2) years from and after the Distribution Date, the obligations of each of AT Co. and Spinco under this Article VII shall survive the sale or other transfer by it of any of its Assets or Business or the assignment by it of any of its Liabilities, with respect to any Indemnifiable Loss of the other related to such Assets, Business or Liabilities.

ARTICLE VIII
CERTAIN ADDITIONAL COVENANTS

Section 8.1 Notices to Third Parties. In addition to the actions described in Section 8.2, the members of the AT Co. Group and the members of the Spinco Group shall use reasonable best efforts to make all other filings and give notice to and obtain consents from all third parties that may be required to consummate the transactions contemplated by this Agreement and the other Transaction Agreements.

Section 8.2 Licenses and Permits. Each party hereto shall cause the appropriate members of its Group to prepare and file with the appropriate licensing and permitting authorities applications for the transfer or issuance, as may be necessary or advisable in connection with the transactions contemplated by this Agreement and the other Transaction Agreements, to its Group of all material governmental licenses and permits required for the members of its Group to operate its Business after the Distribution Date. The members of the Spinco Group and the members of the AT Co. Group shall cooperate and use all commercially reasonable efforts to secure the transfer or issuance of such licenses and permits.

Section 8.3 Intercompany Agreements; Intercompany Accounts.

(a) Except as set forth on Section 8.3 of the Disclosure Letter or specifically provided herein or in the other Transaction Agreements, all material contracts, licenses, agreements, commitments and other arrangements, formal and informal, between any member of the AT Co. Group, on the one hand, and any member of the Spinco Group, on the other hand, in existence as of the Distribution Date, shall terminate as of the close of business on the day prior to the Distribution Date. No such terminated contract, license, agreement, commitment or other arrangement (including any provision thereof that purports to survive termination) shall be of any further force or effect after the Distribution Date and all parties shall be released from all obligations thereunder. From and after the Distribution Date, no member of either Group shall have any rights under any such contract, license, agreement, commitment or arrangement with any member of the other Group, except as specifically provided herein or in the other Transaction Agreements or as may be agreed to at arms' length after the Distribution Date.

(b) Effective immediately prior to the Distribution Date, all intercompany cash management loan balances between AT Co. and the AT Co. Subsidiaries, on one hand, and Spinco and the Spinco Subsidiaries, on the other hand, shall be canceled.

Section 8.4 Further Assurances. In addition to the actions specifically provided for elsewhere in this Agreement, each of the parties hereto shall use its reasonable best efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things reasonably necessary, proper or advisable under applicable laws, regulations and agreements to consummate and make effective the transactions contemplated by this Agreement and the other Transaction Agreements. Without limiting the foregoing, each party hereto shall cooperate with the other party, and execute and deliver, or use its reasonable best efforts to cause to be executed and delivered, all instruments, and to make all filings with, and to obtain all consents, approvals or authorizations of, any Governmental Authority or any other Person under any permit, license, agreement, indenture or other instrument, and take all such other actions as such party may reasonably be requested to take by any other party hereto from time to time, consistent with the terms of this Agreement and the other Transaction Agreements, in order to effectuate the provisions and purposes of this Agreement.

Section 8.5 Guarantee Obligations and Liens.

(a) AT Co. and Spinco shall cooperate, and shall cause their respective Groups to cooperate and use their respective reasonable best efforts to: (x) terminate, or to cause a member of the Spinco Group to be substituted in all respects for any member of the AT Co. Group in respect of, all obligations of any member of the AT Co. Group under any Spinco Liabilities for which such member of the AT Co. Group may be liable, as guarantor, original tenant, primary obligor or otherwise, and (y) terminate, or to cause Spinco Assets to be substituted in all respects for any AT Co. Assets in respect of, any liens or encumbrances on AT Co. Assets which are securing any Spinco Liabilities. If such a termination or substitution is not effected by the Distribution Date: (i) Spinco shall indemnify and hold harmless the AT Co.

Indemnitees for any Indemnifiable Loss arising from or relating thereto, and (ii) without the prior written consent of AT Co., from and after the Distribution Date, Spinco shall not, and shall not permit any member of the Spinco Group to, renew or extend the term of, increase its obligations under, or transfer to a third party, any loan, lease, contract or other obligation for which a member of the AT Co. Group is or may be liable or for which any AT Co. Asset is or may be encumbered unless all obligations of the AT Co. Group and all liens and encumbrances on any AT Co. Asset with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to AT Co.

(b) AT Co. and Spinco shall cooperate, and shall cause their respective Groups to cooperate and use their respective reasonable best efforts to: (x) terminate, or to cause a member of the AT Co. Group to be substituted in all respects for any member of Spinco Group in respect of, all obligations of any member of the Spinco Group under any AT Co. Liabilities for which such member of the Spinco Group may be liable, as guarantor, original tenant, primary obligor or otherwise, and (y) terminate, or to cause AT Co. Assets to be substituted in all respects for any Spinco Assets in respect of, any liens or encumbrances on Spinco Assets which are securing any AT Co. Liabilities. If such a termination or substitution is not effected by the Distribution Date: (i) AT Co. shall indemnify and hold harmless the Spinco Indemnitees for any Indemnifiable Loss arising from or relating thereto, and (ii) without the prior written consent of Spinco, from and after the Distribution Date, AT Co. shall not, and shall not permit any member of the AT Co. Group to, renew or extend the term of, increase its obligations under, or transfer to a third party, any loan, lease, contract or other obligation for which a member of the Spinco Group is or may be liable or for which any Spinco Asset is or may be encumbered unless all obligations of the Spinco Group and all liens and encumbrances on any Spinco Asset with respect thereto are thereupon terminated by documentation reasonably satisfactory in form and substance to Spinco.

Section 8.6 Insurance.

(a) *Rights Under Policies*. Notwithstanding any other provision of this Agreement, from and after the Distribution Date, Spinco and the Spinco Subsidiaries will have no rights with respect to any Policies, except that (i) Spinco may assert claims, and AT Co. will use its reasonable best efforts to assist Spinco in asserting claims, for any loss, liability or damage with respect to the Spinco Assets or Spinco Liabilities under Policies with third-party insurers which are "occurrence basis" insurance policies ("Occurrence Basis Policies") arising out of insured incidents occurring from the date coverage thereunder first commenced until the Distribution Date to the extent that the terms and conditions of any such Occurrence Basis Policies and agreements relating thereto so allow and (ii) Spinco may continue to prosecute, and AT Co. will use reasonable best efforts to assist Spinco to continue to prosecute, claims with respect to Spinco Assets or Spinco Liabilities properly asserted with an insurer prior to the Distribution Date under Policies with third-party insurers which are insurance policies written on a "claims made" basis ("Claims Made Policies") arising out of insured incidents occurring from the date coverage thereunder first commenced until the Distribution Date to the extent that the terms and conditions of any such Claims Made Policies and agreements relating thereto so allow; provided, that in the case of both clauses (i) and (ii) above, (A) all of AT Co.'s and each AT Co. Subsidiary's reasonable out-of-pocket costs and expenses incurred in connection with the

foregoing are promptly paid by Spinco, (B) AT Co. and the AT Co. Subsidiaries may, at any time, without liability or obligation to Spinco or any Spinco Subsidiary (other than as set forth in Section 8.6(c)), amend, commute, terminate, buy-out, extinguish liability under or otherwise modify any Occurrence Basis Policies or Claims Made Policies (and such claims shall be subject to any such amendments, commutations, terminations, buy-outs, extinguishments and modifications), and (C) any such claim will be subject to all of the terms and conditions of the applicable Policy. AT Co.'s obligation to use its reasonable best efforts to assist Spinco in asserting claims under applicable Policies will include using reasonable best efforts in assisting Spinco to establish its right to coverage under such Policies (so long as all of AT Co.'s reasonable out-of-pocket costs and expenses in connection therewith are promptly paid by Spinco). In the event that the terms and conditions of any Policy do not allow Spinco the right to assert or prosecute a claim as set forth in clause (i) or (ii) above, then in such case, AT Co. shall use its reasonable best efforts to pursue such claim under such Policy and Spinco shall promptly pay all of AT Co.'s and each AT Co. Subsidiary's reasonable costs and expenses incurred in connection therewith.

(b) *Assistance by AT Co.* AT Co. will use reasonable best efforts to assist Spinco in connection with any efforts by Spinco to recover damages under any Policy with respect to the Spinco Business for incidents occurring prior to the Distribution Date; provided, that all of AT Co.'s reasonable out-of-pocket costs and expenses incurred in connection with the foregoing are promptly paid by Spinco.

(c) *AT Co. Actions.* In the event that after the Distribution Date, AT Co. or any AT Co. Subsidiary proposes to amend, commute, terminate, buy-out, extinguish liability under or otherwise modify any Policies under which Spinco has rights to assert claims pursuant to Section 8.6(a) in a manner that would adversely affect any such rights of Spinco (i) AT Co. will give Spinco prior written notice thereof (it being understood that the decision to take any such action will be in the sole discretion of AT Co.) and (ii) AT Co. will pay to Spinco its equitable share (which shall be determined by AT Co. in good faith based on the amount of premiums paid or allocated to the Spinco business in respect of the applicable Policy) of any net proceeds actually received by AT Co. from the insurer under the applicable Policy as a result of such action by AT Co. (after deducting AT Co.'s reasonable costs and expenses incurred in connection with such action).

(d) *Administration.* From and after the Distribution Date:

(i) AT Co. or an AT Co. Subsidiary, as appropriate, will be responsible for the Claims Administration with respect to claims of AT Co. and the AT Co. Subsidiaries under the Policies; and

(ii) Spinco or a Spinco Subsidiary, as appropriate, will be responsible for the Claims Administration with respect to claims of Spinco and the Spinco Subsidiaries under the Policies.

(e) *Insurance Premiums.* Subject to clause (B) of the proviso to Section 8.6(a), from and after the Distribution Date, AT Co. will pay all premiums (retrospectively-rated or otherwise) as required under the terms and conditions of the respective

Policies in respect of periods prior to the Distribution Date, whereupon Spinco will upon the request of AT Co., forthwith reimburse AT Co. for that portion of such premiums paid by AT Co. as are reasonably determined by AT Co. to be attributable to the Spinco Business.

(f) *Agreement for Waiver of Conflict and Shared Defense*. In the event that a Policy provides coverage for both AT Co. and/or an AT Co. Subsidiary, on the one hand, and Spinco and/or a Spinco Subsidiary, on the other hand, relating to the same occurrence, AT Co. and Spinco agree to defend jointly and to waive any conflict of interest necessary to the conduct of that joint defense.

(g) Nothing in this Section 8.6 will be construed to limit or otherwise alter in any way the indemnity obligations of the parties to this Agreement, including those created by this Agreement, by operation of law or otherwise.

Section 8.7 Use of Names.

(a) Any material showing any affiliation or connection of AT Co. or any member of the AT Co. Group with Spinco or any member of the Spinco Group shall not be used by AT Co. or any member of the AT Co. Group after the Distribution Date, except that the restrictions contained in this Section 8.7(a) shall not apply to filings, reports and other documents required by applicable law or regulations of securities exchanges to be filed and/or made publicly available. On and after the Distribution Date, neither AT Co. nor any AT Co. Subsidiary shall represent to third parties that any of them is affiliated or connected with Spinco or any member of the Spinco Group.

(b) Subject to Section 8.7(c) below, any material showing any affiliation of Spinco or any member of the Spinco Group with AT Co. or any member of the AT Co. Group shall not be used by Spinco or any member of the Spinco Group after the Distribution Date, except that the restrictions contained in this Section 8.7(b) shall not apply to filings, reports and other documents required by applicable law or regulations of securities exchanges to be filed and/or made publicly available. On and after the Distribution Date, neither Spinco nor any Subsidiary of Spinco shall represent to third parties that any of them is affiliated with AT Co. or any member of the AT Co. Group.

(c) The parties agree that, for a period of 120 days from and after the Distribution Date (the "Sell-off Period"), Spinco and its Subsidiaries shall be entitled to continue to use all trademarks or other source identifiers owned by AT Co. (the "AT Co. Trademarks") to the extent that such AT Co. Trademarks are contained as of the Distribution Date on any business cards, schedules, stationery, displays, signs, promotional materials, manuals, forms, computer software and other material used in the Spinco Business, without any obligation on the part of Spinco or its Subsidiaries to pay royalties or similar fees to AT Co. during the Sell-off Period. Spinco agrees that, upon termination of the Sell-off Period, Spinco and its Subsidiaries shall cease and desist from all further use of the AT Co. Trademarks except to the extent that such use is a "fair use" as a matter of law or as otherwise agreed by the parties.

Section 8.8 Non Solicitation of Employees.

(a) AT Co. agrees not to (and to cause the other members of the AT Co. Group not to) solicit or recruit for hire any employee of Spinco or any other member of the Spinco Group for a period of one year following the Distribution Date or until three months after such employee's employment with Spinco or any other member of the Spinco Group terminates, whichever occurs first.

(b) Spinco agrees not to (and to cause the other members of the Spinco Group not to) solicit or recruit for hire any employee of AT Co. or any other member of the AT Co. Group for a period of one year following the Distribution Date or until three months after such employee's employment with AT Co. or any other member of the AT Co. Group terminates, whichever occurs first.

(c) Notwithstanding the foregoing, such prohibitions on solicitation shall not restrict general recruitment efforts carried out through a public or general solicitation.

Section 8.9 Subsequent Transfers. In the event that following the Distribution Date a member of the AT Co. Group becomes aware that it possesses any Spinco Assets (except (i) for assets, rights and properties provided by members of the AT Co. Group pursuant to the Transition Services Agreement or (ii) as otherwise contemplated by the Transaction Agreements), AT Co. shall cause the prompt transfer of such assets, rights or properties to Spinco. Prior to any such transfer, AT Co. shall hold such Spinco Asset in trust for Spinco.

ARTICLE IX
ACCESS TO INFORMATION

Section 9.1 Provision of Corporate Records. Prior to or as promptly as practicable after the Distribution Date, AT Co. shall deliver or make available to Spinco all corporate books and records of the Spinco Group in its possession and complete and accurate copies of all relevant portions of all corporate books and records of the AT Co. Group relating directly and primarily to the Spinco Assets, the Spinco Business, or the Spinco Liabilities, including, in each case, all active agreements, active litigation files, government filings and returns or reports relating to Taxes for all open periods. Subject to Section 9.5, AT Co. may retain complete and accurate copies of such books and records. From and after the Distribution Date, all such books, records and copies shall be the property of Spinco. Prior to or as promptly as practicable after the Distribution Date, Spinco shall deliver or make available to AT Co., all corporate books and records of the AT Co. Group in its possession and complete and accurate copies of all relevant portions of all corporate books and records of the Spinco Group relating directly and primarily to the AT Co. Assets, the AT Co. Business, or the AT Co. Liabilities, including, in each case, all active agreements, active litigation files, government filings and returns or reports relating to Taxes for all open periods. Subject to Section 9.5, Spinco may retain complete and accurate copies of such books and records. From and after the Distribution Date, all such books, records and copies shall be the property of AT Co. The costs and expenses

incurred in the provision of records or other information to a party shall be paid for by the delivering party.

Section 9.2 Access to Information. From and after the Distribution Date, each of AT Co. and Spinco shall afford to the other and to the other's Representatives reasonable access and duplicating rights during normal business hours to all Information within the possession or control of such party's Group relating to the other party's Group's pre-Distribution business, Assets or Liabilities or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date, insofar as such access is reasonably required for a reasonable purpose, subject to the provisions below regarding Privileged Information. Without limiting the foregoing, Information may be requested under this Section 9.2 for audit, accounting, regulatory, claims, litigation and tax purposes, as well as for purposes of fulfilling disclosure and reporting obligations.

In furtherance of the foregoing:

(a) Each party hereto acknowledges that: (i) each of AT Co. and Spinco (and the members of the AT Co. Group and the Spinco Group, respectively) has or may obtain Privileged Information; (ii) there are and/or may be a number of Litigation Matters affecting each or both of AT Co. and Spinco; (iii) both AT Co. and Spinco have a common legal interest in Litigation Matters, in the Privileged Information and in the preservation of the confidential status of the Privileged Information, in each case relating to the pre-Distribution business of the AT Co. Group or the Spinco Group or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date; and (iv) both AT Co. and Spinco intend that the transactions contemplated hereby and by the Merger Agreement and the other Transaction Agreements and any transfer of Privileged Information in connection therewith shall not operate as a waiver of any potentially applicable privilege.

(b) Each of AT Co. and Spinco agrees, on behalf of itself and each member of the Group of which it is a member, not to disclose or otherwise waive any privilege attaching to any Privileged Information relating to the pre-Distribution business of the other Group or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date, without providing prompt written notice to and obtaining the prior written consent of the other, which consent shall not be unreasonably withheld, conditioned or delayed and shall not be withheld, conditioned or delayed if the other party certifies that such disclosure is to be made in response to a likely threat of suspension or debarment or similar action; provided, however, that AT Co. and Spinco shall not be required to give any such notice or obtain any such consent and may make such disclosure or waiver with respect to Privileged Information if such Privileged Information relates solely to the pre-Distribution business of the AT Co. Group in the case of AT Co. or the Spinco Group in the case of Spinco. In the event of a disagreement between any member of the AT Co. Group and any member of the Spinco Group concerning the reasonableness of withholding such consent, no disclosure shall be made prior to a resolution of such disagreement by a court of competent jurisdiction, provided that the limitations in this sentence shall not apply in the case of disclosure required by law and so certified as provided in the first sentence of this paragraph.

(c) Upon any member of the AT Co. Group or any member of the Spinco Group receiving any subpoena or other compulsory disclosure notice from a court, other governmental agency or otherwise which requests disclosure of Privileged Information, in each case relating to pre-Distribution business of the Spinco Group or the AT Co. Group, respectively, or relating to or arising in connection with the relationship between the Groups on or prior to the Distribution Date, the recipient of the notice shall as promptly as practicable provide to the other Group (following the notice provisions set forth herein) a copy of such notice, the intended response, and all materials or information relating to the other Group that might be disclosed. In the event of a disagreement as to the intended response or disclosure, unless and until the disagreement is resolved as provided in paragraph (b) of this Section, the parties shall cooperate to assert all defenses to disclosure claimed by either party's Group, and shall not disclose any disputed documents or information until all legal defenses and claims of privilege have been finally determined, except as otherwise required by a court order requiring such disclosure.

Section 9.3 Production of Witnesses. Subject to Section 9.2, after the Distribution Date, each of AT Co. and Spinco shall, and shall cause each member of its respective Group to make available to Spinco or AT Co. or any member of the Spinco Group or of the AT Co. Group, as the case may be, upon reasonable prior written request, such Group's directors, managers or other persons acting in a similar capacity, officers, employees and agents as witnesses to the extent that any such Person may reasonably be required in connection with any Litigation Matters, administrative or other proceedings in which the requesting party may from time to time be involved and relating to the pre-Distribution business of the AT Co. Group or the Spinco Group or relating to or in connection with the relationship between the Groups on or prior to the Distribution Date. The costs and expenses incurred in the provision of such witnesses shall be paid by the party requesting the availability of such persons.

Section 9.4 Retention of Records. Except as otherwise agreed in writing, or as otherwise provided in the other Transaction Agreements, each of AT Co. and Spinco shall, and shall cause the members of the Group of which it is a member to, retain all Information in such party's Group's possession or under its control, relating directly and primarily to the pre-Distribution business, Assets or Liabilities of the other party's Group until such Information is at least seven years old or until such later date as may be required by law, except that if, prior to the expiration of such period, any member of either party's Group wishes to destroy or dispose of any such Information that is at least three years old, prior to destroying or disposing of any of such Information, (a) the party whose Group is proposing to dispose of or destroy any such Information shall provide no less than 30 days' prior written notice to the other party, specifying the Information proposed to be destroyed or disposed of, and (b) if, prior to the scheduled date for such destruction or disposal, the other party requests in writing that any of the Information proposed to be destroyed or disposed of be delivered to such other party, the party whose Group is proposing to dispose of or destroy such Information promptly shall arrange for the delivery of the requested Information to a location specified by, and at the expense of, the requesting party.

Section 9.5 Confidentiality. Subject to Section 9.2, which shall govern Privileged Information, from and after the Distribution Date, each of AT Co. and Spinco shall

hold, and shall use commercially reasonable efforts to cause its Affiliates and Representatives to hold, in strict confidence all Information concerning the other party's Group obtained by it or furnished to it by such other party's Group pursuant to this Agreement or the other Transaction Agreements and shall not release or disclose such Information to any other Person, except its Affiliates and Representatives, who shall be advised of the provisions of this Section 9.5, and each party shall be responsible for a breach by any of its Affiliates or Representatives; provided, however, that any member of the AT Co. Group or the Spinco Group may disclose such Information to the extent that (a) disclosure is compelled by judicial or administrative process or, based on advice of such Person's counsel, by other requirements of law or regulation, or (b) such party can show that such Information was (i) in the public domain through no fault of such Person or (ii) lawfully acquired by such Person from another source after the time that it was furnished to such Person by the other party's Group, and not acquired from such source subject to any confidentiality obligation on the part of such source known to the acquiror. Notwithstanding the foregoing, each of AT Co. and Spinco shall be deemed to have satisfied its obligations under this Section 9.5 with respect to any Information (other than Privileged Information) if it exercises the same care with regard to such Information as it takes to preserve confidentiality for its own similar Information.

Section 9.6 Cooperation with Respect to Government Reports and Filings. AT Co., on behalf of itself and each member of the AT Co. Group, agrees to provide any member of the Spinco Group, and Spinco, on behalf of itself and each member of the Spinco Group, agrees to provide any member of the AT Co. Group, with such cooperation and Information as may be reasonably requested by the other in connection with the preparation or filing of any government report or other government filing contemplated by this Agreement or in conducting any other government proceeding relating to the pre-Distribution business of the AT Co. Group or the Spinco Group, Assets or Liabilities of either Group or relating to or in connection with the relationship between the Groups on or prior to the Distribution Date. Such cooperation and Information shall include promptly forwarding copies of appropriate notices, forms and other communications received from or sent to any government authority which relate to the AT Co. Group, in the case of the Spinco Group, or the Spinco Group, in the case of the AT Co. Group. Each party shall make its employees and facilities available during normal business hours and on reasonable prior notice to provide explanation of any documents or Information provided hereunder.

Section 9.7 Tax Sharing Agreement. None of the provisions of this Article IX are intended to supersede any provision in the Tax Sharing Agreement or the Merger Agreement with respect to matters related to Taxes. In the event of any conflict between this Agreement and the Tax Sharing Agreement or the Merger Agreement, the Tax Sharing Agreement or the Merger Agreement, as the case may be, shall control with respect to matters related to Taxes.

ARTICLE X
NO REPRESENTATIONS OR WARRANTIES

Section 10.1 No Representations or Warranties. Except as expressly set forth herein or in any other Transaction Agreement, Spinco and AT Co. understand and agree that no member of the AT Co. Group is representing or warranting to Spinco or any member of the Spinco Group in any way as to the Spinco Assets, the Spinco Business or the Spinco Liabilities. Except as expressly set forth herein or in any other Transaction Agreement, AT Co. and Spinco understand and agree that no member of the Spinco Group is representing or warranting to AT Co. or any member of the AT Co. Group in any way as to the AT Co. Assets, the AT Co. Business or the AT Co. Liabilities.

ARTICLE XI
CONDITIONS

Section 11.1 Conditions to the Distribution. The obligations of AT Co. pursuant to this Agreement to effect the Distribution shall be subject to the fulfillment (or waiver by AT Co.) on or prior to the Distribution Date (provided that certain of such conditions will occur substantially contemporaneous with the Distribution) of each of the conditions set forth in Sections 9.1 and 9.2 of the Merger Agreement having been satisfied or to the extent permitted by applicable Law, waived in writing, except the consummation of the Contribution and the Distribution and the other transactions contemplated hereby.

Section 11.2 Waiver of Conditions. To the extent permitted by applicable Law, the condition set forth in Section 11.1 hereof may be waived in the sole discretion of the AT Co. Board. The condition set forth in Section 11.1 is for the sole benefit of AT Co. and shall not give rise to or create any duty on the part of AT Co. or the AT Co. Board to waive or not waive any such conditions.

Section 11.3 Disclosure. If at any time after the date hereof either of the parties shall become aware of any circumstances that will or could reasonably be expected to prevent any or all of the conditions contained in Section 11.1 from being satisfied, it will promptly give to the other party written notice of those circumstances.

ARTICLE XII
MISCELLANEOUS

Section 12.1 Complete Agreement. This Agreement, the Exhibits and the Disclosure Letter hereto, the other Transaction Agreements and other documents referred to herein shall constitute the entire agreement between the parties hereto with respect to the subject matter hereof and shall supersede all previous negotiations, commitments and writings with

respect to such subject matter. The Disclosure Letter delivered pursuant hereto is expressly made a part of, and incorporated by reference into, this Agreement. In the case of any conflict between the terms of this Agreement and the terms of any other Transaction Agreement, the terms of such other Transaction Agreement shall be applicable.

Section 12.2 Expenses. Except as set forth in Section 12.2 of the Disclosure Letter, whether or not the Distribution is consummated, the costs and expenses incurred by AT Co. or Spinco or their respective Subsidiaries in connection with this Agreement, the Preliminary Restructuring contemplated hereby, the Contribution, the Special Dividend, the Debt Exchange, the Spinco Financing and the Merger (including (i) all underwriter's discounts, fees and expenses associated with the Spinco Financing and the Debt Exchange; and (ii) all broker, finder and similar advisory fees incurred by AT Co. or Spinco in connection with the transactions contemplated by this Agreement and the Merger Agreement) shall be paid by Spinco; provided, however, that in the event that the aggregate amount of all such expenses exceeds $115 million less the principal amount of any Additional Spinco Indebtedness, AT Co. shall pay such excess expenses (the "AT Excess Expenses"). For the avoidance of doubt, the expenses of AT Co. and Spinco shall not include any expenses of the Company's legal, accounting, financial and other advisors or any costs of refinancing the Company's outstanding Indebtedness or any other costs incurred by the Company in connection with the transactions contemplated hereby or by the Merger Agreement.

Section 12.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to its conflicts of laws principles.

Section 12.4 Notices. All notices and other communications required or permitted to be given hereunder shall be in writing and shall be deemed given upon (a) a transmitter's confirmation of a receipt of a facsimile transmission (but only if followed by confirmed delivery of a standard overnight courier the following business day or if delivered by hand the following business day), (b) confirmed delivery of a standard overnight courier or when delivered by hand or (c) the expiration of five business days after the date mailed by certified or registered mail (return receipt requested), postage prepaid, to the parties at the following addresses (or at such other addresses for a party as shall be specified by like notice):

If to AT Co. or any member of the AT Co. Group, to:

ALLTEL Corporation
One Allied Drive
Little Rock, Arkansas 72202
Attention: Chief Executive Officer
(with a copy to the Corporate Secretary)
Facsimile: (501) 905-5444

If to Spinco or any member of the Spinco Group prior to the Distribution Date, to:

ALLTEL Holding Corp.
One Allied Drive
Little Rock, Arkansas 72202
Attention: Chief Executive Officer
(with a copy to the Chairman)
Facsimile: (501) 905-0962

or to such other address as any party hereto may have furnished to the other parties by a notice in writing in accordance with this Section.

Section 12.5 Amendment and Modification. This Agreement may be amended, modified or supplemented, and any provision hereunder may be waived, only by a written agreement signed by all of the parties hereto, together with (i) prior to the Effective Time, in the case of any material amendment, modification or supplement, a Company Consent and (ii) following the Effective Time, in the case of any material amendment, modification or supplement, the consent of a majority of the Surviving Corporation's "independent" directors (as such term is defined in the regulations of the securities exchange in which the Surviving Corporation's securities then are listed.

Section 12.6 Successors and Assigns; No Third-Party Beneficiaries. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns, but neither this Agreement nor any of the rights, interests and obligations hereunder shall be assigned by any party hereto without the prior written consent of the other parties and a Company Consent. Except for the provisions of Sections 7.3 and 7.4 relating to indemnities, which are also for the benefit of the Indemnitees, this Agreement is solely for the benefit of AT Co., Spinco and the Company and their respective Subsidiaries and Affiliates and is not intended to confer upon any other Persons any rights or remedies hereunder; provided, however, that the Company is and shall be a stated and intended third party beneficiary hereof.

Section 12.7 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 12.8 Interpretation. The Article and Section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement.

Section 12.9 Severability. If any provision of this Agreement or the application thereof to any person or circumstance is determined by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions hereof, or the application of such

provision to persons or circumstances other than those as to which it has been held invalid or unenforceable, shall remain in full force and effect and shall in no way be affected, impaired or invalidated thereby, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner adverse to any party.

Section 12.10 References; Construction. References to any "Article," "Exhibit," "Schedule" or "Section," without more, are to Articles, Exhibits, Schedules and Sections to or of this Agreement. Unless otherwise expressly stated, clauses beginning with the term "including" or similar words set forth examples only and in no way limit the generality of the matters thus exemplified.

Section 12.11 Termination. Notwithstanding any provision hereof, following termination of the Merger Agreement, this Agreement may be terminated and the Distribution abandoned at any time prior to the Distribution Date by and in the sole discretion of the Board of Directors of AT Co. In the event of such termination, no party hereto or to any other Transaction Agreement (other than the Merger Agreement) shall have any Liability to any Person by reason of this Agreement or any other Transaction Agreement (other than the Merger Agreement).

Section 12.12 Consent to Jurisdiction and Service of Process. Each of the parties to this Agreement hereby irrevocably and unconditionally (i) agrees to be subject to, and hereby consent and submits to, the jurisdiction of the courts of the State of Delaware and of the federal courts sitting in the State of Delaware, (ii) to the extent such party is not otherwise subject to service of process in the State of Delaware, hereby appoints the Corporation Service Company as such party's agent in the State of Delaware for acceptance of legal process and (iii) agrees that service made on any such agent set forth in (ii) above shall have the same legal force and effect as if served upon such party personally within the State of Delaware.

Section 12.13 Waivers. Except as provided in this Agreement, no action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, shall be deemed to constitute a waiver by the party taking such action of compliance with any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

Section 12.14 Specific Performance. The parties hereto agree that irreparable damage would occur in the event any provision of this Agreement was not performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof, in addition to any other remedy at law or in equity.

Section 12.15 Waiver of Jury Trial. Each of the parties hereto irrevocably and unconditionally waives all right to trial by jury in any litigation, claim, action, suit, arbitration,

inquiry, proceeding, investigation or counterclaim (whether based in contract, tort or otherwise) arising out of or relating to this Agreement or the actions of the parties hereto in the negotiation, administration, performance and enforcement thereof.

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

ALLTEL CORPORATION

By:________________________
Name:
Title:

ALLTEL HOLDING CORP.

By:________________________
Name:
Title:

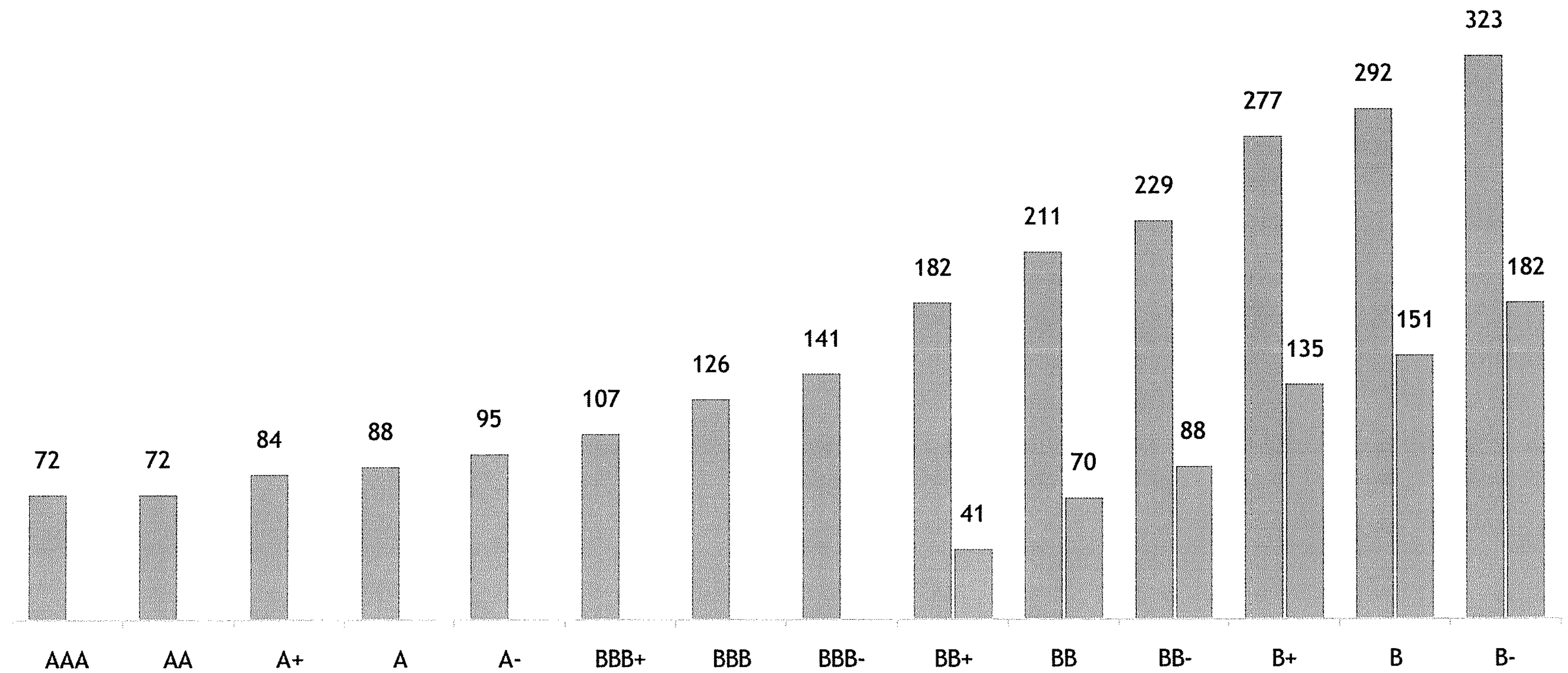
JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 3

RECEIVED

APR 12 2006

PUBLIC SERVICE
COMMISSION

Current industrial spreads by rating



Source: Bloomberg

Based on Expected Scenario			
Debt Instrument	Expected Coupon	Principal	
ALLTEL Georgia	6.50%	80,000,000	0.014524328
Aliant	6.75%	100,000,000	0.01815541
Valor notes	7.50%	400,000,000	0.072621641
Term loan A	6.04%	500,000,000	0.090777052
Term loan B	6.30%	2,000,000,000	0.363108206
Revolver	6.04%	63,000,000	0.011437908
Newco notes	7.25%	2,365,000,000	0.429375454
		5,508,000,000	1
			0
Weighted Average Coupon	**6.78%**		

Assumptions

Debt Instrument	Interest Rate Assumptions BBB-	BB+	Notes
ALLTEL Georgia	6.50%	6.50%	No Change
Aliant	6.75%	6.75%	No Change
Valor notes	7.50%	7.50%	No Change
Term loan A	6.04%	5.34%	If Ba2/BB then Libor + 125
Term loan B	5.60%	6.30%	If Ba2/BB then Libor + 150
Revolver	6.04%	5.34%	If Ba2/BB then Libor + 125
Newco notes	6.55%	7.25%	Reduction of 70 Bps

JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 4

Executive Summary

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Transaction Overview – Underwritten Scenario

Sources and Uses ($ millions)

Sources		Uses	
$500 million Revolving Credit Facility	$63	Dividend to Alltel	$2,400
Term Loan A	500	Repay Valor Term Loan[1]	783
Term Loan B	2,800	Transferred debt take-out[2]	92
Term Loan C[3]	0	Debt-for-debt exchange bonds	1,538
Debt-for-debt exchange bonds[4]	1,565	Assumed Alltel debt[5]	180
Assumed Alltel debt[5]	180	Assumed Valor bonds	400
Assumed Valor bonds	400	Transaction costs	115
Total Sources	$5,508	**Total Uses**	$5,508

1 Includes the payment of related premiums
2 Includes fees
3 Tranche C Term Loans will be funded to the extent that Valor's bonds are put to the Issuer pursuant to a change of control offer required under the applicable indenture
4 Includes $27 million of fees
5 Net of $81 million of refinanced debt

Pro Forma Capitalization ($ millions)

Sources		x2005 PF Adj. EBITDA[1]
$500 million Revolving Credit Facility	$63	0.0x
Term Loan A	500	0.3x
Term Loan B	2,800	1.6x
Assumed Alltel debt[2,3]	180	0.1x
Assumed Valor bonds[2]	400	0.2x
Total Senior Secured Debt	$3,943	2.3x
Exchanged bonds	1,565	0.9x
Total Debt	$5,508	3.2x

1 Based on 2005 pro forma adjusted EBITDA of $1,705 million, which is adjusted to reflect $40 million of expected annual cost saving synergies. Excludes transaction-related costs of $31.3 million and includes $6.1 million of restructuring and other charges not related to this transaction
2 Assumes transferred ILEC debt and Valor bonds will be granted security
3 Net of $81 million of refinanced debt

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Transaction Overview – Expected Scenario

Sources and Uses ($ millions)

Sources		Uses	
$500 million Revolving Credit Facility	$63	Dividend to Alltel	$2,400
Term Loan A	500	Repay Valor Term Loan[1]	783
Term Loan B	2,000	Transferred debt take-out[2]	92
Debt-for-debt exchange bonds[3]	1,565	Debt-for-debt exchange bonds	1,538
Assumed Alltel debt[4]	180	Assumed Alltel debt[4]	180
Assumed Valor bonds	400	*Assumed Valor bonds*	400
SpinCo bonds	800	Transaction costs	115
Total Sources	$5,508	**Total Uses**	$5,508

[1] Includes the payment of related premiums
[2] Includes fees
[3] Includes $27 million of fees
[4] *Net of $81 million of refinanced debt*

Pro Forma Capitalization ($ millions)

Sources		x2005 PF Adj. EBITDA[1]
$500 million Revolving Credit Facility	$63	0.0x
Term Loan A	500	0.3x
Term Loan B	2,000	1.2x
Assumed Alltel debt[2,3]	180	0.1x
Assumed Valor bonds[2]	400	0.2x
Total Senior Secured Debt	$3,208	1.9x
Exchanged bonds	1,565	0.9x
SpinCo bonds	800	0.5x
Total Debt	$5,508	3.3x

[1] Based on 2005 pro forma adjusted EBITDA of $1,705 million, which is adjusted to reflect $40 million of expected annual cost saving synergies
[2] Assumes transferred ILEC debt and Valor bonds will be granted security
[3] Net of $81 million of refinanced debt

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Summary of Senior Secured Credit Facilities

Underwritten Scenario

Borrower:	NewCo			
Joint Bookrunners and Lead Arrangers:	J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated			
Administrative Agent:	JPMorgan Chase Bank, N.A.			
Purpose:	Finance a $2.4 billion dividend to Alltel, refinance existing indebtedness and pay related fees and expenses			
Facilities:	Revolver	Term Loan A	Term Loan B	Term Loan C[1]
Amount:	$500,000,000	$500,000,000	$2,800,000,000	$400,000,000
Tenor:	5 years	5 years	7 years	5 years
Initial Drawn Pricing:				
If ≥ Ba2/BB (stable/stable):	L + 125.0 bps	L + 125.0 bps	L + 150.0 bps	L + 125.0 bps
Otherwise:	L + 150.0 bps	L + 150.0 bps	L + 175.0 bps	L + 150.0 bps
Undrawn Pricing:	25.0 bps	NA	NA	25.0 bps
Amortization:	Bullet	0%, 5%, 10%, 15% and bullet at maturity	1% per annum, bullet at maturity	0%, 5%, 10%, 15% and bullet at maturity

Security:
- Perfected first-priority liens on substantially all personal property assets (subject to regulatory approval), capital stock and other equity interests in subsidiaries (but not more than 66% of the voting stock of any foreign subsidiary)
- Approximately $180 million of existing Alltel ILEC bonds and $400 million of Valor senior notes will get an equal and ratable security interest in certain assets per the terms of their indentures

Guarantees: Guaranteed by each of the Borrower's present and future material direct and indirect domestic subsidiaries

Mandatory Prepayments:
- 100% of asset sale proceeds
- 100% of the proceeds of casualty insurance, condemnation awards and similar recoveries

Financial Covenants:
- Maximum Total Leverage of 4.50x
- Minimum Interest Coverage [2.75x]
- Limitations on Capital Expenditures

Other Terms and Conditions:
- Usual and customary for financings of this type
- NewCo will have ability to pay dividend up to 100% of its Distributable Cash Flow to shareholders subject to covenant compliance

Note: NewCo will have the ability to dividend up to 100% of its distributable cash to shareholders subject to covenant compliance

[1] 4-month Delayed-Drawn Term Loan

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Summary of Senior Unsecured Notes

Issuer:	NewCo
Amount:	Up to $2,365,000,000
Issue:	Senior Unsecured Notes
Distribution:	144A with registration rights
Maturity:	2016
Ranking:	The Notes will be senior unsecured obligations of the Issuer and will rank pari passu with all present and future senior unsecured indebtedness of the Issuer
Guarantors:	Each of NewCo's present and future material direct and indirect domestic subsidiaries
Redemption Structure:	Non-call for [ ] years; 35% equity clawback

Valor trading levels

VCG 7 ¾% Price Trading Levels

Source: Morgan Markets

Current Trading levels

Issuer	Issue	Amount (mm)	Maturity	Ratings	4/03/06 Price	4/03/06 YTW (%)	4/03/06 STW (bps)
VCG	Senior Notes	400.0	02/15/15	B1/B	105.000	6.823	198

JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 6

RLEC Credit Comps

($ in millions)

Capital Structure	NewCo	ALSK	CTCO	CNSL	FRP	IWA	CZN [a]	CTL [b]	CBB [c]	Embarq [d]	Hawaii Telecom
Bank Debt	$3,390	$375	$35	$425	$605	$503	$0	$0	$434	$2,500	$672
Bonds	2,119	82	301	130	5	0	4,235	2,835	1,711	4,750	650
Total Debt	$5,509	$457	$336	$555	$610	$503	$4,235	$2,835	$2,145	$7,250	$1,322
Bank Debt:											
Swapped to Fix ($):	—	$220	$35	$361	$490	$350	—	—	—	$2,500	$451
(%):	—	59%	100%	85%	81%	70%	—	—	—	100%	67%
Timing of Swaps:											
2006	—	—	$35	$120	$390	—	—	—	—	—	—
2007 & Beyond	—	$220	—	240	100	$350	$800	$500	$450	$2,500	$451
Floating % of Total [e]	—	34%	0%	12%	19%	30%	19%	18%	21%	0%	17%
LTM Operating Statistics											
EBITDA	$1,673	$113	$171	$138	$136	$126	$1,133	$1,284	$477	$2,900	$173
FCF	703	10	82	44	60	65	537	450	180	1,000	NA
FCF - Div	229	(23)	38	(2)	4	14	203	419	180	700	NA
Credit Statistics											
Bank Debt / EBITDA	2.0x	3.3x	0.2x	3.1x	4.5x	4.0x	—	—	0.9x	0.9x	3.9x
Total Debt / EBITDA	3.3	4.1	2.0	4.0	4.5	4.0	3.7	2.2	4.5	2.5	7.6
Bank Debt / FCF	4.8	NM	0.4	9.6	10.2	7.7	—	—	2.4	2.5	NA
Total Debt / FCF	7.8	NM	4.1	12.5	10.3	7.7	7.9	6.3	11.9	7.3	NA
Bank Debt / (FCF - Div)	14.8	NM	0.9	NM	NM	NM	—	—	2.4	3.6	NA
Total Debt / (FCF - Div)	24.1	NM	8.8	NM	NM	NM	20.9	6.8	11.9	10.4	NA
EBITDA / Interest	4.7	4.2	11.6	2.4	3.3	1.9	3.3	6.3	2.5	—	1.8
(EBITDA - Capex) / Interest	3.6	2.1	8.7	1.8	2.6	1.4	2.6	4.0	—	—	1.1
Credit Ratings											
Sr. Secured Rating	TBD	B1/B+	—	B1/BB-	B1/BB-	Ba3/BB-	NA	NA	Ba3/B+	NA	B1/B
Sr. Unsecured Rating	TBD	B2/B-	—	B3/B	NA	NA	Ba3/BB+	Baa2/BBB+	B1/B-	Baa2/A-	B3/CCC+
Sr. Subordinated Rating	TBD	NA	—	NA	NA	NA	NA	NA	B3/B-	NA	Caa1/CCC-

Source: Company filings and Citigroup Estimates.
(a) As of September 30, 2005, CZN had $800 million of variable rate hedges related to its fixed rate debt.
(b) As of September 30, 2005, CTL had $500 million of variable rate hedges related to its fixed rate debt.
(c) As of September 30, 2005, CBB had $450 million of variable rate hedges related to its fixed rate debt.
(d) Formerly Sprint ILEC. Assumes leverage of 2.5x EBITDA.
(e) Adjusted for swaps.

citigroup
corporate and investment banking

JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 7

ILEC	2005	2006	2007
Switching	$25,676.3	$22,600.5	
Transport	$27,755.7	$21,576.0	
Outside Plant	$148,271.5	$147,167.4	
Outside Plant Electronics	$27,215.0	$28,177.6	
Land & Buildings	$7,381.3	$5,256.8	
Station Apparatus	$2,005.0	$1,163.3	
Vehicles	$7,735.0	$7,028.5	
Furniture & Office Equipment	$1,266.5	$180.0	
Tools & Test Sets	$2,707.2	$1,677.0	
DSL	$44,311.1	$45,000.0	
Service Corp.	$29,213.1	$31,767.6	
Strategic Initiative	$8,755.3	$2,836.7	
ILEC Capex	$332,293.0	$314,431.4	
Capital Assignment Fund		$10,106.1	
CLEC Capex	$6,925.5	$4,949.8	
Internet Capex	$12,652.9	$14,994.3	
Wireline IDSW	$4,067.1	$336.9	
Core Wireline Capex	$355,938.5	$344,818.5	

Kentucky	2005	2006	2007
Switching	$5,934.9	$5,638.1	
Transport	$6,371.2	$4,963.6	
Outside Plant	$29,405.9	$34,518.3	
Outside Plant Electronics	$6,464.3	$5,917.1	
Land & Buildings	$4,598.2	$1,020.2	
Station Apparatus	$102.4	$39.0	
Vehicles	$1,147.5	$1,412.0	
Furniture & Office Equipment	$294.5	$76.1	
Tools & Test Sets	$1,003.6	$247.7	
DSL	$8,051.5	$15,493.2	
Strategic Initiative	$817.9	$46.7	
Total KY	**$64,191.9**	**$69,372.0**	

Note: Assume flat budget going into 2007, no detail available.

JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 8

ILEC	2005	2006	2007
Switching	$25,676.3	$22,600.5	
Transport	$27,755.7	$21,576.0	
Outside Plant	$148,271.5	$147,167.4	
Outside Plant Electronics	$27,215.0	$28,177.6	
Land & Buildings	$7,381.3	$5,256.8	
Station Apparatus	$2,005.0	$1,163.3	
Vehicles	$7,735.0	$7,028.5	
Furniture & Office Equipment	$1,266.5	$180.0	
Tools & Test Sets	$2,707.2	$1,677.0	
DSL	$44,311.1	$45,000.0	
Service Corp.	$29,213.1	$31,767.6	
Strategic Initiative	$8,755.3	$2,836.7	
ILEC Capex	$332,293.0	$314,431.4	
Capital Assignment Fund		$10,106.1	
CLEC Capex	$6,925.5	$4,949.8	
Internet Capex	$12,652.9	$14,994.3	
Wireline IDSW	$4,067.1	$336.9	
Core Wireline Capex	$355,938.5	$344,818.5	

Kentucky	2005	2006	2007
Switching	$5,934.9	$5,638.1	
Transport	$6,371.2	$4,963.6	
Outside Plant	$29,405.9	$34,518.3	
Outside Plant Electronics	$6,464.3	$5,917.1	
Land & Buildings	$4,598.2	$1,020.2	
Station Apparatus	$102.4	$39.0	
Vehicles	$1,147.5	$1,412.0	
Furniture & Office Equipment	$294.5	$76.1	
Tools & Test Sets	$1,003.6	$247.7	
DSL	$8,051.5	$15,493.2	
Strategic Initiative	$817.9	$46.7	
Total KY	**$64,191.9**	**$69,372.0**	

Note: Assume flat budget going into 2007, no detail available.

<u>JOINT APPLICANTS' RESPONSE TO A.G.</u>
<u>SUPPLEMENTAL DATA REQUEST NO. 9</u>

Moody's Investors Service

Global Credit Research
Rating Action
13 JAN 2005

Rating Action: Valor Communications Group, Inc. (New)

MOODY'S UPGRADES VALOR TELECOM'S SR. IMPLIED AND SR. SEC. RATINGS TO Ba3 FROM B2 AND ASSIGNS B1 RATING TO GTD. SR. UNSEC. NOTES. OUTLOOK ON ALL RATINGS IS STABLE.

Approximately $1.7 billion in rated debt affected

New York, January 13, 2005 -- Moody's Investors Service upgraded the senior implied and senior secured bank loan ratings of Valor Telecommunications Enterprises, LLC ("Valor"), as a result of the company's planned $499 million initial public offering (IPO) and resulting debt reduction. Moody's has also assigned a B1 rating to Valor's proposed $280 million guaranteed senior unsecured notes offering, which is jointly issued by Valor Telecommunications Enterprises Finance Corp ("Finance"). Moody's assumes that Valor will use the proceeds from the equity and new high yield offerings to prepay its $205 million second lien loan and $135 million subordinate loan, thus reducing its aggregate outstanding debt from approximately $1,167 million to $860 million. As a result, Moody's is withdrawing the B3 and Caa1 ratings associated with the second lien and subordinate loans. The ratings also reflect Valor's strong operating margins and stable cash flow, as well as, its solid business risk profile as a rural local exchange carrier (RLEC) offset by the company's commitment to pay a substantial dividend. The outlook on all ratings is stable.

Moody's has taken the following rating actions:

Ratings Assigned:

Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises Finance Corp. Co-Issuers:

$280 million Senior Unsecured Notes due in 2015 -- B1

Ratings Upgraded:

Valor Telecommunications Enterprises, LLC

Senior Implied --to Ba3 from B2

$100 million Senior Secured Revolving Facility due in 2011-- to Ba3 from B2 (note: Valor Telecommunications Enterprises II, LLC is no longer a co-borrower in this facility)

$890 million (originally $1.2 billion) Senior Secured Term Loan due in 2012-- to Ba3 from B2 (note: Valor Telecommunications Enterprises II, LLC is no longer a co-borrower in this facility)

Issuer rating --to B2 from Caa1

Ratings Withdrawn:

$265 million Second Lien Loan due in 2011 - from B3 to WR

$135 million Subordinate Loan due in 2012 - from Caa1 to WR

The rating upgrades acknowledge that the IPO transaction will meaningfully improve several of Valor's key credit metrics, among them net debt to EBITDA (leverage), which declines from 5.9x to 4.1x, and EBITDA-Capex to interest (interest coverage), which improves from 2.1x to 2.8x. In addition to improving these credit metrics, the proposed transaction should provide Valor better future access to public debt and equity markets, a critical source of liquidity. The rating upgrades are tempered by Moody's concern that sustaining a relatively high dividend may limit Valor's financial flexibility, curtail its ability to pursue new growth initiatives and weaken its long-term competitiveness, particularly vis-a-vis potential cable VoIP service offerings. As a result of Valor's proposed dividend payout, FCF to net debt is expected to approximate 4%, which Moody's considers weak for the rating category. Moody's also believes the company's high leverage, reflected by its high debt relative to total access lines and cash flow further constrains the long-term ratings.

The outlook on Valor's ratings is stable due to Moody's expectation that Valor will continue to generate stable and predictable pre-dividend free cash flow largely as a result of a favorable regulatory environment and low competition. Valor's long-term ratings will be negatively impacted if the company adopts an aggressive acquisition strategy that increases leverage to above 4.5x or notably reduces available liquidity through extended unanticipated usage of its revolving credit facility. In addition, if as a result of the company's continued dividend policy free cash flow to debt falls below 2% and Moody's believes that debt reduction will continue to slow or network investment will lag, the ratings will likely fall. Similarly, prolonged free cash flow to debt of above 5% that is generated by EBITDA margin improvement will likely improve the ratings.

On a pro-forma basis, Valor's senior secured bank debt will represent approximately 75% of company outstanding debt. As such, Moody's does not believe that the risk profile of this debt is not substantially different from that of the firm as a whole, and therefore, does not merit notching this debt above the company's Ba3 senior implied rating. The senior secured credit facilities do benefit from a priority claim on substantially all assets plus senior secured priority guarantees from the parent company, intermediate holding companies, and operating subsidiaries. The senior secured credit facilities effectively limit the company's ability to incur additional leverage, based on a 4.25x debt to EBITDA incurrence test (as defined in the senior credit agreement). Therefore, Moody's has notched the $280 million senior unsecured note offering only one notch below the senior implied rating, to reflect its subordinated unsecured claim on the company's assets and unsecured guarantees. Valor's issuer rating at B2 is an additional notch below the B1 $280 million senior unsecured note given the implied lack of guarantees even on an unsecured basis.

Valor faces modest access line loss, limited threats from wireless and technology substitution, and cable competition in only its largest markets (currently). Moody's notes that Valor's markets are also less desirable for cable competition because of high current satellite penetration. Valor's ratings, however, may come under pressure if cable competition ultimately puts forth a stronger than expected VoIP launch in Valor's key markets. The ratings also incorporate Valor's leading position in its incumbent markets, proven ability to generate stable and predictable revenue, and its improving capacity to drive operating cash flow.

Valor derives approximately 24% of its revenues from state and federal universal service fund ("USF") subsidies, which is relatively high compared to other RLECs. While Moody's believes that universal service will remain a political priority for rural legislators, we are concerned that the current trend at the FCC, which favors increased competition, may ultimately lead to a long-term change in the competitive landscape for RLECs, particularly as related to the potential inclusion of wireless carriers. Valor's exposure to this regulatory risk is somewhat mitigated by the support and historical stability of the Texas Public Utilities Commission, which regulates approximately 20% of Valor's USF revenue. Valor's ratings may come under pressure to the extent that potentially adverse regulatory rulings result in a meaningful compression of Valor's margins and profitability.

Moody's believes that Valor's liquidity is sufficient to meet its near term financial obligations. Moody's also believes that Valor's ability to generate significant and stable pre-dividend free cash flow, coupled with $100 million available under its revolving credit facility, provides sufficient liquidity to weather operational shortfalls or unexpected capital needs. In Moody's opinion, Valor's relatively strong pre-dividend liquidity profile strengthens its ability to absorb market shock and thus supports the long term ratings. Moody's is concerned, however, that consistently high dividend payouts, currently set at 75%-80% of available cash, may limit the company's long term financial flexibility and ability to potentially pursue acquisitive growth strategies. Moody's bases its rating on the assumption that, after dividends and stable capital investment, Valor should be able to generate at least $25 million a year in free cash flow.

Valor, headquartered in Irving, Texas, is a rural local exchange carrier that provides telecommunications services in four states in the South Western U.S. With approximately 556 thousand access line, Valor generates approximately $500 million in revenue annually.

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Moody's Investors Service

Global Credit Research
Rating Action
1 JUN 2004

Rating Action: Valor Communications Group, Inc. (Old)

CORRECTION TO HEADLINE & TEXT: MOODY'S ASSIGNS (P)B2 TO VALOR'S PROPOSED SR. SEC.CREDIT FACILITY AND (P)B2 SR. IMPLIED RATING, AND AFFIRMS A NEGATIVE OUTLOOK FOR ALL RATINGS ((P) ADDED TO PROP RTGS AND CORRECTED ISSR RTG B2 ON VALOR TELECOM. SW)

Approximately $890 million in rated debt affected.

New York, June 01, 2004 -- Moody's Investors Service assigns a (P)B2 to Valor Telecommunications, LLC's proposed senior secured bank credit facility. The new facility is part of a proposed recapitalization, which will include the issuance of Income Deposit Securities (IDS), a combined senior subordinate debt and common stock offering. The IDS will be issued at Valor Communications Group, Inc. (Valor), a newly formed holding company. Moody's also assigns a (P)B2 senior implied rating to Valor. At the conclusion of Valor's IDS transaction, Moody's will withdraw the existing Ba3 senior secured rating for Valor Telecommunications Enterprises, LLC and B1 senior implied rating for Valor Telecommunications Southwest, LLC. The outlook for all ratings is negative.

Moody's has assigned a lower senior implied rating to Valor because the rating agency believes the IDS structure increases the company's financial risk. Moody's believes that the anticipated quarterly distribution of capital to shareholders in the form of dividends will shift fundamental financial risk from equity holders to debt holders, as the company uses cash that would have been available for potential debt amortization or growth initiatives. Moody's believes that Valor's relatively strong operations should provide a reasonable basis for meeting its interest obligations and likely dividend payments. The favorable regulatory environment in which Valor operates and its low inherent business risk support the ratings on the proposed transaction. High leverage, however, which is not reduced in the recapitalization, constrains the ratings.

As part of the recapitalization, Moody's will take the following ratings actions:

Valor Telecommunications, LLC:

Proposed $890 million senior secured bank credit facility -- (P)B2 -- assigned

Valor Communications Group, Inc.:

Senior Implied Rating -- (P)B2 -- assigned

Issuer Rating -- (P)B3 -- assigned

Valor Telecommunications Enterprises, LLC:

Ba3 Senior Secured Bank Credit Facility - (To be withdrawn)

Valor Telecommunications Southwest, LLC:

B1 Senior Implied Rating - (to be withdrawn)

B2 Issuer Rating -- (to be withdrawn)

The rating outlook remains negative.

Moody's believes that Valor's issuance of IDS significantly increases the company's financial risk because of an increased willingness to pay dividends and heightened refinancing risk. By issuing IDS, Valor is making an implicit economic commitment to pay a substantial percentage of free cash flow as dividends. Moody's notes that chronically low cash balances may increase the company's reliance on its revolving credit facility to fund any operational shortfalls, to the extent that financial covenants allow. While the non-amortizing nature of the proposed transaction effectively eliminates the company's near term maturities, it ultimately increases the company's refinancing risk. The proposed transaction will benefit Valor by diversifying its investor base through public equity market access and by recapturing tax shields that had been passed on to its investing partners. Moody's believes, however, that the company's long-term financial strength will

deteriorate if it fails to reinvest adequately.

The negative outlook reflects Moody's belief that the sustained dividends that drain the company's free cash flow may ultimately weaken its long-term competitiveness. The company will need to rely more heavily on increased future earnings to fund operational shortfalls or unforeseen credit shocks than it would have had it accumulated cash reserves or created debt capacity through amortization.

The ratings are also constrained by the company's high leverage and the slow growth inherent in the RLEC industry. During the past three years, Valor has improved its operational efficiency by upgrading its network, refocusing its sale force, and reducing costs. Moody's acknowledges the company's success, which is reflected in profitability margins that are consistently in the top of its peer group. Moody's believes that the marginal value for future cost savings will diminish, however, as Valor continues to reduce operating inefficiencies. Moody's believes that growth opportunities are more likely to come from acquisitions, rather than future cost savings. Because the company plans to pay out substantially all of its free cash flow as dividends, any future acquisition strategy will likely increase leverage. Moody's also recognizes that EBITDA based financial covenants may restrain the company's ability to fund this strategy.

Low business risk supports the ratings. Valor faces modest access line loss, limited threats from wireless and technology substitution, and cable competition in only its largest markets. With only an average of 11 homes per square mile, Valor's core services area lacks sufficient customer concentration to attract strong competition. In many of its markets, Valor is the only provider of local, long distance, and high-speed-data services, an advantage over potential competition in defending its market share. The rating incorporates Valor's leading position in its incumbent markets, proven ability to generate stable and predictable revenue, and its improving capacity to drive operating cash flow.

Valor's stable operations are in part a function of a favorable state and federal regulatory environment. Texas Universal Service Fund (TUSF) revenues accounted for 21% of Valor's revenue mix in 2003, so the company's exposure to the Texas Public Utilities Commission is substantial. While Moody's believes that universal service will remain a political priority for rural legislators, the regulation is continually changing to address advancements in technology and to promote competition where it is feasible to do so.

Moody's ratings assume that the proposed capital structure will include a senior secured back credit facility consisting of a $790 non-amortizing term loan and a $100 million revolving credit facility. The bank facility, like Valor's existing facility, has multiple borrowers. The senior secured lenders benefit from the first lien on the firm's assets in a distressed scenario, as well as the ability to require the deferral of both dividends and subordinate notes' interest in the company's financial covenants. The facility also benefits from parent and operating subsidiaries guarantees on a senior secured basis (where state regulation allows). The senior secured debt accounts for more than 50% of the firm's capitalization. Therefore, Moody's believes that the risk profile of this debt is not substantially different from that of the firm as a whole. As a result, Moody's does not notch the senior secured bank loan above Valor's B2 senior implied rating.

Valor, headquartered in Irving, Texas, is a Rural Local Exchange Carrier that provides telecommunications services in four states in the southwestern U.S.

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Moody's Investors Service

Global Credit Research
Rating Action
8 OCT 2004

Rating Action: Valor Communications Group, Inc. (Old)

MOODY'S DOWNGRADES VALOR'S SR IMPLIED RATING TO B2 AND ASSIGNS NEW RATINGS FOR PROPOSED DEBT OFFERINGS

Approximately $1.7 billion in rated debt affected

New York, October 08, 2004 -- Moody's Investors Service assigned new ratings for Valor Telecommunications Enterprises, LLC ("Valor") and Valor Telecommunications Enterprises II, LLC ("Valor II"), in accordance with the company's proposed recapitalization. The company's senior implied rating was lowered to B2, from B1, proforma for the assumed successful completion of this planned recapitalization. Moody's also withdrew the former provisional ratings associated with the company's previously proposed income deposit securities (IDS) offering, which was never completed.

The effective downgrade of Valor's senior implied rating to B2 from B1 predominantly reflects the increased leverage associated with the proposed recapitalization. Although Moody's views the business risk of rural local exchange carriers (RLECs) like Valor to be relatively benign, the company's weak balance sheet reflected by high debt relative to total access lines and cash flow constrains the long-term ratings. Moody's expects that the company's lack of financial flexibility may ultimately limit its ability to pursue new growth initiatives and weaken its long-term competitiveness, particularly vis-a-vis emerging VoIP service offerings.

The outlook for all ratings, which is contingent on the successful completion of the proposed transaction, is stable. The stable outlook reflects Moody's belief that despite increased competition and declining access lines Valor will continue to generate stable positive free cash flow. Since the senior credit facility requires a 75% cash sweep, the company's leverage, and hence financial risk, should decrease, helping to offset potential competitive pressure.

Moody's has taken the following rating actions:

Ratings associated with the proposed recapitalization:

Valor Telecommunications Enterprises, LLC and Valor Telecommunications Enterprises II, LLC:

Co-Borrowers under the facilities

Senior Implied -- B2

Issuer rating -- Caa1

$1400 million Senior Secured Credit Facility -- B2

$205 million Second Lien Loan -- B3

$135 million Subordinate Loan -- Caa1

Rating Outlook -- Stable

The following ratings associated with the formerly announced IDS transaction have been withdrawn:

Valor Telecommunications, LLC:

$890 million senior secured bank credit facility -- WR (formerly (P)B2)

Valor Communications Group, Inc.:

Senior Implied Rating -- WR (formerly (P)B2)

Issuer Rating -- WR (formerly (P)B3)

Moody's also withdrew the former senior implied and issuer ratings for Valor Telecommunications Southwest, LLC, and plans to withdraw the ratings for Valor's existing debt when it is refinanced with proceeds from the newly proposed transaction debt, both as outlined below.

Valor Telecommunications Enterprises, LLC:

Senior Secured Bank Credit Facility - Ba3 (to be withdrawn)

Valor Telecommunications Southwest, LLC:

Senior Implied Rating - WR (formerly B1)

Issuer Rating -- WR (formerly B2)

The effective downgrade reflects the company's change in financial strategy rather than changes in industry dynamics, the company's strategic focus or competitive position. The ratings continue to be constrained by the slow growth inherent in the RLEC industry. Moody's also believes that growth opportunities are more likely to come from acquisitions, rather than future cost savings, and recognizes that the financial covenants in the Valor senior loan agreements may restrain the company's ability to fund future acquisitions. Relatively low perceived business risk and efficient execution continue to support the ratings. Valor's margins are consistently in the top of its peer group. Valor faces modest access line loss, limited threats from wireless and technology substitution, and cable competition in only its largest markets (currently). The ratings also incorporate Valor's leading position in its incumbent markets, proven ability to generate stable and predictable revenue, and its improving capacity to drive operating cash flow. For a more detailed discussion of these key rating drivers, please see Moody's press release for Valor Communication Group, LLC dated June 1, 2004.

Valor's ratings may come under pressure if cable competition ultimately puts forth a stronger than expected VoIP launch in Valor's key markets. Similarly, a potential adverse regulatory ruling that results in a meaningful compression of Valor's margins and hence profitability could strain the ratings. Moody's believes that Valor's liquidity is sufficient to meet its near term liquidity. Valor's long-term ratings will be negatively impacted if the company adopts an aggressive acquisition strategy that notably reduces its liquidity. The Valor ratings may improve if the company can reduce it debt relative to access lines to a level that brings it more in line with its peers, while maintaining stable margins.

Moody's does not notch the senior secured bank loan above Valor's B2 senior implied rating. The senior secured credit facility benefits from a 1st priority claim on substantially all assets, and a senior secured 1st priority guarantee from the parent company and intermediate holding companies. The senior 1st priority secured debt accounts for more than 80% of the firm's capitalization. Therefore, Moody's believes that the risk profile of this debt is not substantially different from that of the firm as a whole. The 2nd lien loan is one notch below the senior implied rating. The 2nd lien loan benefits from a subordinate claim on the same asset as the 1st priority facility, and a 2nd priority guarantee from the parent company. Finally, the subordinate loan is two notches below the senior implied rating. Notably, the subordinate loan ranks pari passu with other senior obligations of the corporate entity, excluding permitted indebtedness as defined by the senior credit facilities, and is senior to other contractually subordinated obligations.

Valor, headquartered in Irving, Texas, is a rural local exchange carrier that provides telecommunications services in four states in the South Western U.S.

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STANDARD & POOR'S | RATINGSDIRECT

RESEARCH

Research Update: Valor Communications Group Inc. Assigned 'BB-' Corporate Credit Rating; Other Ratings Assigned

Publication date: 19-Jan-2005
Primary Credit Analyst: Rosemarie Kalinowski, New York (1) 212-438-7841; rosemarie_kalinowski@standardandpoors.com

Credit Rating: BB-/Negative/--

Rationale

On Jan. 19, 2005, Standard & Poor's Ratings Services assigned its 'BB-' corporate credit rating to Valor Communications Group Inc. (Valor), which will become the new parent company of Valor Telecommunications LLC upon the successful completion its initial public offering. The outlook is negative.

Simultaneously, Standard & Poor's assigned its 'BB-' rating to Valor Telecommunications Enterprises LLC's (VTE) proposed $965 million senior secured bank facility. A recovery rating of '3' also was assigned to the bank loan, indicating the expectation for a meaningful recovery of principal (50%-80%) in the event of a default or bankruptcy. VTE is an indirect subsidiary of Valor. Closing of the IPO is contingent upon completion of the new credit facility.

In addition, Standard & Poor's assigned its 'B' rating to the $280 million senior unsecured notes due 2015, to be issued under Rule 144A with registration rights by VTE and Valor Telecommunications Enterprises Finance Corp. (co-issuers). The IPO is not contingent upon the issuance of these notes.

Cash proceeds of about $500 million from the IPO will be used to pay down the company's second-lien loan and senior subordinated loan. Proceeds from the new bank facility and senior unsecured notes will be used to repay the existing term loan. Ratings on the existing second-lien loan, senior subordinated loan, and senior secured term loan will be withdrawn upon completion of the proposed transactions. In addition, the corporate credit rating on Valor Telecommunications Enterprises LLC and Valor Telecommunications Enterprises LLC II will be withdrawn due to the guarantees provided by the new parent company of these subsidiaries' debt. If the proposed transactions are not completed, existing ratings will remain at their current levels; therefore, these ratings were removed from CreditWatch.

The new ratings reflect the deleveraging impact of the proposed IPO. However, the negative outlook assigned to Valor addresses the potential longer-term impact of cable telephony on the company's competitive position. Pro forma for the transactions, total debt outstanding was about $1.2 billion as of Sept. 30, 2004. Valor plans to pay a significant annual dividend of about 75% of free cash flow.

The equity-financed debt repayment significantly reduces the company's leverage to roughly 4.1x debt to EBITDA, from about 5.3x, based on annualized results for the nine months ended Sept. 30, 2004. Reduced debt and a lower capital cost of bank debt improve interest coverage to the 3.5x area from 2.4x. The refinancing also modestly improves the maturity profile. However, Standard & Poor's views the company's high percentage dividend (8.5%) common stock as having some debt-like characteristics akin to preferred stock. The ratings also remain constrained by the reduction in discretionary cash flow resulting from the dividend payout.

Valor is a rural local exchange carrier (RLEC) providing local, long-distance, Internet, and data services to about 548,000 access lines within the states of Oklahoma, Texas, New Mexico, and Arkansas. Approximately 75% of its total access lines are for residential customers. The company's business risk profile is characterized by its dominant market share in the rural areas it serves, the relatively stable cash flows of its historically well-protected telephone operations, growth potential from data services, and healthy EBITDA margins. These factors are tempered by Valor's aggressive shareholder-oriented financial policy with a commitment to a substantial dividend, low-growth revenue trends because of mature industry conditions, and the potential for rising competition from cable TV companies longer term.

Although access lines declined by about 2% year over year for the

nine months ended Sept. 30, 2004, and are expected to decline about 2.0%-2.5% annually in the near term, primarily due to the economy and replacement of second lines with digital subscriber lines (DSL), the company maintains a dominant market position in its service territory. Furthermore, the replacement of second lines by DSL results in higher incremental revenue, and potential growth in this product should help mitigate access line loss. The bundling of local, long-distance, Internet, and data services has also tempered the loss of access lines and increased average monthly revenue per access line to the mid $70 area. The rural nature of Valor's service territory (only 11 homes per square mile) limits competition and helps sustain a healthy EBITDA margin, in the mid 50% area. Only 4% of Valor's revenue is derived from federal Universal Service Fund (USF) funding, the future status of which is uncertain. The remainder of the USF funding (which represents 20% of total revenue) is derived from the state of Texas, which has been very supportive of RLECs to date.

Since the majority of network upgrades have been completed, capital expenditures are not expected to be significant in the near term, remaining in the low teens as a percentage of revenue. The company's cash flow generation should be sufficient to support these expenditures. Pro forma debt to EBITDA as of Sept. 30, 2004 is expected to be about 4.1x, and to remain in the 4.0x area in the near term.

Liquidity.

Given its relatively stable cash flows, room under the amended bank covenants, and no major debt maturities until 2012, Valor has an adequate liquidity position for the near term. Pro forma for the transaction, liquidity consists of about $18 million in cash and $100 million available under the revolver. Cash available for debt reduction will likely be modest because of the substantial dividend. The board of directors' discretion to curtail dividends could provide additional liquidity, but Standard & Poor's does not expect the company to use this flexibility unless it is under financial stress. If debt leverage exceeds 5.0x, the dividend must be suspended according to the terms of the credit facility.

Recovery analysis.

Valor Telecommunications Enterprises LLC's $965 million senior secured credit facility is rated 'BB-', the same as the corporate credit rating. The recovery rating on the loan is '3', denoting the expectation for a meaningful recovery of principal (50%-80%) in the event of a default or bankruptcy. The facility comprises an $865 million term loan B, which matures in 2012 and a $100 million revolver, which matures in 2011. There is no amortization of the term loan. The credit agreement includes financial covenants and limitations of dividends that should give lenders negotiating strength in resolving credit weakness before substantial asset value deterioration can occur.

The facility is guaranteed by the Valor Communications Group Inc. (the ultimate parent) and each domestic subsidiary, including cross guarantees. The loan is secured by a first-priority perfected lien in the capital stock of each subsidiary, the intercompany debt of each subsidiary, and all assets of each subsidiary (except for Valor's assets in Arkansas, which represent only 3% of access lines, and minority ownership in two small wireless partnerships near Kerrville, Texas).

Standard & Poor's simulated default scenario contemplates an acceleration of access line losses greater than the historical 2%-3% rate and declining revenue per line because of increasing competition from cable telephony, together with economic weakness. Poor operating performance triggers covenant violations, which result in higher cost of capital; market interest rates are assumed to rise 3%. Valor is assumed to have ceased its dividend well before the time of default.

A payment default is assumed to coincide with depletion of the revolving credit, which the company will have fully drawn to meet operating cash flow shortfalls. At the time of default, the access line base is estimated to be about 463,000, or 15% below the Sept. 30, 2004 level, and EBITDA is assumed to have fallen to about $145 million. The business would likely be sold as a going concern to another carrier or financial buyer. Based on a distressed 4x EBITDA multiple, applied by Standard & Poor's to other rural local exchange carriers, the enterprise value would result in a recovery of principal in the 50%-60% range.

Outlook

The outlook is negative. Although voice telephony from cable operators is currently not a challenge, it is expected to be a potential threat longer term. This could result in pricing pressure and subsequent weakening in cash flow margins.

Ratings List

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Valor Communications Group Inc.
  Corporate credit rating            BB-/Negative/--

Valor Telecommunications Enterprises LLC
  $965 mil secd bank loan            BB-  (Recov rtg: 3)
  $280 mil sr unsecd nts due 2015*   B

*Co-issued by Valor Telecommunications Enterprises Finance Corp.
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Moody's Investors Service

Global Credit Research
Rating Action
9 DEC 2005

Rating Action: Valor Telecommunications Enterprise, LLC

MOODY'S AFFIRMS VALOR'S RATINGS, CHANGES OUTLOOK TO POSITIVE FROM STABLE FOLLOWING ITS ANNOUNCED MERGER WITH ALLTEL'S WIRELINE OPERATIONS

Approximately $1.2 billion of rated debt affected.

New York, December 09, 2005 -- Moody's Investors Services has affirmed the ratings of Valor Telecommunications Enterprises, LLC (Valor) and changed the outlook of all ratings from stable to positive following the December 9, 2005 announcement of its merger with Alltel Corp.'s (Alltel) wireline operations in a reverse Morris Trust transaction.

The following ratings have been affirmed:

Valor Telecommunications Enterprises, LLC:

Corporate Family Rating - Ba3

Senior Secured Term Loan - Ba3

Senior Secured Revolver - Ba3

Senior Unsecured 7.75% notes due in 2015 - B1 (Valc
Co-Issuer)

Moody's has changed the outlook to positive from stable

As part of this rating action, Moody's will withdraw Valor's

The positive outlook on Valor's debt ratings is based on Mo
deleveraging transaction for Valor; Moody's expects Valor to
combining with a significantly larger company that will have a

Moody's believes the wireline operations will remain highly leve
management, continuing access line losses, balanced by the pr
relatively lower capital needs. At the same time, we expect its bu
rapidly expanding competition. The ratings also recognize the co
challenges associated with integrating the assets of Valor and Allt ... pendent
operating systems.

Valor, headquartered in Irving, Texas, is a rural local exchange carrier that provides telecommunications services in four states in the South Western U.S. With approximately 525,000 access lines, Valor generates approximately $500 million in revenue annually.

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STANDARD &POOR'S | RATINGSDIRECT

RESEARCH

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

Publication date: 09-Dec-2005
Primary Credit Analyst: Susan Madison, New York (1) 212-438-4516; susan_madison@standardandpoors.com

Credit Rating: BB-/Watch Pos/--

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.

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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.

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Rating Action: Valor Communications Group, Inc. (New)

MOODY'S AFFIRMS VALOR'S RATINGS, CHANGES OUTLOOK TO POSITIVE FROM STABLE FOLLOWING ITS ANNOUNCED MERGER WITH ALLTEL'S WIRELINE OPERATIONS

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Valor Telecommunications Enterprises, LLC:

Corporate Family Rating - Ba3

Senior Secured Term Loan - Ba3

Senior Secured Revolver - Ba3

Senior Unsecured 7.75% notes due in 2015 - B1 (Valor Telecommunications Enterprises Finance Corp. as Co-Issuer)

Moody's has changed the outlook to positive from stable.

As part of this rating action, Moody's will withdraw Valor's B2 issuer rating.

The positive outlook on Valor's debt ratings is based on Moody's belief that this merger will be a somewhat deleveraging transaction for Valor; Moody's expects Valor to realize, over time, operational synergies by combining with a significantly larger company that will have a lower relative debt level.

Moody's believes the wireline operations will remain highly leveraged given prior guidance by Alltel's management, continuing access line losses, balanced by the predictability of cash flow generation and relatively lower capital needs. At the same time, we expect its business to grow slowly, if at all, as it is facing rapidly expanding competition. The ratings also recognize the company's plans to address operational challenges associated with integrating the assets of Valor and Alltel and the development of independent operating systems.

Valor, headquartered in Irving, Texas, is a rural local exchange carrier that provides telecommunications services in four states in the South Western U.S. With approximately 525,000 access lines, Valor generates approximately $500 million in revenue annually.

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Moody's Investors Service

Global Credit Research
Rating Action
8 OCT 2004

Rating Action: *Valor Telecommunications, LLC*

MOODY'S DOWNGRADES VALOR'S SR IMPLIED RATING TO B2 AND ASSIGNS NEW RATINGS FOR PROPOSED DEBT OFFERINGS

Approximately $1.7 billion in rated debt affected

New York, October 08, 2004 -- Moody's Investors Service assigned new ratings for Valor Telecommunications Enterprises, LLC ("Valor") and Valor Telecommunications Enterprises II, LLC ("Valor II"), in accordance with the company's proposed recapitalization. The company's senior implied rating was lowered to B2, from B1, proforma for the assumed successful completion of this planned recapitalization. Moody's also withdrew the former provisional ratings associated with the company's previously proposed income deposit securities (IDS) offering, which was never completed.

The effective downgrade of Valor's senior implied rating to B2 from B1 predominantly reflects the increased leverage associated with the proposed recapitalization. Although Moody's views the business risk of rural local exchange carriers (RLECs) like Valor to be relatively benign, the company's weak balance sheet reflected by high debt relative to total access lines and cash flow constrains the long-term ratings. Moody's expects that the company's lack of financial flexibility may ultimately limit its ability to pursue new growth initiatives and weaken its long-term competitiveness, particularly vis-a-vis emerging VoIP service offerings.

The outlook for all ratings, which is contingent on the successful completion of the proposed
stable. The stable outlook reflects Moody's belief that despite increased competition a
lines Valor will continue to generate stable positive free cash flow. Since the se
75% cash sweep, the company's leverage, and hence financial risk, sho
potential competitive pressure.

Moody's has taken the following rating actions:

Ratings associated with the proposed recapitalization.

Valor Telecommunications Enterprises, LLC and Valor T

Co-Borrowers under the facilities

Senior Implied -- B2

Issuer rating -- Caa1

$1400 million Senior Secured Credit Facility -- B2

$205 million Second Lien Loan -- B3

$135 million Subordinate Loan -- Caa1

Rating Outlook -- Stable

The following ratings associated with the formerly announced IDS transaction have been withdrawn:

Valor Telecommunications, LLC:

$890 million senior secured bank credit facility -- WR (formerly (P)B2)

Valor Communications Group, Inc.:

Senior Implied Rating -- WR (formerly (P)B2)

Issuer Rating -- WR (formerly (P)B3)

Moody's also withdrew the former senior implied and issuer ratings for Valor Telecommunications Southwest, LLC, and plans to withdraw the ratings for Valor's existing debt when it is refinanced with proceeds from the newly proposed transaction debt, both as outlined below.

Valor Telecommunications Enterprises, LLC:

Senior Secured Bank Credit Facility - Ba3 (to be withdrawn)

Valor Telecommunications Southwest, LLC:

Senior Implied Rating - WR (formerly B1)

Issuer Rating -- WR (formerly B2)

The effective downgrade reflects the company's change in financial strategy rather than changes in industry dynamics, the company's strategic focus or competitive position. The ratings continue to be constrained by the slow growth inherent in the RLEC industry. Moody's also believes that growth opportunities are more likely to come from acquisitions, rather than future cost savings, and recognizes that the financial covenants in the Valor senior loan agreements may restrain the company's ability to fund future acquisitions. Relatively low perceived business risk and efficient execution continue to support the ratings. Valor's margins are consistently in the top of its peer group. Valor faces modest access line loss, limited threats from wireless and technology substitution, and cable competition in only its largest markets (currently). The ratings also incorporate Valor's leading position in its incumbent markets, proven ability to generate stable and predictable revenue, and its improving capacity to drive operating cash flow. For a more detailed discussion of these key rating drivers, please see Moody's press release for Valor Communication Group, LLC dated June 1, 2004.

Valor's ratings may come under pressure if cable competition ultimately puts forth a stronger than expected VoIP launch in Valor's key markets. Similarly, a potential adverse regulatory ruling that results in a meaningful compression of Valor's margins and hence profitability could strain the ratings. Moody's believes that Valor's liquidity is sufficient to meet its near term liquidity. Valor's long-term ratings will be negatively impacted if the company adopts an aggressive acquisition strategy that notably reduces its liquidity. The Valor ratings may improve if the company can reduce it debt relative to access lines to a level that brings it more in line with its peers, while maintaining stable margins.

Moody's does not notch the senior secured bank loan above Valor's B2 senior implied rating. The senior secured credit facility benefits from a 1st priority claim on substantially all assets, and a senior secured 1st priority guarantee from the parent company and intermediate holding companies. The senior 1st priority secured debt accounts for more than 80% of the firm's capitalization. Therefore, Moody's believes that the risk profile of this debt is not substantially different from that of the firm as a whole. The 2nd lien loan is one notch below the senior implied rating. The 2nd lien loan benefits from a subordinate claim on the same asset as the 1st priority facility, and a 2nd priority guarantee from the parent company. Finally, the subordinate loan is two notches below the senior implied rating. Notably, the subordinate loan ranks pari passu with other senior obligations of the corporate entity, excluding permitted indebtedness as defined by the senior credit facilities, and is senior to other contractually subordinated obligations.

Valor, headquartered in Irving, Texas, is a rural local exchange carrier that provides telecommunications services in four states in the South Western U.S.

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Moody's Investors Service

Global Credit Research
Rating Action
1 JUN 2004

Rating Action: Valor Telecommunications, LLC

CORRECTION TO HEADLINE & TEXT: MOODY'S ASSIGNS (P)B2 TO VALOR'S PROPOSED SR. SEC.CREDIT FACILITY AND (P)B2 SR. IMPLIED RATING, AND AFFIRMS A NEGATIVE OUTLOOK FOR ALL RATINGS ((P) ADDED TO PROP RTGS AND CORRECTED ISSR RTG B2 ON VALOR TELECOM. SW)

Approximately $890 million in rated debt affected.

New York, June 01, 2004 -- Moody's Investors Service assigns a (P)B2 to Valor Telecommunications, LLC's proposed senior secured bank credit facility. The new facility is part of a proposed recapitalization, which will include the issuance of Income Deposit Securities (IDS), a combined senior subordinate debt and common stock offering. The IDS will be issued at Valor Communications Group, Inc. (Valor), a newly formed holding company. Moody's also assigns a (P)B2 senior implied rating to Valor. At the conclusion of Valor's IDS transaction, Moody's will withdraw the existing Ba3 senior secured rating for Valor Telecommunications Enterprises, LLC and B1 senior implied rating for Valor Telecommunications Southwest, LLC. The outlook for all ratings is negative.

Moody's has assigned a lower senior implied rating to Valor because the rating agency believes the IDS structure increases the company's financial risk. Moody's believes that the anticipated quarterly distribution of capital to shareholders in the form of dividends will shift fundamental financial risk from equity holders to debt holders, as the company uses cash that would have been available for potential debt amortization or growth initiatives. Moody's believes that Valor's relatively strong operations should provide a reasonable basis for meeting its interest obligations and likely dividend payments. The favorable regulatory environment in which Valor operates and its low inherent business risk support the ratings on the proposed transaction. High leverage, however, which is not reduced in the recapitalization, constrains the ratings.

As part of the recapitalization, Moody's will take the following ratings actions:

Valor Telecommunications, LLC:

Proposed $890 million senior secured bank credit facility -- (P)B2 -- assigned

Valor Communications Group, Inc.:

Senior Implied Rating -- (P)B2 -- assigned

Issuer Rating -- (P)B3 -- assigned

Valor Telecommunications Enterprises, LLC:

Ba3 Senior Secured Bank Credit Facility - (To be withdrawn)

Valor Telecommunications Southwest, LLC:

B1 Senior Implied Rating - (to be withdrawn)

B2 Issuer Rating -- (to be withdrawn)

The rating outlook remains negative.

Moody's believes that Valor's issuance of IDS significantly increases the company's financial risk because of an increased willingness to pay dividends and heightened refinancing risk. By issuing IDS, Valor is making an implicit economic commitment to pay a substantial percentage of free cash flow as dividends. Moody's notes that chronically low cash balances may increase the company's reliance on its revolving credit facility to fund any operational shortfalls, to the extent that financial covenants allow. While the non-amortizing nature of the proposed transaction effectively eliminates the company's near term maturities, it ultimately increases the company's refinancing risk. The proposed transaction will benefit Valor by diversifying its investor base through public equity market access and by recapturing tax shields that had been passed on to its investing partners. Moody's believes, however, that the company's long-term financial strength will

deteriorate if it fails to reinvest adequately.

The negative outlook reflects Moody's belief that the sustained dividends that drain the company's free cash flow may ultimately weaken its long-term competitiveness. The company will need to rely more heavily on increased future earnings to fund operational shortfalls or unforeseen credit shocks than it would have had it accumulated cash reserves or created debt capacity through amortization.

The ratings are also constrained by the company's high leverage and the slow growth inherent in the RLEC industry. During the past three years, Valor has improved its operational efficiency by upgrading its network, refocusing its sale force, and reducing costs. Moody's acknowledges the company's success, which is reflected in profitability margins that are consistently in the top of its peer group. Moody's believes that the marginal value for future cost savings will diminish, however, as Valor continues to reduce operating inefficiencies. Moody's believes that growth opportunities are more likely to come from acquisitions, rather than future cost savings. Because the company plans to pay out substantially all of its free cash flow as dividends, any future acquisition strategy will likely increase leverage. Moody's also recognizes that EBITDA based financial covenants may restrain the company's ability to fund this strategy.

Low business risk supports the ratings. Valor faces modest access line loss, limited threats from wireless and technology substitution, and cable competition in only its largest markets. With only an average of 11 homes per square mile, Valor's core services area lacks sufficient customer concentration to attract strong competition. In many of its markets, Valor is the only provider of local, long distance, and high-speed-data services, an advantage over potential competition in defending its market share. The rating incorporates Valor's leading position in its incumbent markets, proven ability to generate stable and predictable revenue, and its improving capacity to drive operating cash flow.

Valor's stable operations are in part a function of a favorable state and federal regulatory environment. Texas Universal Service Fund (TUSF) revenues accounted for 21% of Valor's revenue mix in 2003, so the company's exposure to the Texas Public Utilities Commission is substantial. While Moody's believes that universal service will remain a political priority for rural legislators, the regulation is continually changing to address advancements in technology and to promote competition where it is feasible to do so.

Moody's ratings assume that the proposed capital structure will include a senior secured back credit facility consisting of a $790 non-amortizing term loan and a $100 million revolving credit facility. The bank facility, like Valor's existing facility, has multiple borrowers. The senior secured lenders benefit from the first lien on the firm's assets in a distressed scenario, as well as the ability to require the deferral of both dividends and subordinate notes' interest in the company's financial covenants. The facility also benefits from parent and operating subsidiaries guarantees on a senior secured basis (where state regulation allows). The senior secured debt accounts for more than 50% of the firm's capitalization. Therefore, Moody's believes that the risk profile of this debt is not substantially different from that of the firm as a whole. As a result, Moody's does not notch the senior secured bank loan above Valor's B2 senior implied rating.

Valor, headquartered in Irving, Texas, is a Rural Local Exchange Carrier that provides telecommunications services in four states in the southwestern U.S.

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STANDARD &POOR'S | RATINGSDIRECT

RESEARCH

Research Update: Valor Telecommunications LLC

Publication date: 04-Jun-2004
Credit Analyst: Rosemarie Kalinowski, New York (1) 212-438-7841

Credit Rating: B+/Negative/--

Rationale

On June 4, 2004, Standard & Poor's Ratings Services affirmed its 'B+' corporate credit rating on Valor Telecommunications LLC and removed it from CreditWatch, where it was placed with negative implications May 18, 2004. The outlook is negative. The previous CreditWatch placement followed the S-1 filing by Valor Communications Group (parent of Valor Telecommunications LLC) for $875 million of income deposit securities (IDSs), due to concerns about the impact of the related high dividend payout rate on the company's cash flow. The rating affirmation reflects the determination that the incremental weakening in the company's free cash flow available for debt repayment is not significant enough to warrant a downgrade. However, the negative outlook incorporates the potential pressure to maintain the high dividend payout rate and its impact on the company's financial flexibility to withstand unforeseen regulatory or competitive challenges.

Simultaneously, Standard & Poor's assigned its 'B+' bank loan rating and its recovery rating of '2' to Valor Telecommunications LLC's $890 million secured credit facility.

In addition, Standard & Poor's assigned its 'CCC+' rating to newly formed public entity Valor Communications Group Inc.'s senior subordinated notes due 2019, to be issued under its proposed $875 million of IDSs. This IDS filing also includes Class A common equity. A 'B+' corporate credit rating was also assigned to Valor Communications Group. The outlook is negative. Although the specific mix of debt and equity to be issued under the IDS has yet to be determined, the final amount of senior subordinated notes is not expected to affect Valor Communications Group's corporate credit rating or the rating on the senior subordinated notes. The rating on the notes is three notches below the corporate credit rating. This reflects the substantial amount of priority obligations, mainly bank debt, relative to the estimated value of the assets and the deferral of interest at the discretion of the board.

The rating on subsidiary Valor Telecommunications Enterprises LLC's bank loan (which was not previously on CreditWatch) will be withdrawn upon the completion of Valor Telecommunications LLC's recapitalization, as the company's debt will be retired.

Proceeds from the public IDS offering and the new bank facility, along with those from an IDS offering for existing shareholders, will be used to refinance existing debt as part of Valor Telecommunications LLC's recapitalization and provide a cash distribution to existing shareholders. Pro forma for these transactions, as of March 31, 2004, total debt outstanding is about $1.4 billion, unchanged from the current level. For analytical purposes, Standard & Poor's consolidates the operations of Valor Communications Group and Valor Telecommunications LLC (collectively referred to as Valor Telecom).

Valor Telecom is a rural local exchange company (LEC) providing local, long distance, Internet, and data services to more than 550,000 access lines within the states of Oklahoma, Texas, New Mexico and Arkansas. Approximately 75% of its total access lines are residential customers.

The ratings on Valor Telecom reflect its relatively high debt leverage, reduced financial flexibility following the IDS issuance due to the dividend obligation, and some exposure from the high percentage of revenue derived from universal service funding. This is mitigated somewhat by the company's dominant market share in the rural areas it serves, the relatively stable cash flows of its telephone operations, and limited competition within its rural service area. As a result of the IDS issuance, debt to EBITDA is expected to remain in the 5x area over the next few years, higher than previously expected by Standard & Poor's. This is attributable to the lower amount of free cash flow as a result of the dividend associated with the common stock portion of the IDS offering. Universal service funding (USF) represents about 24% of total revenue. Some uncertainty exists as to the future status of the federal portion of USF, which represents only 3% of the company's total revenue. The remainder of the company's USF revenue is derived from the state of Texas which has been very supportive of rural LECs to date.

Although access lines declined by about 2.6% in 2003, primarily due to the economy and replacement of second lines with digital subscriber lines (DSL), the company maintains a dominant market position in its service territory. Furthermore, the replacement of second lines by DSL results in higher incremental revenue. The bundling of local, long distance, Internet, and data services has mitigated the loss of access lines and increased average monthly revenue per access line to the high $70 area. In the first quarter of 2004, access lines started to exhibit some growth due to the improving economy and the aggressive marketing of bundled services. The rural nature of Valor's service territory (only 11 homes per square mile) limits competition and helps sustain a healthy EBITDA margin, in the 50% area. Since the majority of network upgrades have been completed, capital expenditures are not expected to be significant in the near term, remaining in the low teens as a percentage of revenue. Pro forma for the IDS offering, EBITDA coverage of interest is 2.3x, while EBITDA coverage of interest and dividends is a low 1.4x.

Recovery analysis.

The bank loan rating on Valor Telecommunications LLC's $890 million secured credit facility due 2009 is at the same level as the corporate credit rating. The recovery rating on the loan is '2', denoting the expectation for a substantial recovery of principal (80%-100%) in the event of a default. The facility is secured by a first-priority perfected lien in the capital stock of each Valor Communications Group subsidiary, the intercompany debt of each subsidiary, and all assets of each subsidiary, except for the Texas subsidiary (which represents about 5% of total assets) due to Texas Public Utility Commission restrictions. The obligations of each borrower under the facility is guaranteed by Valor Communications Group and each of its subsidiaries, including each other borrower. Due to Texas Public Utility Commission restrictions, the Texas subsidiary cannot cross-guarantee the obligations for the other borrowers.

A hypothetical default situation could occur if Valor Telecommunications LLC's cash flows were adversely affected by intense competition and the company was unable to refinance the bank debt when it matures in 2009. However, Standard & Poor's estimates that even in this default situation, the company would be able to reorganize (as reflected in the '2' recovery rating) due to its market position and the discrete value of assets used as collateral in the credit facility's security package. The credit facility has the standard covenant package.

Liquidity.

Given its relatively stable cash flows and headroom under the bank covenants, Valor has an adequate liquidity position for the near term, until 2009 when refinancing of the bank facility will be required. Pro forma for the IDS offering, liquidity consists of $5 million in cash and $100 million available under the $890 million secured credit facility, which matures in 2009. However, given the anticipated high dividend payout associated with the IDS, any significant changes in the competitive or regulatory environment could adversely impact liquidity.

Outlook

The outlook is negative. In light of the high initial dividend rate associated with the IDS offering and the potential pressure to maintain this payout level, free cash flow is not expected to be significant in the first few years. Therefore, the IDS structure could limit the company's ability to weather unforeseen regulatory or competitive challenges. These events could adversely affect the company's credit quality and result in a ratings downgrade.

Ratings List

Ratings Assigned

Valor Telecommunications LLC	
$890 million secured bank facility due 2009	B+
Valor Communications Group Inc.	
Corporate credit rating	B+/Negative/--
Senior subordinated notes due 2019	CCC+

Ratings Affirmed and Removed from CreditWatch

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Valor Telecommunications LLC
  Corporate credit rating                      B+/Negative/--
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RESEARCH

Research Update: Valor Telecommunications LLC

Publication date: 18-May-2004
Credit Analyst: Rosemarie Kalinowski, New York (1) 212-438-7841

Credit Rating: B+/Watch Neg/--

Rationale

On May 18, 2004, Standard & Poor's Ratings Services placed its 'B+' corporate credit rating on Irving, Texas-based Valor Telecommunications LLC (Valor Telecom) on CreditWatch with negative implications. The ratings for subsidiary Valor Telecommunications Enterprises LLC are not placed on CreditWatch because all of its rated debt will be retired should Valor Telecom complete its proposed recapitalization.

The CreditWatch placement follows Valor Telecom's recent S-1 filing to register income deposit securities (IDSs), which comprise class A common stock and senior subordinated notes due in 2014. The company is also expected to put in place a new senior secured credit facility, issue class B common stock, and issue additional senior subordinated notes that are separate from the IDSs. Proceeds from all of the above are expected to refinance essentially all existing bank debt and privately held subordinated debt.

Standard & Poor's believes that the IDS structure indicates a more aggressive financial policy for Valor Telecom. Although the amount of the consolidated company's debt outstanding is expected to be relatively unchanged after the IDS offering, Valor Telecom's financial flexibility could be meaningfully reduced by the anticipated high dividend payout rate. Even though the common dividend may be reduced or suspended at the company's discretion, there is potential pressure to maintain the initially established level since the IDSs are marketed as providing a specific yield. As a result, the IDS structure could limit Valor's ability to weather unforeseen regulatory, competitive, or acquisition-related challenges in the longer term.

The CreditWatch listing will be resolved upon review of the details of the IDSs, the new bank credit facility, and Valor Telecom's new business plan. Factors that Standard & Poor's will consider in the CreditWatch resolution include free cash flow prospects after adjusting for the dividend and the terms of the new bank agreement.

Valor Telecom is the incumbent telecommunications service provider to more than 550,000 access lines in rural Texas, New Mexico, Oklahoma, and Arkansas. Services offered include local voice, long distance, and digital subscriber line (DSL). Markets served are extremely rural, with an average of about 11 access lines per square mile, and have median incomes below the national average. The company launched operations in June 2000 by acquiring about 560,000 access lines from GTE Corp. in the states of Oklahoma, Texas, and New Mexico for about $1.7 billion.

Ratings List

Valor Telecommunications LLC	
Corporate credit rating	B+/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 Ratings, then Credit Ratings Search.

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RESEARCH

Valor Telecommunications LLC

Publication date: 06-Nov-2003
Credit Analyst: Rosemarie Kalinowski, New York (1) 212-438-7841

ISSUER CREDIT RATINGS

Valor Telecommunications LLC	
Corporate Credit Rating	B+/Stable/--
Valor Telecommunications Enterprises LLC	
Corporate Credit Rating	B+/Stable/--

Business profile:
Below average
Financial policy:
Aggressive
Bank lines/Liquid assets:
As of June 30, 2003, Valor had $962,000 of cash and $190 million available under its $1.3 billion secured bank facility. The facility consists of a $300 million revolver that matures in 2007 and a series of term loans that mature between 2007 and 2009. The credit facility is secured by all assets of the company and the equity interests in its subsidiaries. The facility contains a senior debt leverage ratio that must be less than 5.75x through 2003 and drops to 5.00x in 2004. It also contains an interest coverage ratio that must be greater than 1.50x through 2004.
Corporate credit rating history:

July 14, 2000	B+

Major Rating Factors

Strengths:
- Stable cash flows from local properties
- Limited competition
- Favorable regulation

Weaknesses:
- High debt leverage
- Declining voice access lines
- The longer-term impact of wireless substitution is unknown

Rationale

The ratings on privately held Valor Telecommunications LLC reflect the company's high debt leverage and longer-term challenge to access line growth from wireless substitution. These factors are partially mitigated by the strong cash flows from its rural local telephone markets, as well as increased demand for digital subscriber line (DSL) services. As of June 30, 2003, total debt outstanding was about $1.4 billion.

The Irving, Texas-based company launched operations in June 2000 by acquiring about 560,000 access lines from GTE Corp. in the states of Oklahoma, Texas, and New Mexico for about $1.7 billion. Financing for this transaction was accomplished via the company's $1.34 billion senior secured credit facility and about $650 million in commitments made by its equity sponsors.

Although access lines declined about 3% year over year for second-quarter 2003, due primarily to wireless substitution and replacement of second lines by DSL, Valor still maintains a dominant position in the fairly protected rural markets it serves. To mitigate line loss, the company has been aggressively marketing bundled service offerings, including high-speed data, and increasing penetration of vertical services. Furthermore, the replacement of second lines by DSL results in higher incremental revenues.

Cash flow margins have been very good, in the 50% area, due to the company's strong incumbent local exchange carrier (ILEC) revenue base, favorable regulation, and cost controls. As a result of the slowdown in telecom demand, management closed down the company's nascent competitive local exchange carrier (CLEC) operations in January 2002, and turned its focus to increasing revenue growth at the ILEC operations.

In second-quarter 2003, total annualized debt to EBITDA, although fairly high, declined to about 5.7x, compared with about 7.2x for second-quarter 2002. Senior debt to EBITDA, which is a covenant under the bank facility, declined to 4.5x from 5.4x and continued to meet the specified covenant benchmark. EBITDA to total interest expense improved moderately, to 1.9x from the 1.5x area in second-quarter 2002, because of a year-over-year increase in EBITDA of more than 20%.

Liquidity.

Valor has adequate liquidity, with about $190 million available under the $1.3 billion secured bank facility, as well as the stable cash flows from the ILEC access lines. In addition, the company generated free cash flow of about $54

million for the first six months of 2003. Free cash flow totaled about $55 million for fiscal 2002.

The bank facility is secured by all the assets of the company and the equity interests in its subsidiaries. The facility consists of a $300 million revolver that matures in 2007 and a series of term loans that mature between 2007 and 2009. The facility contains senior leverage and interest coverage ratio covenants, in addition to material adverse change language. Valor was in compliance with the covenants in second-quarter 2003.

The senior subordinated debt does not pay cash interest until the company's pro forma fixed-charge coverage is equal to or greater than one to one. It is anticipated that this could occur in late 2003, requiring an annual increase of about $30 million in cash interest expense and simultaneously decreasing free cash flow. Accretion on the subordinated debt will end when the notes go cash pay. With an improvement in EBITDA and a decline in capital expenditures, the company should be able to meet increasing debt maturities through 2006, taking into account the approximate $30 million increase in cash interest expense.

Outlook

While some line loss to wireless substitution is expected, the threat of intense competition from a major CLEC is mitigated by the rural characteristics of the company's service territory. Barring any acquisitions, internally generated funds are anticipated to support capital expenditures and debt service through at least 2006.

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RESEARCH

Research Update: Valor Telecommunications LLC

Publication date: 18-Oct-2004
Primary Credit Analyst: Rosemarie Kalinowski, New York (1) 212-438-7841; rosemarie_kalinowski@standardandpoors.com

Credit Rating: B+/Negative/--

Rationale

On Oct. 18, 2004, Standard & Poor's Ratings Services assigned its 'B+' bank loan rating to the $1.4 billion senior secured bank loan facility of Valor Telecommunications Enterprises LLC and Valor Telecommunications Enterprises II LLC (co-borrowers). In addition, a recovery rating of '4' was assigned to the loan, indicating the expectation for a marginal (25%-50%) recovery of principal in the event of a default.

A 'B-' bank loan rating was assigned to the $205 million second-lien loan of the co-borrowers. This loan was assigned a recovery rating of '5', indicating the expectation of a negligible recovery of principal (0%-25%) in the event of a default. A 'B-' rating was also assigned to the co-borrowers' $135 million subordinated unsecured loan facility. The co-borrowers are intermediate holding companies of Valor Telecommunications LLC. The newly assigned ratings are based on preliminary documentation.

The 'B+' corporate credit rating on Valor Telecommunications LLC and Valor Telecommunications Enterprises LLC was affirmed, and a 'B+' corporate credit rating was assigned to Valor Telecommunications Enterprises II LLC. The outlook is negative.

Proceeds of the transactions will be used to refinance existing debt, pay an approximate $210 million distribution to shareholders, and pay related fees and expenses. Pro forma for the refinancing, total debt outstanding is about $1.6 billion.

Valor's previously proposed income deposit securities (IDS) issuance was viewed by Standard & Poor's as a ratings negative due to the impact to cash flow that would have resulted from the high dividend payout rate associated with the offering. However, the IDS offering has been cancelled. Nevertheless, the negative outlook remains because the currently proposed refinancing structure provides a lump sum distribution to shareholders, which otherwise could be used for debt repayment.

The ratings on Valor reflect the company's relatively aggressive financial policy, high debt leverage, and some exposure from the high percentage of revenue derived from universal service funding (USF). This is tempered somewhat by Valor's dominant market share in the rural areas it serves, the relatively stable cash flows of its telephone operations, and limited competition within its rural service area. Standard & Poor's considers the company's financial policy to be aggressive because a portion of the debt refinancing will be used to make a dividend payment to its equity holders. In addition, although the refinancing reduces the debt maturity level, leverage will remain high, with debt to EBITDA at 5x-6x over the next two years.

USF represents about 24% of total revenues. Some uncertainty exists as to the future status of the federal portion of USF, which represents only 3% of Valor's total revenue. The remainder of the company's USF revenues is derived from the State of Texas, which has been very supportive of rural local exchange carriers (RLECs) to date.

While access lines declined by about 2.6% in 2003 and are expected to decline about 2% in 2004, primarily due to the economy and replacement of second lines with digital subscriber lines (DSL), the company maintains a dominant market position in its service territory. Furthermore, the replacement of second lines by DSL results in higher incremental revenues. The bundling of local, long-distance, Internet, and data services has mitigated the loss of access lines and increased average monthly revenue per access line to the mid $70 area. The rural nature of Valor's service territory (only 11 homes per square mile) limits competition and helps sustain a healthy EBITDA margin, in the mid 50% area. But a few more densely populated areas could be targeted for telephony offerings by the incumbent cable companies. Since the majority of network upgrades have been completed, capital expenditures are not expected to be significant in the near term, and will likely remain in the low teens as a percentage of revenue. Pro forma for the refinancing, EBITDA coverage of interest is about 2.4x.

Valor Telecom is an RLEC providing local, long-distance, Internet, and data services to more than 550,000 access lines within the states of

Oklahoma, Texas, New Mexico, and Arkansas. Approximately 75% of its total access lines are residential customers.

Liquidity.

Given its relatively stable cash flows and headroom under its bank covenants, Valor has an adequate liquidity position until 2011, when refinancing of the bank facility will be required. Pro forma for the aforementioned transactions, liquidity consists of a $100 million undrawn revolver. Also, the company generates free cash flow of approximately $90 million annually that will be used to retire the term loan.

Recovery analysis.

The $1.4 billion senior secured facility (first-priority lien) of Valor Telecommunications Enterprises LLC and Valor Telecommunications Enterprises II LLC (co-borrowers) is rated 'B+', the same as the corporate credit rating. The recovery rating on the loan is '4', denoting the expectation for a marginal recovery of principal (25%-50%) in the event of a default. The facility comprises a $1.3 billion term loan B and a $100 million revolver, which matures in October 2011. The term loan B amortizes 1% per year until maturity.

The $1.4 billion facility is guaranteed by the co-borrowers and each of their subsidiaries, including cross guarantees. The facility is secured by a first-priority perfected lien in the capital stock of each subsidiary of the co-borrowers, the intercompany debt of each subsidiary, and all assets of each subsidiary. There is an intercreditor agreement between the first-lien and second-lien bank lenders. This agreement has a 180-day stand-still provision, after which the second-lien holders can exercise remedies in the event of default.

Standard & Poor's simulated default scenario contemplates a 10% decrease of access lines over the next five years due to accelerated competition from cable telephony, resulting in a 35% decline in EBITDA. Standard & Poor's applied a 4x EBITDA multiple, reflecting the limited growth opportunity available to a potential buyer given our simulated default scenario. Despite our assumption of limited growth potential, we nevertheless expect that Valor would maintain a base level of operations, generating stable cash flow, albeit substantially lower than existing levels. Given this assumption, we expect that the company would emerge from bankruptcy.

The second-lien loan and the subordinated loan are rated two notches below the corporate credit rating due to the substantial amount of priority obligations (including the first-lien secured bank debt) ahead of it. The second-lien loan was assigned a recovery rating of '5', denoting the expectation for negligible recovery of principal(0%-25%) in the event of a default.

Outlook

The outlook is negative. The upfront dividend payment to shareholders reduces cash flow that could be applied to debt reduction. Although the company's service area is very rural, cable telephony could pose a significant threat as the economics for voice over Internet protocol deployment become more favorable. Consequently, Valor's line loss could accelerate along with material pricing pressure.

Ratings List

Ratings Assigned

Valor Telecommunications Enterprises LLC
Valor Telecommunications Enterprises II LLC
(co-borrowers)

$1.4B sr secd bank ln due Oct 2011	B+ (Recov rtg: 4)
$205M 2nd-lien secd bank ln due Oct 2011	B- (Recov rtg: 5)
$135M sub unsecd loan fac due April 2012	B-

Valor Telecommunications Enterprises II LLC

Corporate credit rating	B+/Negative/--

Ratings Affirmed

Valor Telecommunications LLC

Corporate credit rating	B+/Negative/--

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Valor Telecommunications Enterprises LLC
 Corporate credit rating                  B+/Negative/--
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JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 10

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Analysis

UNITED STATES
Americas

January 2006

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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.

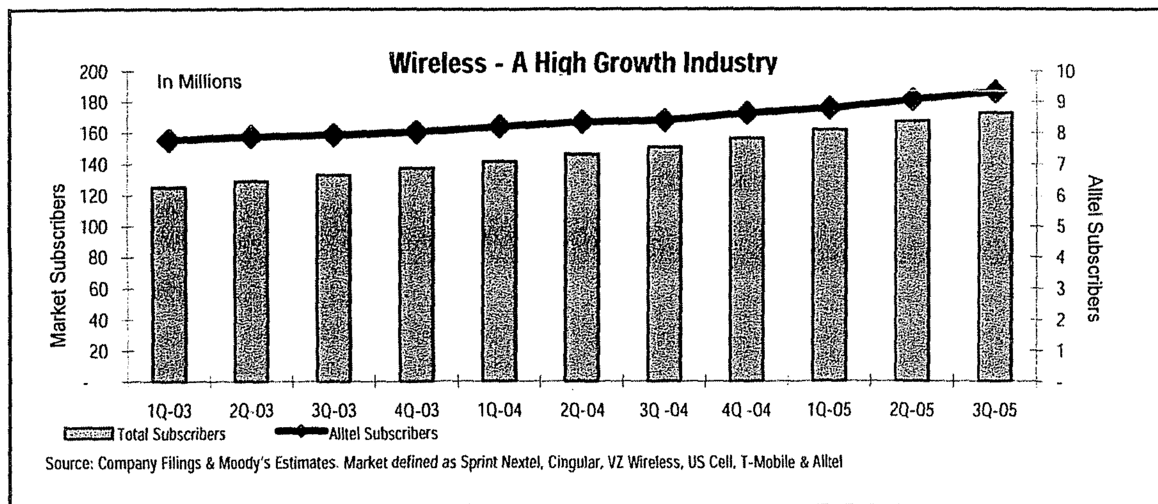
Moody's believes that Alltel will continue to focus on a high growth strategy for its retained wireless business, primarily in rural markets, through both organic subscriber growth and acquisitions. Moody's considers the recent acquisition of Western Wireless (WW) and the announced acquisition of Midwest 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.

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

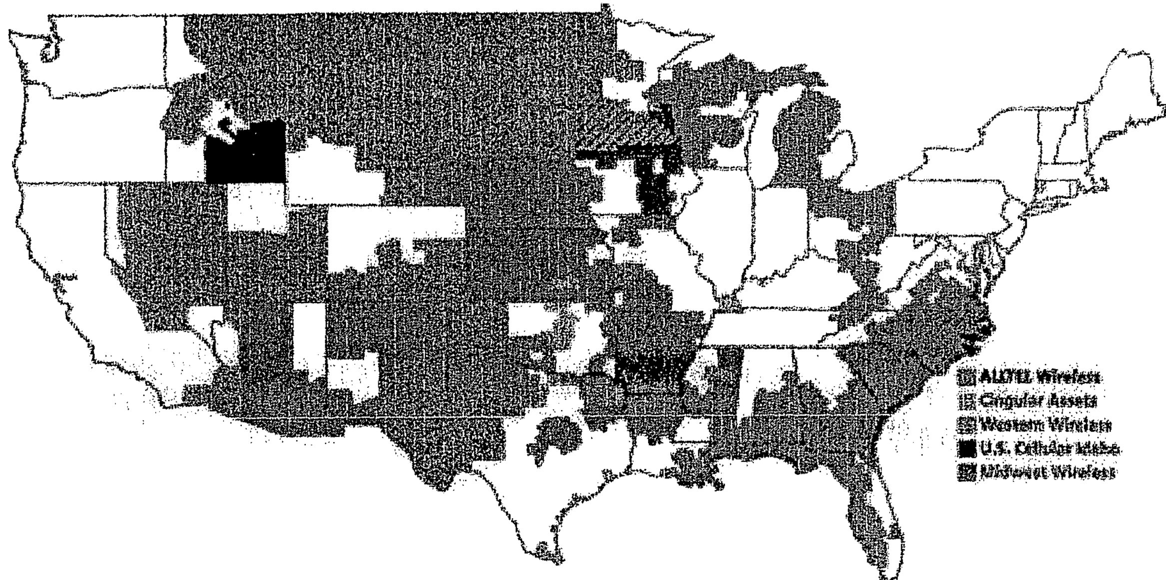
The competitive environment will remain challenging.

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.

Alltel's U.S. Wireless Coverage



Source: Alltel

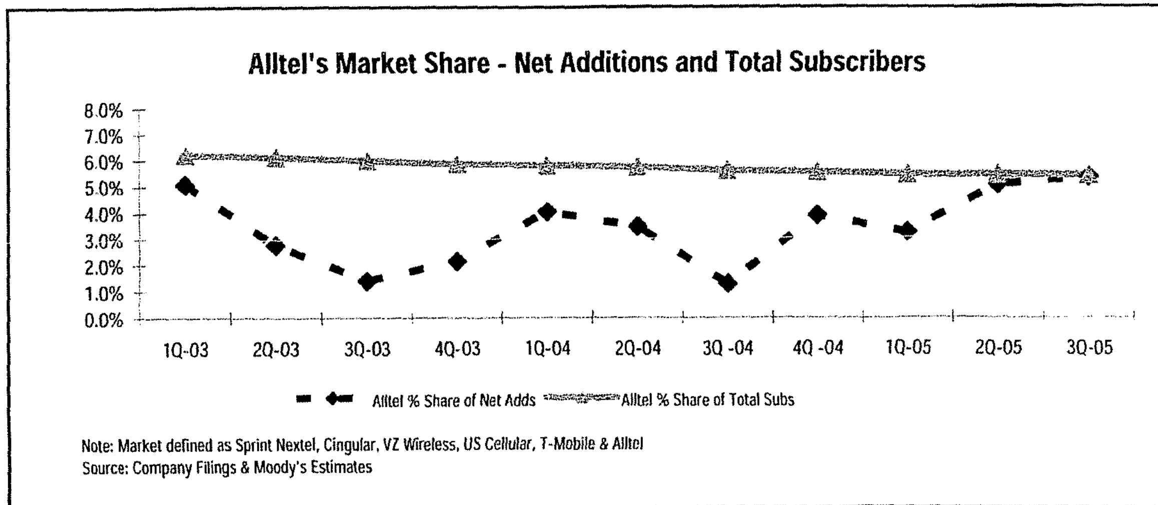
By retaining certain support services and its long-haul network, the spinoff of Alltel's wireline assets should not disrupt the company's current low wireless cost structure. Furthermore, Moody's believes that anticipated operational synergies should also lower the cost structure of the wireless company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

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.



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.

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.

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)

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STANDARD &POOR'S

CORPORATE RATINGS

ALLTEL Corp. Ratings Lowered And Off CreditWatch

Credit Rating:
A-/Stable/A-2

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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

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

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The McGraw-Hill Companies

FitchRatings

Corporate Finance

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

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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 utilizing 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.

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JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 12(A)

SpinCo
KY AG Response Item #12a
ILEC Total ARPU *
Dec-05

ILEC, by state			Dec-05
AL	Alabama - ILEC	$	85.59
AR	Arkansas - ILEC	$	75.74
FL	Florida - ILEC	$	55.32
GA	Georgia - ILEC	$	70.31
KY	Kentucky - ILEC	$	64.47
MO	Missouri - ILEC	$	58.70
MS	Mississippi - ILEC	$	88.35
NC	North Carolina - ILEC	$	58.65
NE	Nebraska - ILEC	$	60.36
NY	New York - ILEC	$	50.50
OH	Ohio - ILEC	$	62.61
OK	Oklahoma - ILEC	$	90.77
PA	Pennsylvania - ILEC	$	60.13
SC	South Carolina - ILEC	$	56.73
TX	Texas - ILEC	$	64.20

Note: Only Total ARPU for each Alltel state is available, not residential ARPU only

JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 12(C)

SpinCo
KY AG Response Item #12c
Average Investment per Access Line, by state *
As of December 31, 2005

			Total Plant in Service	Accumulated Depreciation	Net	Access Lines	Average Investment per Access Line *
					a	b	a / b
SpinCo	AL	Alabama - ILEC	$ 85,692,206	$ (44,472,375)	$ 41,219,832	28,206	$ 1,461
	AR	Arkansas - ILEC	$ 346,614,549	$ (197,750,357)	$ 148,864,193	102,951	$ 1,446
	FL	Florida - ILEC	$ 254,239,222	$ (193,745,966)	$ 60,493,256	93,258	$ 649
	GA	Georgia - ILEC	$ 1,892,449,251	$ (1,239,594,397)	$ 652,854,854	577,676	$ 1,130
	KY	Kentucky - ILEC	$ 879,057,756	$ (267,958,205)	$ 611,099,550	537,301	$ 1,137
	MO	Missouri - ILEC	$ 206,342,625	$ (103,484,093)	$ 102,858,533	67,930	$ 1,514
	MS	Mississippi - ILEC	$ 35,359,253	$ (25,246,729)	$ 10,112,524	12,360	$ 818
	NC	North Carolina - ILEC	$ 559,220,356	$ (307,319,470)	$ 251,900,886	225,782	$ 1,116
	NE	Nebraska - ILEC	$ 655,630,494	$ (463,588,283)	$ 192,042,211	274,050	$ 701
	NY	New York - ILEC	$ 199,038,016	$ (120,746,036)	$ 78,291,980	88,168	$ 888
	OH	Ohio - ILEC	$ 812,559,310	$ (561,730,767)	$ 250,828,543	305,587	$ 821
	OK	Oklahoma - ILEC	$ 139,627,897	$ (59,538,389)	$ 80,089,508	33,267	$ 2,407
	PA	Pennsylvania - ILEC	$ 567,511,501	$ (378,835,867)	$ 188,675,633	225,431	$ 837
	SC	South Carolina - ILEC	$ 163,193,624	$ (115,557,377)	$ 47,636,246	57,130	$ 834
	TX	Texas - ILEC	$ 278,740,679	$ (164,642,298)	$ 114,098,382	108,310	$ 1,053
Total SpinCo			**$ 7,075,276,739**	**$ (4,244,210,607)**	**$ 2,831,066,132**	**2,737,407**	**$ 1,034**

* *Note: Calculated by taking end of year net PP&E and dividing by end of year access lines.*

JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 12(D)

Valor Telecommunications
Capital Expenditures per Access Line
For the Period Ended December 31, 2005

Capital Expenditurees*	57,385,000
Less Non Telco Cap Ex	5,641,785
Telco Cap EX	51,743,215

	Access Lines	Investment Per State	Investment Per Line
Texas	331,985	28,983,350	87.30
New Mexico	91,497	14,052,991	153.59
Oklahoma	94,974	8,706,874	91.68
		51,743,215	

*As reported in 2005 10-K filing

JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 16

Guide to Corporate Debt Ratings

Investment Grade vs. High Yield

Moody's	S&P
Investment Grade	
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
High Yield	
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	B
B3	B-
Caa1	CCC+
Caa2	CCC
Caa3	CCC-
Ca	CC
C	D/SD

JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 69

Weighted Average Cost of Capital
December 31, 2005

Total Capitalization (in thousands)

		ALLTEL - 9/30/05
Sh:	Shares Outstanding (fully diluted)	367,794
P:	Market Price	65.11
E:	Value of Equity (Sh*P)	23,947,067
D:	Debt (includes CP)	5,943,100
TC:	Total Capitalization (E+D)	29,890,167
	% of Equity	80%
	% of Debt	20%

Cost of Debt

Rd = C * (1-t)

		ALLTEL	Wireless	Wireline
C:	Weighted Average Coupon (includes CP)	6.19%	6.19%	6.19%
t:	Corporate Tax Rate	38%	38%	38%
Rd:	After-Tax Cost of Debt	3.84%	3.84%	3.84%

Cost of Equity

Re = Rf + B (Rm - Rf)

		ALLTEL	Wireless	Wireline
Rf:	Risk free rate (30 year Treasury Bond Yld as of 12/31/05)	4.54%	4.54%	4.54%
B:	Relevered Betas	0.85	0.88	0.81
(Rm-Rf):	Equity Risk Premium	7.00%	7.00%	7.00%
Re:	Cost of Equity	10.46%	10.70%	10.23%

Weighted Average Cost of Capital:

WACC = (D/TC)*(1-t)*Rd + (E/TC)*Re = X%

		ALLTEL	Wireless	Wireline
D/TC:	Target Ratio of Debt to Total Capitalization	20%	20%	20%
Rd:	Cost of Debt	3.84%	3.84%	3.84%
E/TC:	Target Ratio of Equity to Total Capitalization	80%	80%	80%
Re:	Cost of Equity	10.46%	10.70%	10.23%
WACC:	**Weighted Average Cost of Capital**	**9.13%**	**9.33%**	**8.95%**
	Say...	**9.50%**	**9.50%**	**9.00%**

Note: WACC should be compared to the after-tax returns from proposed capital projects.

Alltel Corporation
Rate To Maturity and Yield To Maturity
As of December 31, 2005

Instrument ID	Instrument Description	Face Rate	Principal Balance	Weighted Avg Rate
002000000 - Western Wireless LLC				
WWCONV4625	Subordinated Notes	4.63%	$115,000,000.00	$5,318,750.00
KANSAS45	Manhattan, KS Note	4.50%	$62,170.75	$2,797.68
			$115,062,170.75	**4.6249%**
026000000 - ALLTEL New York, Inc.				
NEWYORK914	Sinking Fund Debentures	9.14%	$4,910,000.00	$448,774.00
NEWYORK944	Sinking Fund Debentures	9.44%	$3,455,150.00	$326,166.16
			$8,365,150.00	**9.2639%**
042000000 - ALLTEL Georgia Communications				
ALLTELGA	Sinking Fund Debentures	6.50%	$80,000,000.00	$5,200,000.00
			$80,000,000.00	**6.5000%**
043000000 - Georgia ALLTEL, Inc.				
LINCOLN	Senior Note	8.05%	$2,455,500.00	$197,667.75
METROLIFE	Senior Note	8.05%	$2,455,500.00	$197,667.75
MINNMUTUAL	Senior Note	8.05%	$1,309,600.00	$105,422.80
MUTUALTRST	Senior Note	8.05%	$163,700.00	$13,177.85
NATIONWIDE	Senior Note	8.05%	$1,637,000.00	$131,778.50
NATLTRAVL	Senior Note	8.05%	$163,700.00	$13,177.85
SALKELD	Senior Note	8.05%	$1,637,000.00	$131,778.50
TEACHERS1	Senior Note	8.17%	$10,636,000.00	$868,961.20
			$20,458,000.00	**8.1124%**
046000000 - ALLTEL New York, Inc.				
NEWYORK955	Sinking Fund Debentures	9.55%	$2,364,050.00	$225,766.78
			$2,364,050.00	**9.5500%**
080000000 - Western Reserve Telephone Co.				
1METROLIFE	Senior Note	8.05%	$3,000,000.00	$241,500.00
1MINNMUTUA	Senior Note	8.05%	$1,600,000.00	$128,800.00
1MUTUATRU	Senior Note	8.05%	$200,000.00	$16,100.00
1NATIONWID	Senior Note	8.05%	$2,000,000.00	$161,000.00
1NATLTRAVL	Senior Note	8.05%	$200,000.00	$16,100.00
1TRANSAMER	Senior Note	8.05%	$545,454.52	$43,909.09
2TRANSAMER	Senior Note	8.05%	$545,454.52	$43,909.09
LINCOLNCPR	Senior Note	8.05%	$454,545.55	$36,590.92
LINCOLNFPR	Senior Note	8.05%	$545,454.52	$43,909.09
LINCOLNREO	Senior Note	8.05%	$363,636.37	$29,272.73
LONDONLIFE	Senior Note	8.05%	$545,454.52	$43,909.09
SALKELD1	Senior Note	8.05%	$2,000,000.00	$161,000.00
TEACHERS3	Senior Note	8.17%	$13,910,000.00	$1,136,447.00
			$25,910,000.00	**8.1144%**
083000000 - ALLTEL Pennsylvania, Inc.				
ALLTELPA90	Sinking Fund Debentures	9.07%	$8,725,000.00	$791,357.50
			$8,725,000.00	**9.0700%**

Instrument ID	Instrument Description	Face Rate	Principal Balance	Weighted Avg Rate
131000000 - Texas ALLTEL, Inc.				
TEXAS811	Senior Note	8.11%	$15,000,000.00	$1,216,500.00
			$15,000,000.00	**8.1100%**
243000000 - Teleview, Inc.				
BVILLE	Bank Note Actual/365	7.00%	$637,893.51	$44,652.55
HAIGHT	Bank Note Actual/365	7.00%	$388,020.52	$27,161.44
			$1,025,914.03	**7.0000%**
401000000 - Aliant, Inc.				
ALIANT	Senior Note	6.75%	$100,000,000.00	$6,750,000.00
			$100,000,000.00	**6.7500%**
445000000 - ALLTEL Ohio Limited Partnrshp				
ALLTELOHIO	Debenture	8.00%	$425,000,000.00	$34,000,000.00
			$425,000,000.00	**8.0000%**
649000000 - 360° Communications				
ICNNOTES	ICN Notes	9.00%	$182,218,069.21	$16,399,626.23
360COMM665	Senior Note	6.65%	$100,000,000.00	$6,650,000.00
360COMM760	Senior Note	7.60%	$200,000,000.00	$15,200,000.00
			$482,218,069.21	**7.9320%**
999000000 - ALLTEL Corporation				
ALLTEL2012	ALLTEL 2012 7% Bond	7.00%	$800,000,000.00	$56,000,000.00
ALLTEL2032	ALLTEL 2032 7.875% Bond	7.88%	$700,000,000.00	$55,125,000.00
SDISNEY	Bank Note 30/360	10.00%	$304,031.84	$30,403.18
ALLTEL625	Convertible Bond	4.66%	$1,384,965,000.00	$64,483,970.40
ALLTEL650	Debenture	6.50%	$200,000,000.00	$13,000,000.00
ALLTEL680	Debenture	6.80%	$300,000,000.00	$20,400,000.00
ALLTEL700	Debenture	7.00%	$300,000,000.00	$21,000,000.00
ALLTELIRB	Industrial Revenue Bonds	4.46%	$1,945,469.59	$86,767.94
			$3,687,214,501.43	**6.2412%**
Commercial Paper*	CP Outstanding	4.337%	$1,000,000,000.00	$43,374,000.00
			$1,000,000,000.00	**4.3374%**
Total - All Portfolios (Excluding Commercial Paper)			**$4,971,342,855.42**	**6.5674%**
Total - All Portfolios (Including Commercial Paper)			**$5,971,342,855.42**	**6.1940%**

* Weighted Average "All In" Rate of all outstanding issues is used for Commercial Paper calculations.

JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 77

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2004 JUN 14 PM 3: 11
PUBLIC UTILITY COMMISSION
FILING CLERK

DOCKET NO. 29567

STIPULATED NOTICE OF VIOLATION OF PUC SUBST. R. 26.54 AND SETTLEMENT AGREEMENT BY VALOR TELECOM (RELATING TO SERVICE OBJECTIVES AND PERFORMANCE)	§ § § § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

ORDER

This Order approves the Stipulated Notice of Violation and Settlement Agreement (Agreement) between Commission Staff (Staff) of the Public Utility Commission of Texas (Commission) and Valor Telecommunications of Texas, LP d/b/a Valor Telecom (Valor) (collectively, Parties). The Parties entered into and agreed upon the terms of this Agreement which terminated the investigation into alleged violations by Valor of P.U.C. SUBST. R. 26.54 and any related rules or underlying provisions of the Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001 *et seq.* (Vernon 1998 & Supp. 2004) (PURA). This docket was processed in accordance with applicable statutes and Commission rules. The Agreement resolved all of the issues in this proceeding. The Agreement is unopposed and provides for a reasonable resolution to the issues in this proceeding. The Agreement is approved.

The Commission adopts the following findings of fact and conclusions of law:

I. Findings of Fact

1. Valor is a local exchange company (LEC) that provides telecommunication services in Texas.

2. On March 5, 2003, the Commission requested Staff to investigate potential issues regarding the service quality, financial integrity, and customer service of Valor.

3. On March 7, 2003, Staff initiated *Investigation of Telephone Service Quality Related Performance of Valor Telecom* (Investigation), Project No. 27474.

4. On April 29, 2003, Staff traveled to Texarkana, Texas, to gather information for the Investigation. A public meeting was held that evening in the city council chamber of the Texarkana City Hall.

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5. During the public meeting, individual customers expressed concerns regarding the following issues: (1) billing, (2) service interruption, (3) the inability to speak to a Call Center supervisor, (4) *Touchtone* Dialing Service charges, (5) long distance charges, (6) line noise, (7) long lines at the retail office to pay bills, (8) discontinuance of service, (9) noise and static during periods of rain, (10) problems with yellow page listings, (11) failure to install service timely, (12) billing of "900" information service calls, and (13) the cost of T1 lines.

6. Valor cooperated with the Staff investigation, including: participation in the Texarkana town meeting and subsequent investigation of Valor's facilities in Texarkana; responding in a timely manner to requests for documents and interrogatories; producing data regarding Valor's financial performance and structure; and, making subject matter experts, managers and executives available to meet with Staff on specific issues on several occasions.

7. On July 18, 2003, Staff filed an Investigation Report on Service Related Issues of Valor Telecom (Staff Report).

8. The Staff Report contained 18 findings and recommendations related to some of the service issues identified in Finding of Fact No. 5 above.

9. In response to the Staff Report, on July 21, 2003, Valor filed a letter identifying 19 initiatives it asserted that had already been implemented in response to the Staff Investigation. Valor also identified and proposed implementation of, or agreed to provide additional information related to, 16 areas of concern expressed in the Staff Report.

10. During the time period July 21, 2003 through February 13, 2004 (the Negotiations Period), the Staff and representatives from Valor engaged in settlement discussions to resolve the issues identified in the Staff Report and other issues raised during the Negotiations Period, including additional allegations made by Staff regarding Valor's failure to meet some of the Commission's Quality of Service Standards during 2002 on a statewide basis.

11. Because of the settlement negotiations, Valor and Commission Staff have agreed to settle and resolve in accordance with the terms of this Agreement all outstanding issues raised by or related to the Staff Report and the additional issues discussed herein.

II. Conclusions of Law

1. The Commission has jurisdiction and authority over this proceeding pursuant to PURA §§ 15.023 – 15.027.

2. No evidentiary hearing is necessary because there is no genuine issue as to any material fact and no dispositive issue remains in dispute.

3. This proceeding was processed in accordance with the requirements of PURA and the Administrative Procedure Act, TEX. GOV'T CODE ANN. § 2001.056 (Vernon 2000 & Supp. 2004) (APA).

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following order:

1. The Agreement, which is included as Attachment 1 to this Order, is approved. In addition, although not attached to this Order, confidential documents titled "Infrastructure Capital Investment Projects," "Audit of Performance Measure Benchmarks," and "Contingent Infrastructure Investment Projects," are included by reference as part of the Agreement.

2. Consistent with the Agreement, the Parties shall fully comply with all of the obligations and commitments described herein.

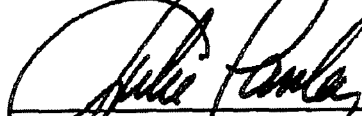
3. Consistent with the Agreement, all claims or allegations raised by or related to this Docket or alleged violations of Texas statutory or Commission regulatory provisions or orders governing Valor pursuant to the terms and conditions set forth herein are settled and finally resolved.

4. Entry of this Order does not indicate the Commission's endorsement or approval of any principal or methodology that may underlie the Agreement. Neither should the entry of an order consistent with the Agreement be regarded as a binding holding or precedent as to the appropriateness of any principle underlying the Agreement.

5. All other motions, requests for entry of specific findings of fact and conclusions of law, and any other request for general or specific relief, if not expressly granted herein, are denied.

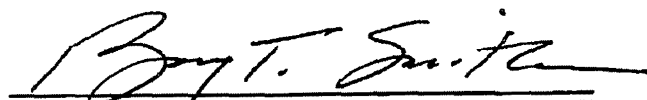
SIGNED AT AUSTIN, TEXAS on the 14th day of June 2004.

PUBLIC UTILITY COMMISSION OF TEXAS



JULIE PARSLEY, COMMISSIONER

PAUL HUDSON, CHAIRMAN



BARRY T. SMITHERMAN, COMMISSIONER

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Attachment 1

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PUBLIC UTILITY COMMISSION

DOCKET NO. 29567

STIPULATED NOTICE OF VIOLATION OF PUC SUBST. R. §26.54 AND SETTLEMENT AGREEMENT BY VALOR TELECOM (RELATING TO SERVICE OBJECTIVES AND PERFORMANCE)	§ § § § §	PUBLIC UTILITY COMMISSION OF TEXAS

STIPULATED NOTICE OF VIOLATION AND SETTLEMENT AGREEMENT

NOW COMES the Staff of the Public Utility Commission of Texas (the "Commission Staff" or "Staff") and Valor Telecommunications of Texas, LP d/b/a Valor Telecom ("Valor" or the "Company")(collectively referred to herein as "Parties"), who hereby enter into and agree upon the terms of this Stipulated Notice of Violation and Settlement Agreement ("Agreement") terminating the investigation by the Staff into alleged violations by the Company of Sections 26.54 of the Commission's Substantive Rules, and any related rules or underlying provisions of the Public Utility Regulatory Act ("PURA" or "the Act"), TEX. UTIL. CODE ANN. §§ 11.001 *et seq.* (Vernon 1999 & Supp. 2003). In consideration of the mutual covenants and commitments set forth below, the Commission Staff and the Company hereby stipulate and agree as follows:

BACKGROUND & RECITALS

1. Valor is a local exchange company ("LEC") that provides telecommunication services in Texas.

2. On March 5, 2003, the Public Utility Commission of Texas (the Commission) requested the Commission Staff to investigate potential issues regarding the service quality, financial integrity, and customer service of Valor.

3. On March 7, 2003, Staff initiated Project No. 27474, *Investigation of Telephone Service Quality Related Performance of Valor Telecom* ("Investigation").

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4. On April 29, 2003, Staff traveled to Texarkana, Texas, to gather information for the Investigation. A public meeting was held that evening in the city council chamber of the Texarkana City Hall.

5. During the public meeting, individual customers expressed concerns regarding the following issues: (1) billing, (2) service interruption, (3) the inability to speak to a Call Center supervisor, (4) Touchtone Dialing Service charges, (5) long distance charges, (6) line noise, (7) long lines at the retail office to pay bills, (8) discontinuance of service, (9) noise and static during periods of rain, (10) problems with yellow page listings, (11) failure to install service timely, (12) billing of "900" information service calls, and (13) the cost of T1 lines.

6. The Company cooperated with the Staff investigation, including: participation in the Texarkana town meeting and subsequent investigation of the Company's facilities in Texarkana; responding in a timely manner to requests for documents and interrogatories; producing data regarding the Company's financial performance and structure; and, making subject matter experts, managers and executives available to meet with Staff on specific issues on several occasions.

7. On July 18, 2003, Staff filed an Investigation Report on Service Related Issues of Valor Telecom (Staff Report).

8. The Staff Report contained eighteen findings and recommendations related to some of the service issues identified in paragraph 5 above.

9. In response to the Staff Report, on July 21, 2003, Valor filed a letter identifying nineteen initiatives it asserted that had already been implemented in response to the Staff

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Investigation. Valor also identified and proposed implementation of, or agreed to provide additional information related to, sixteen areas of concern expressed in the Staff Report.

10. During the time period July 21, 2003 through February 13, 2004 (the Negotiations Period), the Staff and representatives from Valor engaged in settlement discussions to resolve the issues identified in the Staff Report and other issues raised during the Negotiations Period, including additional allegations made by Staff regarding Valor's failure to meet some of the Commission's Quality of Service Standards during 2002 on a statewide basis.

11. Because of the settlement negotiations, the Company and Commission Staff have agreed to settle and resolve in accordance with the terms of this Agreement all outstanding issues raised by or related to the Staff Report and the additional issues discussed herein.

AGREEMENT PROVISIONS

12. **Jurisdiction.** Valor admits that the Commission has *jurisdiction* over the Parties and the subject matter of this Agreement.

13. **Waiver.** Unless specifically provided for in this Agreement, Valor expressly waives all notice requirements provided in §§ 15.023-15.025 of the Public Utility Regulatory Act ("PURA" or "the Act"), TEX. UTIL. CODE ANN. §§ 11.001 *et seq.* (Vernon 1999 & Supp. 2003), and P.U.C. PROC. R. 22.246. By this waiver, Valor specifically agrees that the Commission may, prior to the expiration of the periods contained in PURA and Commission rules, related to this proceeding, enter a Final Order consistent with the Agreement.

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14. **Specific Terms.** While Valor does not believe it engaged in conduct in violation of Commission Rules and, specifically, Valor denies the occurrence of each and every violation alleged by the Staff, in order to avoid the time, expense and distraction of litigation, the Company agrees to resolve all customer related issues identified during the Staff Investigation, raised in the Staff Report or during the Negotiations Period or discussed herein, in the following manner:

(a) **Touchtone Dialing Service.** All customers who were billed a mandatory charge for touch dialing service ("touchtone") and that were not billed for the service prior to January of 2003, and, who were not advised that a separate charge for touchtone would apply to their service, will receive credits for such charges as provided for below (Impacted Customers). Impacted Customers will be classified by one of the four following category types:

1. Responsive Customers,
2. Unresponsive Customers through October 15, 2003,
3. Unresponsive Customers from October 15, 2003, through Order date;
4. Unresponsive Customers after Order date.

Valor contacted the Impacted Customers during the period between August 21 and December 16, 2003. The amount of credits applied in 2003 to Impacted Customers was $346,092. The specific amount of credits received by each category of Impacted Customers is determined as follows:

Category 1 Responsive Customers

i. Valor calculated and reflected on customer bills credits from the date touchtone was placed on the customer's bill until the date the Impacted Customers informed Valor that they wanted or did not want touchtone dial service.

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Category 2 Unresponsive Customers through October 15, 2003

ii. After repeated attempts to contact Impacted Customers by telephone, Valor still could not contact approximately 4,847 customers to determine whether such Impacted Customers wanted to continue receiving touchtone service. Valor calculated and reflected on these Unresponsive Customers' bills credits from the date touchtone was placed on the customer's bill through October 15, 2003. The amount of credits applied to Unresponsive Customers through October 15, 2003 was $62,168.

iii. In order to fairly resolve the touchtone issue with respect to those Unresponsive Customers that Valor could not contact, Valor will send each such Unresponsive Customer a letter advising the customer that Valor will continue to provide and bill the Unresponsive Customer for touchtone service until such time that the Unresponsive Customer contacts Valor to cancel touchtone service.

iv. The notice provided for above shall be limited to informing the Unresponsive Customers of the need for touchtone service for purposes of connecting with 911 services via residential telephone service.

Category 3 Unresponsive Customers from October 15, 2003, through Order date

v. With respect to the Unresponsive Customers receiving notice pursuant to subparagraph iv above, Valor shall issue a credit to any such Unresponsive Customers receiving the notice from the date the touchtone service credit described in subparagraph iii was calculated and reflected on those Unresponsive Customers' bills, through the earlier of the date the Unresponsive Customer contacted Valor to discontinue touchtone service or the effective date of this Settlement.

Category 4 Unresponsive Customers after Order date

vi. In the event that the Unresponsive Customers identified in subparagraph iv indicate the desire to terminate touchtone service after the effective date of this Settlement, Valor shall immediately terminate such service; however, the Unresponsive Customers shall not receive a credit from the effective date of this order through the date of notification to Valor to terminate such service.

(b) ***Infrastructure Capital Investment Projects.*** Valor will enhance its telecommunications network by funding and placing in service the following

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Infrastructure Capital Investment Projects (referred to herein as "ICIP"), with associated annual expenses, within the time frames indicated and in the amounts projected in the Confidential Exhibit 1 filed herewith:

i. Investment associated with implementation of additional 4Tel units for 100% routine testing in 2004.

This ICIP relates to a mechanized loop testing system that will allow Valor to conduct automated line insulation tests and to review per call test failure messages from electronic switching systems and use the data to identify probable areas of trouble in the outside plant.

ii. Investment associated with monitoring power and line conditions on remote systems in 2004.

This ICIP involves the installation of hardware and software that will provide Valor the ability to proactively monitor the power and line conditions on its remote systems, in order for it to take appropriate and timely measures in correcting subscriber loop-related problems.

iii. Completion of route diversity in Texarkana in 2004.

This ICIP is necessary to provide a reliable interoffice transport network for handling calls between Texarkana and adjacent exchanges on the Valor network and other carriers' networks. Essentially by deploying redundant fiber optic facilities the inter exchange traffic will continue to be transmitted even if one of the fiber routes is physically cut.

iv. Deployment, by the end of calendar year 2005, of a mechanized loop testing and monitoring system in its network to test subscriber loops and proactively monitor and clear trouble conditions in its network, with associated annual expenditures.

This ICIP is necessary to proactively monitor the power and line conditions on Valor's remote systems, in order to take appropriate and timely measures in correcting subscriber loop related problems. This project has the potential to reduce trouble reports and speed up restoration of service for customers served through remote units in Texarkana and the surrounding areas

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v. Create a new Carrier Serving Area on Rt. 401 in the DeKalb exchange. It will eliminate two systems of subscriber carrier and replace undersized cables. A new UMC 1000 240/180 W/E copper fed cotted (with associated Central Office terminal equipment) NGDLC will be deployed in 2004.

vi. Place a Telstrat 144/72 W/E copper fed cotted system in the Hagansport community. The primary COT shelf will be added on project 7A2N4AD. This project will add an expansion COT shelf onto existing facilities in 2004.

The two ICIPs listed above will upgrade and augment outside plant facilities, both feeder and distribution, by adhering to carrier service area design. By conforming to the carrier service area design concept, the voice quality and the ability to transmit higher speed data or fax through a voice band modem over the network should improve.

Each of the ICIPs, when complete, individually and in coordination should enable Valor's customers in Texas to experience improved quality of service.

Additional ICIPs for Northeast Texas Exchanges

In addition to the ICIPs described above, Valor shall identify and implement additional ICIPs for the Northeast Texas exchanges with in-service dates before December 31, 2005. Valor shall demonstrate that these additional ICIPs represent amounts in excess of its projected 2005 capital budget. These additional ICIPs shall be non-revenue generating-quality of service-related projects and shall be identified before or not later than November 30, 2004.

For purposes of this Agreement, the term "in-service" means the date a project is completed in its entirety and includes all planning, engineering, furnishing of materials and installation, and testing to ensure that the systems and facilities are

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fully functional, operational, and providing telecommunication service or enhances existing telecommunication service to end use customers.

Total Project Costs Valor estimates that it will cost $2.466 million to complete all of the ICIPs described above, including the Additional ICIPs for the Northeast Texas Exchanges. The $2.466 million to complete and implement the above-enumerated projects and network enhancements over the next 2 years are in addition to Valor's projected capital budgeted amounts for the two-year period (2004-2005). The capital costs and annual expense associated with the network enhancements shall be tracked in accordance with the methodology set forth in Exhibit 1 attached hereto. In addition, the enumerated ICIPs and network enhancements shall not be considered for purposes of satisfying any pre-existing infrastructure obligations or capital investment projects required by either federal or state statutes or orders issued by another regulatory Commission that may predate the terms of this Settlement Agreement. All work performed in completing the ICIPs shall conform to the applicable Laws, Rules and Regulation (Federal, State, and Local), codes and industry standards.

(c) **Audit of Performance Measure Benchmarks.** The Parties agree that Valor will engage and pay for the services of an Independent Auditor to conduct an audit of the Valor's performance measurements for the annual reporting period ending December 31, 2003. The Parties agree that Valor will spend no more than the amount reflected in Confidential Exhibit 4 attached to this Agreement for the Independent Auditor to conduct the audit. The agreed upon audit procedures are set forth in Exhibit 2 attached hereto. The approved audit procedures contained in.

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Exhibit 2 shall be adopted and incorporated, as if fully set forth therein, into any contract for audit services resulting from the approval of this Agreement. Selection of the Auditor provided for in this provision shall be in the sole discretion of the Commission Staff.

(d) **Settlement Period.** With the exception of issues related to Valor's compliance with the terms of this Agreement, this Agreement is intended to resolve all issues related to any claims that the Staff made or could make regarding Valor's failure to meet the Commission's service quality standards for 2002 and 2003, the issues identified in Paragraph 5, above, the issues identified in Staff's Report discussed in paragraphs 7 and 8 above and any other issues raised by Staff during the Negotiations Period.

15. **Administrative Penalty.** In addition to the terms identified in paragraph 14 above, Valor agrees to pay an administrative penalty of three hundred fifty thousand and no/100 dollars ($350,000.00) to resolve and settle any and all issues, complaints, or alleged violations against the Company that were identified in the Investigation, raised in the Report or during the Negotiations Period or that are discussed herein. Payment of this amount shall be due no later than thirty days after the Commission has entered an order consistent with this Agreement. This amount shall be tendered in the form of a check or wire transfer payable to the Texas Comptroller of Public Accounts. Upon payment of this amount, the Company shall file an affidavit attesting that this payment has been timely made. This affidavit shall be filed in the compliance docket to be established for this proceeding and shall be filed no later than forty-five days after the Commission has signed an order consistent with this Agreement.

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16. **Considerations.** The Parties desire to compromise and settle the complaints, alleged violations, and issues referred to in paragraphs 5, 7, 8, 9, 10, 14 and 15 above in order to (a) avoid the time, effort, and expense of administrative litigation before SOAH and the Commission and of any appeals from the Commission's final order or orders deciding said issues; and (b) to enable the Company to focus its resources and energies upon the continuous improvement of its network, thereby further reducing customer complaints.

17. **Approval of Final Order.** This Agreement fully and finally resolves, pursuant to the terms and conditions set forth herein, any and all claims, allegations, and customer complaints described in paragraphs 5, 7, 8, 9, 10, 14 and 15 above. Accordingly, the Parties agree to entry of a final order of the Commission consistent with this Agreement.

18. **Exclusive Remedies.** With the exception of issues related to Valor's compliance with the terms of this Agreement, Commission Staff agrees that it will not seek further administrative penalties or take any other enforcement actions against Valor with regard to the complaints, alleged violations, or issues described in paragraph 5, 7, 8, 9, 10, 14 and 15 above.

19. **Reservations.** By entering into this Agreement, paying the administrative penalty provided for herein, and performing its other obligations under this Agreement, Valor does not admit to any violation of any state, federal, or local law or rule by it or any of its affiliates, officers, agents, employees, representatives, independent contractors, marketers, predecessors, or assigns.

20. **Right to Rescind.** In the event the Commission materially alters the terms of this Agreement in its final order, the disadvantaged party shall be entitled to withdraw from

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this Agreement and proceed to a contested hearing before SOAH on any or all issues addressed in this Agreement.

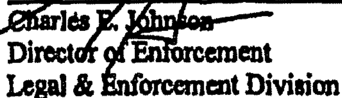
21. **Effective Date.** The Parties agree that this Agreement shall become effective on the date the Commission signs its final order consistent herewith.

22. **Entirety of the Agreement.** This Agreement contains the entire agreement between Commission Staff and Valor as to the matters addressed herein.

23. **Authority and Multiple Counterparts.** Each person executing this Agreement represents that he has authorization to sign on behalf of the party represented. Facsimile copies of signatures are valid for purposes of evidencing such execution. This Agreement may be executed in multiple counterparts, each of which is deemed an original but all of which constitute one and the same instrument.

EXECUTED by the Parties on this 7th day of April 2004, by and through their authorized representatives designated below.

LEGAL AND ENFORCEMENT DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS



Charles E. Johnson
Director of Enforcement
Legal & Enforcement Division

VALOR TELECOMMUNICATIONS OF TEXAS, LP

William M. Ojile, Jr.
Senior Vice President, Chief Legal Officer & Secretary

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EXHIBIT 1

TRACKING OF INFRASTRUCTURE CAPITAL INVESTMENT PROJECTS

I. SCOPE

This Tracking of Infrastructure Capital Investment Projects (ICIP) shall apply to the ICIPs identified to Paragraph 14(b). Each project or requirement shall be assigned separate project numbers for ease of tracking expenditures

II. PROCEDURES

A. Within ten (10) days after the effective date of the Commission's Order approving the Agreement, as specified by Paragraph 21 of the Agreement, Valor shall file the January 29, 2004 resolution from the Board of Managers of Valor Telecommunications Southwest, LLC approving the expenditure of capital in 2004 over and above that which the Board approved in the Company's 2004 capital budget in order to fund those 2004 projects identified in this Agreement. The filing required by this paragraph shall be made under seal and filed in the Compliance Project identified in the Commission's Final Order in this docket.

B. Valor shall file status reports on the ICIPs and all other obligations contained in this Agreement on a quarterly basis. The status reports shall include the following information:

1. The amounts expended detailed by exchange and project number each month,

2. A narrative explanation of the status of each project, and

3. Specific identification of any delays in implementation of the projects compared to the initial timeline provided to the PUCT in compliance with II.B. above.

4. With regard to the requirements reflected in paragraph 14(b)(iv) of the Stipulation, Valor shall:

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(a) Account for all reasonable and necessary expenses in accordance with the allocation formula established by the Federal Communications Commission in effect on the date the signatories execute this Agreement, and

(b) Provide all work papers and other documentation necessary to replicate the calculation and allocation of expenses reported in compliance with paragraph 14(b)(v) of the Stipulation.

The updates shall be provided not later than 30 days following the close of each calendar quarter and should be filed in the project referenced in Paragraph II.A., above.

D. Within 10-days of receiving a written request, Valor shall provide additional information on the accounting for the expenditures or other technical details related to the capital projects and annual expense amounts as requested by Staff, and with or without notice allow a site inspection during normal business hours by Staff to assess progress of the ICIPs.

III. FAILURE TO COMPLY

In the event Valor fails to place in service one of or more of the projects in accordance with the timelines identified in Paragraph II.B. above and in Paragraph 14(b) of the Agreement, and if Valor cannot demonstrate Good Cause as to why the project has not advanced in accordance with such timelines, Valor shall be assessed an additional administrative penalty equal to one-half of the value of the uncompleted portion of such project. For purposes of this section, "Good Cause" shall include: periods of emergency, catastrophe, natural disaster, severe storm or other events affecting large numbers of telecommunications customers, including but not limited to: civil unrest, strikes, work stoppages, cable cuts by third parties, vandalism and issues, conditions or delays caused or prompted by the actions of other telecommunications carriers, vendors or suppliers outside of Valor's control. Valor may request a variance from the Commission of the

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timelines identified in Paragraph II.B upon the filing of a Petition demonstrating Good Cause. If Valor files such a Petition prior to its failure to meet one of the milestones within the timelines identified in Paragraph II.B, the Commission shall determine whether Good Cause is present and, if it finds Good Cause is not present, the amount, if any, of penalty that Valor shall be required to pay.

In the event Valor seeks a good cause waiver for failure to comply with the completion schedule, or in the event Valor pays additional administrative penalties, Valor remains obligated to complete each of the ICIPs and associated expense items identified in paragraph 14 of the Agreement. If Valor files for a good cause waiver, the waiver application shall contain a detailed project completion schedule with milestones. If it becomes necessary to calculate additional administrative penalties under this provision, Valor must complete the outstanding project(s) within a timeframe mutually determined by Valor and Commission Staff.

IV. PROJECT COSTS.

In the event the actual 2004 aggregate project costs for the projects identified in Exhibit 3 and Paragraphs 14(b) of the Agreement are less than the projected estimated 2004 aggregate project costs identified in Exhibit 3 of the Agreement, Valor shall quantify the 2004 actual and 2004 estimated aggregate costs, and, if the 2004 estimated aggregate costs exceed the 2004 actual aggregate costs, notify the Commission of said amount within 10 days following the completion of the 2004 projects. This same process shall apply in 2005 for the Additional ICIPs for Northeast Texas Exchanges discussed in Paragraph 14(b).

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In addition to the notification requirement above, at such time Valor also shall provide the Commission with a work schedule detailing the milestones for completion of applicable contingent capital projects identified in Confidential Exhibit 5, in the order set forth therein, in order to make additional capital expenditures equal to the difference between 2004 estimated aggregate costs for the 2004 capital projects identified in Paragraph 14(b) and Exhibit 3 and the 2004 actual aggregate costs for those same projects. *Valor shall assume all risk associated with costs for completion of contingent capital ICIPs in excess of the estimated project costs.*

V. COMPLIANCE FILING

Within thirty days after completion of all projects identified in Paragraph I above, Valor shall file an affidavit attesting to the compliance with the timelines and spending requirements reflected in this Exhibit and the Agreement. The affidavit shall verify the dates of completion and the total funds expended for each project identified in Paragraph I, above.

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EXHIBIT 2

AUDIT PLAN TO VERIFY CERTAIN SERVICE QUALITY PERFORMANCE DATA PURSUANT TO PARAGRAPH 3.C OF THE STIPULATION AND SETTLEMENT AGREEMENT

II. GENERAL REQUIREMENTS

A. Procedures

1. This audit will take the form of an attestation audit of service quality reports filed by Valor Telecommunications of Texas, LP d/b/a Valor Telecom (Valor) during the year 2003. Valor agrees to all the procedures as set out in the plan and to be used by the independent auditor, selected by the Commission Staff to test or validate the matters covered by the audit.

B. Role of the Parties; Access to Data and Auditor Work Product

1. The audit will be conducted by a third party acting under the direction and supervision of the Commission Staff.

2. Specific mechanisms for working with and overseeing the auditor will be determined after the auditor has been selected. The work will be conducted in such a fashion as to provide a meaningful and equal opportunity for Valor to provide feedback to the auditor as the work progresses and preliminary observations are made.

3. Valor shall provide access to all data to be reviewed by the auditor. Items for which access will be permitted shall include but not be limited to programming code and systems documentation for Valor's internal Information Technology Systems and Processes. Valor shall provide all information and data regarding its data collections systems used in reporting its retail performance data to the Commission.

4. Prior to any on-site work at Valor's premises, the auditor will identify to Valor the objectives of such work and the types of information to be observed or collected during such work, except and to the extent that the auditor deems unannounced visits/observations necessary to the audit. The auditor will document, and will provide the Commission Staff with access to, all information observed or collected during on-site work at Valor's premises. The auditor will document this information in sufficient detail for a reviewing party to be able to understand how the information was used by the auditor in reaching any conclusions or findings and to make an independent assessment of

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whether the information supports or does not support the auditor's use of the information to reach those conclusions or findings.

5. Valor will bear all expenses associated with the audit up to the maximum limit set forth in Exhibit 4.

C. Role and Report of the Auditor

1. The selected auditor will develop a "test" for each objective set out in this plan. The auditor's determination regarding matters of audit methodology is subject to review by the Commission at the request of Valor, but may not be overturned except on a showing by Valor that the auditor's determination is contrary to this Plan or contrary to reasonable, professional auditing practices, taking account the circumstances and subject matter of this audit.

2. The auditor's report will include a complete description of the results of the test for each objective, including but not limited to sample size, population size, number of samples that failed to meet the objective, etc.

3. The auditor will report all findings or irregularities that result from applying the agreed-upon procedures in the form of findings. The auditor will not apply a standard of materiality in determining whether to report its findings.

4. If the auditor reports findings or irregularities that are determined to be material under the preceding paragraph, Valor shall be required to prepare a remedial plan detailing the root cause of the irregularity and the manner in which it proposes to correct such irregularity. After the Commission has reviewed said remedial plan, Valor agrees on the procedures necessary to validate the root cause and to take corrective actions. The selected auditor will then verify the agreed-upon procedures to ensure that the remedial plan has been implemented.

II. PARTICULAR MATTERS TO BE COVERED

A. Purpose: To determine 1) that during year 2003 Valor reported correctly, in accordance with the PUC Substantive Rule 26.54(e), the monthly performance data for the performance measurements listed below both on a company-wide, and on an individual exchange basis, 2) restate the reported data as required by the auditor after consultation and agreement with Commission Staff to verify that Valor has complied with the standard established in PUC Substantive Rule 26.54(e), and 3) review the data collection and reporting methodology and note any deficiencies observed. The performance measurements requiring audit are as follows:

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a. 95% of the Primary Service Installation Completed in 5 working days

b. 90% of the Customer due date commitments met

c. Trouble Report Rate shall not Exceed 3% of the Access Lines

d. Repeat Trouble Reports shall not exceed 22%

e. 90% of the Out-of-Service trouble reports cleared within "8" working hours.

f. 90% of Business Office and Repair Service calls are answered within 20 seconds.

B. The Independent Auditor shall also evaluate and provide an analysis of the data security, internal control and, data integrity of Valor's service quality reporting mechanism.

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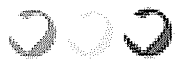
JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 100



Executive Summary

alltel

Transaction Overview – Underwritten Scenario

Sources and Uses ($ millions)

Sources		Uses	
$500 million Revolving Credit Facility	$63	Dividend to Alltel	$2,400
Term Loan A	500	Repay Valor Term Loan[1]	783
Term Loan B	2,800	Transferred debt take-out[2]	92
Term Loan C[3]	0	Debt-for-debt exchange bonds	1,538
Debt-for-debt exchange bonds[4]	1,565	Assumed Alltel debt[5]	180
Assumed Alltel debt[5]	180	Assumed Valor bonds	400
Assumed Valor bonds	400	Transaction costs	115
Total Sources	$5,508	**Total Uses**	$5,508

1 Includes the payment of related premiums
2 Includes fees
3 Tranche C Term Loans will be funded to the extent that Valor's bonds are put to the Issuer pursuant to a change of control offer required under the applicable indenture
4 Includes $27 million of fees
5 Net of $81 million of refinanced debt

Pro Forma Capitalization ($ millions)

Sources		x2005 PF Adj. EBITDA[1]
$500 million Revolving Credit Facility	$63	0.0x
Term Loan A	*500*	0.3x
Term Loan B	2,800	1.6x
Assumed Alltel debt[2,3]	180	0.1x
Assumed Valor bonds[2]	400	0.2x
Total Senior Secured Debt	$3,943	2.3x
Exchanged bonds	1,565	0.9x
Total Debt	$5,508	3.2x

1 Based on 2005 pro forma adjusted EBITDA of $1,705 million, which is adjusted to reflect $40 million of expected annual cost saving synergies. Excludes transaction-related costs of $31.3 million and includes $6.1 million of restructuring and other charges not related to this transaction
2 Assumes transferred ILEC debt and Valor bonds will be granted security
3 Net of $81 million of refinanced debt

alltel

Transaction Overview – Expected Scenario

Sources and Uses ($ millions)

Sources		Uses	
$500 million Revolving Credit Facility	$63	Dividend to Alltel	$2,400
Term Loan A	500	Repay Valor Term Loan[1]	783
Term Loan B	2,000	Transferred debt take-out[2]	92
Debt-for-debt exchange bonds[3]	1,565	Debt-for-debt exchange bonds	1,538
Assumed Alltel debt[4]	180	Assumed Alltel debt[4]	180
Assumed Valor bonds	400	Assumed Valor bonds	400
SpinCo bonds	800	Transaction costs	115
Total Sources	$5,508	**Total Uses**	$5,508

1 Includes the payment of related premiums
2 Includes fees
3 Includes $27 million of fees
4 Net of $81 million of refinanced debt

Pro Forma Capitalization ($ millions)

Sources		x2005 PF Adj. EBITDA[1]
$500 million Revolving Credit Facility	$63	0.0x
Term Loan A	500	0.3x
Term Loan B	2,000	1.2x
Assumed Alltel debt[2,3]	180	0.1x
Assumed Valor bonds[2]	400	0.2x
Total Senior Secured Debt	$3,208	1.9x
Exchanged bonds	1,565	0.9x
SpinCo bonds	800	0.5x
Total Debt	$5,508	3.3x

1 Based on 2005 pro forma adjusted EBITDA of $1,705 million, which is adjusted to reflect $40 million of expected annual cost saving synergies
2 Assumes transferred ILEC debt and Valor bonds will be granted security
3 Net of $81 million of refinanced debt

Summary of Senior Secured Credit Facilities

Underwritten Scenario

Borrower:	NewCo			
Joint Bookrunners and Lead Arrangers:	J.P. Morgan Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated			
Administrative Agent:	JPMorgan Chase Bank, N.A.			
Purpose:	Finance a $2.4 billion dividend to Alltel, refinance existing indebtedness and pay related fees and expenses			
Facilities:	Revolver	Term Loan A	Term Loan B	Term Loan C[1]
Amount:	$500,000,000	$500,000,000	$2,800,000,000	$400,000,000
Tenor:	5 years	5 years	7 years	5 years
Initial Drawn Pricing:				
If ≥ Ba2/BB (stable/stable):	L + 125.0 bps	L + 125.0 bps	L + 150.0 bps	L + 125.0 bps
Otherwise:	L + 150.0 bps	L + 150.0 bps	L + 175.0 bps	L + 150.0 bps
Undrawn Pricing:	25.0 bps	NA	NA	25.0 bps
Amortization:	Bullet	0%, 5%, 10%, 15% and bullet at maturity	1% per annum, bullet at maturity	0%, 5%, 10%, 15% and bullet at maturity

Security:
- Perfected first-priority liens on substantially all personal property assets (subject to regulatory approval), capital stock and other equity interests in subsidiaries (but not more than 66% of the voting stock of any foreign subsidiary)
- Approximately $180 million of existing Alltel ILEC bonds and $400 million of Valor senior notes will get an equal and ratable security interest in certain assets per the terms of their indentures

Guarantees: Guaranteed by each of the Borrower's present and future material direct and indirect domestic subsidiaries

Mandatory Prepayments:
- 100% of asset sale proceeds
- 100% of the proceeds of casualty insurance, condemnation awards and similar recoveries

Financial Covenants:
- Maximum Total Leverage of 4.50x
- Minimum Interest Coverage [2.75x]
- Limitations on Capital Expenditures

Other Terms and Conditions:
- Usual and customary for financings of this type
- NewCo will have ability to pay dividend up to 100% of its Distributable Cash Flow to shareholders subject to covenant compliance

Note: NewCo will have the ability to dividend up to 100% of its distributable cash to shareholders subject to covenant compliance

[1] 4-month Delayed-Drawn Term Loan

Summary of Senior Unsecured Notes

Issuer:	NewCo
Amount:	Up to $2,365,000,000
Issue:	Senior Unsecured Notes
Distribution:	144A with registration rights
Maturity:	2016
Ranking:	The Notes will be senior unsecured obligations of the Issuer and will rank pari passu with all present and future senior unsecured indebtedness of the Issuer
Guarantors:	Each of NewCo's present and future material direct and indirect domestic subsidiaries
Redemption Structure:	Non-call for [ ] years; 35% equity clawback

JOINT APPLICANTS' RESPONSE TO A.G.
SUPPLEMENTAL DATA REQUEST NO. 107

List of Respondents for Initial Data Requests from Communication Workers of America

Responsive to AG Supplement Request No. 107

1. Answer provided by Brent Whittington
2. Answer provided by Jeff Gardner
3. Answer provided by Jeff Gardner
4. Answer provided by Brent Whittington
5. Answer provided by Brent Whittington
6. Answer provided by Brent Whittington
7. Answer provided by Brent Whittington
8. Answer provided by Rob Clancy
9. Answer provided by Brent Whittington
10. Answer provided by Brent Whittington
11. Answer provided by Rob Clancy
12. Answer provided by Brent Whittington
13. Answers provided by Brent Whittington
14. Answer provided by Brent Whittington
15. Answers provided by Jeff Gardner
16. Answer provided by Robert Boyd
17. Answer provided by Robert Boyd
18. Answers provided by Robert Boyd
19. Answers provided by Robert Boyd
20. Answer provided by Susan Bradley
21. Answer provided by Susan Bradley
22. Answer provided by Susan Bradley
23. Answer provided by Susan Bradley
24. Answer provided by Susan Bradley
25. Answer provided by Susan Bradley
26. Answer provided by Brent Whittington
27. Answer provided by Robert Boyd
28. Answer provided by Marshall Nash
29. Answer provided by Darren Decker

30. Answer provided by Brent Whittington
31. Answer provided by Mike Skudin
32. Answer provided by Brent Whittington
33. Answer provided by Brent Whittington
34. Answer provided by Mike Skudin
35. Answer provided by Mike Skudin
36. Answer provided by Robert Priebe
37. Answer provided by Robert Priebe
38. Answer provided by Darren Decker
39. Answer provided by Mike Skudin
40. Answer provided by David Cameron
41. Answer provided by Brent Whittington
42. Answer provided by Rob Clancy
43. Answer provided by Brent Whittington
44. Answer provided by David Cameron
45. Answer provided by Brent Whittington
46. Answer provided by Rob Clancy
47. Answer provided by Rob Clancy
48. Answer provided by Rob Clancy
49. Answer provided by Rob Clancy
50. Answer provided by Jeff Gardner
51. Answer provided by Rob Clancy
52. Answer provided by Brent Whittington
53. Answer provided by Brent Whittington
56. Answer provided by Brent Whittington
57. Answer provided by Brent Whittington
58. Answer provided by Brent Whittington
59. Answer provided by Rob Clancy
60. Answer provided by multiple respondents
61. Answer provided by Brent Whittington
62. Answer provided by Brent Whittington
63. Answer provided by Rob Clancy
64. Answer provided by Rob Clancy

65. Answer provided by Rob Clancy

66. Answer provided by Rob Clancy

67. Answer provided by Rob Clancy

68. Answer provided by Rob Clancy

69. Answer provided by Cesar Caballero

JOINT APPLICANTS' RESPONSE TO A.G. SUPPLEMENTAL DATA REQUEST NO. 109

Valor Telecommunications
CAPEX Breakdown ($ in Millions)

		2005		2006E
Switching	$	10.0	$	3.1
Transport (Transmission)	$	3.3	$	4.1
Outside Plant	$	18.7	$	22.1
Outside Plant Electronics (Access)	$	1.7	$	1.8
Land and Building	$	0.3	$	0.7
Station Apparatus (Service Drops)	$	4.1	$	-
Vehicles	$	1.3	$	0.8
Furniture and Office Equipment	$	0.0	$	-
Tools and Test Equipment	$	0.8	$	0.5
DSL (Data)	$	11.3	$	10.4
Service Corp.	$	4.1	$	4.4
Strategic Initiative	$	-	$	-
Storm/Fire Damage	$	1.0	$	-
ILEC CAPEX	**$**	**56.5**	**$**	**47.9**
CLEC CAPEX	$	0.1	$	-
Internet CAPEX	$	0.7	$	2.1
Core Wireline CAPEX	**$**	**57.4**	**$**	**50.0**

1) Service Corp. includes ATM/Core.