BEFORE THE KENTUCKY PUBLIC SERVICE COMMISSION

Application for Approval of the Transfer of Control of Alltel Kentucky, Inc. and Kentucky Alltel, Inc. and for Authorization To Guarantee Indebtedness

CASE NO. 2005-00534

RECEIVED

FEB 16 2006

PUBLIC SERVICE COMMISSION

INITIAL TESTIMONY OF

JEFFERY GARDNER

ON BEHALF OF KENTUCKY ALLTEL, INC., ALLTEL KENTUCKY, INC., ALLTEL COMMUNICATIONS, INC., ALLTEL HOLDING CORP., ALLTEL HOLDING CORPORATE SERVICES, INC., AND VALOR COMMUNICATIONS GROUP

Filed February 16, 2006

INITIAL TESTIMONY OF JEFFERY GARDNER

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

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

Q. Please describe your educational background and business experience.

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

Q. What is the purpose of your testimony?

A. I am presenting testimony on behalf of Alltel Kentucky, Inc. ("Alltel Kentucky") and Kentucky Alltel, Inc. ("Kentucky Alltel") (collectively, "the Regulated Entities") to demonstrate that just as the Regulated Entities currently possess the requisite financial capability to provide service as incumbent local exchange carriers ("ILECs") in Kentucky, they will continue to possess that capability after completion of the separation of the Alltel Corporation wireline and wireless businesses and the merger of the wireline business with Valor (the "New Holding Company"). Specifically, I will show that, upon completion of the change of control of the Regulated Entities due to the separation and merger, these entities will possess the requisite financial capability to serve our present and prospective customers. The Regulated Entities will generate a sufficient level of cash flow to satisfy their existing obligations to their customers, employees and investors.

The separation and subsequent merger of the Alltel and Valor wireline businesses will produce significant benefits to the New Holding Company, which will accrue to all of the operating subsidiaries, including the Regulated Entities and their current and prospective customers. These benefits include a significantly larger wireline holding company when compared to other rural local exchange companies ("RLECs") with the related benefits of increased scale and scope and perhaps most importantly, an improved support level of the centralized services provided to the Regulated Entities by the New Holding Company. The transactions, therefore, will be in accordance with law, for a proper purpose, and consistent with the public interest. Further, the financing of the transaction will be lawful and within the Regulated Entities' corporate purposes, necessary and appropriate for their performance, and reasonably necessary and appropriate for such purpose.

Status of Federal Approvals

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

A The Federal Communications Commission ("FCC") order granting the "all-or-nothing" waiver request, the last remaining substantive action needed from the FCC in connection with this transaction, was received on January 31, 2006. The grant retains the status quo, enabling the New Holding Company to continue to operate under the existing regulatory regime (*i.e.*, rate of return or price cap) applicable to each of its local exchange companies. To summarize the status of these federal approvals:

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

Financial Capability of the Regulated Entities

Q. What is the current financial condition of the Regulated Entities?

A. The annual reports most recently filed with this Commission on behalf of the Regulated Entities include the companies' balance sheets and income statements. The financial statements illustrate the financial condition of the Regulated Entities as of and for the twelve months ending December 31, 2004, the most recent annual period for which data are available. The statements were prepared and presented in accordance with this Commission's applicable reporting requirements and show the historically recorded data from the books and records of the Regulated Entities, which are maintained in accordance with the FCC's Uniform System of Accounts, 47 C.F.R. Part 32 ("Part 32"). These financial statements clearly show that for the twelve months ending December 31, 2004, each Regulated Entity possessed the requisite financial capability. Clearly, the Regulated Entities generated sufficient cash flow to cover all operating expenses, invest in the network and provide high quality service to their customers. Furthermore, they generated sufficient cash to pay a dividend to their shareholder. These results demonstrate that the Regulated Entities possess the requisite financial capability to adequately serve the citizens of the Commonwealth of Kentucky.

Q. ***Will there be any material change to the Regulated Entities' financial statements as a result of the separation and merger?***

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

Q. Will the Regulated Entities continue to possess the required financial capability after the separation and merger?

A. Yes, there will be no material change to the financial condition of the Regulated Entities. The Regulated Entities will continue to possess more than adequate financial capability after the separation and merger. Except for a name change from Alltel to a new brand, the Regulated Entities will remain essentially unaffected by the separation and merger. The assets, liabilities, revenues, and expenses of the Regulated Entities will remain essentially the same after the separation and merger, and local operations in Kentucky will continue to be managed and operated as before, except for an improved level of support received from the centralized services from the New Holding Company and singular focus on wireline. Thus, the financial results for the Regulated Entities will not be materially affected.

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

A. The 2004 annual reports referenced previously demonstrate that the Regulated Entities, when combined with the support of the New Holding Company, possess the requisite financial capability to provide high quality, reliable telecommunications services to their current and prospective customers in Kentucky. Since the Regulated Entities will not experience any material change in their local Kentucky operations and overall financial condition as a result of the separation and merger, they will continue, along with the support of the New Holding Company, to possess the required financial capability to serve telecommunications consumers of Kentucky.

Q. How does the positive financial condition of the New Holding Company, in turn, benefit the Regulated Entities?

A. The financial characteristics of the New Holding Company will provide the financial stability to position itself favorably when compared to its industry peers to pursue necessary strategies for the Regulated Entities to succeed. With the solid financial structure discussed below, the New Holding Company will produce sufficient cash flow to attract capital for investment in its local telephone company operations. These investments will facilitate a focused local strategy, and the local telephone operations (including those of the Regulated Entities) will benefit from the New Holding Company's continuing ability to deliver a full portfolio of services to meet the needs of current and prospective customers.

<u>Financial Capability of the New Holding Company</u>

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

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

As indicated in the initial application in this proceeding, after the separation and merger, the New Holding Company will be the largest rural wireline provider in the United States serving approximately 3.4 million customers in 16 states. We expect to generate annual revenues of approximately $3.4 billion and operating income before depreciation and amortization ("OIBDA") of approximately $1.7 billion. Clearly, the New Holding Company will have the financial wherewithal and scale and scope to successfully enhance the network, related products, and services of its wireline subsidiaries, including the Regulated Entities. Additionally, the New Holding Company will generate sufficient cash flows to pay its operating expenses, fund technology investments through capital expenditures, service its debt and distribute an appropriate dividend to its shareholders. The expected level of revenues, OIBDA and cash flow will be more than adequate to properly position the New Holding Company to attract the necessary capital for all of its subsidiaries, including the Regulated Entities.

Q. Why is the pro forma in Exhibit 3 based on data for twelve months ending December 31, 2005 although the separation and merger have not occurred?

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

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

A. The New Holding Company will be favorably comparable to existing similarly situated publicly traded RLECs. Exhibit 2 to my testimony illustrates that the New Holding Company will have significantly more access lines, revenues and OIBDA than the identified industry participants. The actual leverage (the net amount of debt compared to OIBDA) of many similarly situated publicly traded RLECs serving markets comparable to those of the New Holding Company range between 1.4 and 4.7 times. Indeed, most of these RLECs carry net debt comparable to that of the New Holding Company. As described above, the New Holding Company will carry approximately $5.4 billion of net debt which equates to approximately 3.2 times its estimated annual OIBDA. The New Holding Company's capital structure, therefore, will be comparable to similarly situated publicly traded RLECs presently operating successfully. (See Exhibit 3 attached to my testimony.) This comparison demonstrates that the financial condition of the New Holding Company will be comparable to its peer group, and the capital structure will allow the New Holding Company to continue to provide quality products and services, and invest appropriately in the future.

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

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

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

A. The New Holding Company's targeted dividend policy will be comparable to that of existing similarly situated publicly traded RLECs. The New Holding Company expects to distribute between 65% to 70% of its annual free cash flow back to its shareholders. On average, similarly situated publicly traded RLECs distribute approximately 63% of their free cash flow to their shareholders in the form of dividends. Additionally, the planned dividend of the New Holding Company, coupled with the capital structure mentioned above, will make the New Holding Company's stock attractive to investors which will allow us to raise the necessary capital to fund the future investment needs of our subsidiaries.

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

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

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

A. Yes. The New Holding Company received commitments from Merrill Lynch and J.P. Morgan ("Lenders"), two of the nation's largest banks, to fund its debt. The New Holding Company obtained commitments from the two banks only after we demonstrated that we would be sufficiently strong financially to service the proposed new debt and meet all of our obligations, including providing high quality service to our customers. These commitments would not have been feasible if the New Holding Company and its subsidiaries, including the Regulated Entities, were not going to possess the financial capability to transact business as they do currently. Additionally, the New Holding Company is in the process of obtaining a solvency opinion from Duff & Phelps, LLC.

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

A. I have demonstrated that the New Holding Company will have solid financial capabilities comparable to other similarly situated publicly traded RLECs within the telecommunications industry. Upon separation and merger, the New Holding Company will generate more than sufficient revenues to pay all expenses and enable its subsidiaries to continue providing high quality service in addition to distributing an attractive dividend to its shareholders. My analysis and testimony illustrate that the New Holding

Company's capital structure (discussed in greater detail below) and planned dividend are reasonable, and it will have the requisite ability to raise capital, service its debt, and make strategic investments. All of this affirms that the New Holding Company will have the required financial capability to support the Regulated Entities as they are presently supported.

Capital Structure of the New Holding Company and Debt Guarantees

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

A. The New Holding Company will have total assets of approximately $7.7 billion. Additionally, the New Holding Company will have a total enterprise value of over $11.2 billion, which includes an equity value of $5.7 billion, debt of $5.5 billion, and a debt-to-enterprise value ratio of 49.1%. The New Holding Company debt will be comprised of newly issued debt and assumed debt from the pre-merger Alltel Corporation and Valor and their subsidiaries. The issuance and assumption of the debt is part of the process of establishing an overall capital structure for the New Holding Company, which is intended to balance the cost of capital with the need to maintain ample financial flexibility. The proposed capital structure is reasonable for the New Holding Company and provides adequate resources for debt service, reinvestment, maintaining access to capital markets, and payment of an attractive dividend to investors.

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

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

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

A. Because the New Holding Company has not yet begun its operation and the proposed debt has not yet been issued, the proposed debt has not been rated by a rating agency. While I cannot know for certain what the rating agencies will determine subsequent to their review of the New Holding Company debt and the rating it will receive, I can share comparisons of rated debt issued by other RLECs, although they have different credit profiles than the New Holding Company will have. In a recent report issued by Stifel Nicolaus (formerly known as Legg Mason) dated February 6, 2006, titled "Telecom Services Weekly Valuation Update", three RLECs received a BB- debt rating from S&P; these three RLECs had a higher net debt/EBITDA ratio (earnings before interest, taxes, depreciation and amortization) than the expected debt/EBITDA ratio of 3.2 times of the New Holding Company. (The New Holding Company's expected debt/EBITDA is supported in the attached 2005 pro forma financials.) One RLEC with a higher net debt/EBITDA ratio than the expected debt/EBITDA ratio of the New Holding Company received a B+ debt rating from S&P. Another RLEC with a slightly lower net debt/EBITDA ratio than the expected debt/EBITDA ratio of the New Holding Company received a BB+ debt rating from S&P. While there are many other factors that are used to determine a debt rating, these comparisons suggest that the New Holding Company debt is likely to receive a debt rating somewhere between BB- and BB+, or slightly below investment grade.

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

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

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

A. The guarantees and liens of the operating companies enhance the credit profile of the New Holding Company and allow it to obtain a more affordable interest rate which, in turn, optimizes the capital structure. The guarantees allow the New Holding Company to incur debt on a consolidated basis at the New Holding Company level and provide substantial cost savings through the reduction of interest payments than would otherwise be charged by lenders if the debt was not secured.

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

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

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

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

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

A. No. The function of the liens is to preclude any other lender or creditor from obtaining a higher ranking of security over the Lenders for this new debt. However, neither the approval of the liens by this Commission, as requested in this proceeding, nor the presence of the liens would circumvent the jurisdiction of this Commission under KRS §278.020(5) in the unlikely event of a default by the New Holding Company and an attempt by the Lenders to collect on the guarantees and liens. In the extreme and unlikely event of default and collection action by the Lenders, the Lenders would still have to come before this Commission for permission to act on the liens. Such action would clearly be considered a change of control or transfer of ownership that would require approval by this Commission for the Lenders to foreclose, and the Lenders would have to meet the same tests as any acquirer in order to obtain control or ownership. Therefore, by approving our requests in the application, the Commission is in no way foregoing its rights to protect the public interest in the unlikely event of a future default.

Q. ***What "events of default" would trigger the obligations of the guarantees?***

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

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

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

Q. ***Will the guarantees assist the Regulated Entities in meeting their obligations to provide service?***

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

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

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

__Centralized Services and Shared Assets__

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

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

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

A. A cash management agreement is an arrangement between a company and a bank that enables the company to utilize the services of the bank in the day-to-day management of its influx and outflow of cash. For example, various payments in the form of personal checks from customers and carriers are processed through an account at the bank providing the cash management. Since the majority of those payments are remitted by checks that do not immediately "clear" to the bank, the cash management agreement provides the means for addressing recourse of the check to the company if some of the checks do not ultimately clear, due to insufficient funds of the payor. The cash management bank advances funds to the company instead of waiting for each individual check to "clear" and the cash management agreement provides protection to the bank, for example, in the form of liens or rights to the cash of the company. In order to obtain cash management services on more favorable terms, the New Holding Company may decide to enter into a secured cash management agreement that would allow the cash management bank to be secured or protected on the same basis as other secured lenders. To the extent a secured cash management agreement is utilized, the Regulated Entities are required to guarantee such because they are also guaranteeing the New Holding Company debt.

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

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

A. No. As explained in the application, upon separation of the wireline and wireless businesses, some of the shared Alltel Corporation assets will be transferred to the New Holding Company, and some will remain with Alltel Corporation and its affiliates. These asset transfers and related transactions are not expected to have any substantial or long-term financial impact on the New Holding Company.

Q. Please describe the separation of these shared assets.

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

Q. Will there be any impact to the Regulated Entities financial statements as a result of changes in the centralized services provided to the Regulated Entities by the New Holding Company?

A. No, there will be no material impact to the Regulated Entities financial statements as a result of the changes in the centralized services provided by the New Holding Company as a result of the separation and merger. The Regulated Entities currently receive certain centralized services from Alltel Corporation and other affiliates. These services include human resource management, finance, tax, corporate communications, legal, planning, general support, and information services. After the separation and merger, the Regulated Entities will continue to receive these and other services from the New Holding Company and other affiliates. Any changes in the costs of these support services as a result of the transition from Alltel Corporation to the New Holding Company are expected to be minimal. In fact, the effectiveness of the centralized services received from the New Holding Company is expected to improve for two reasons. First, while the Regulated Entities have received the financial benefits that accrue from a converged holding company (wireless and wireline), these benefits have been tempered by the constant need to balance the focus of the various corporate support groups between the two robust businesses they support. Subsequent to the separation, the sole focus of the corporate support services provided by the New Holding Company will be the wireline marketplace. I expect this concentration of effort to yield significant benefits in the development of strategies and execution of tactics designed to better serve and retain our customers. Second, the merger of the New Holding Company with Valor significantly improves the economics for the corporate support services through increased scale and scope.

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

A. The New Holding Company will acquire the necessary capabilities from Alltel Corporation. The reverse is also the case for assets transferring to the New Holding Company at separation, which Alltel Corporation will need to use for a transitional period of time. These arrangements for the continued use of shared assets will be transacted through Transition Service Agreements executed between the New Holding Company and Alltel Corporation. The transitional services subject to these agreements will be priced accordingly and will not increase the corporate shared service expenses. These agreements will be in place for approximately one year to allow sufficient time for the New Holding Company and Alltel Corporation to develop and implement their respective stand-alone capabilities. At the end of the transitional period, the New Holding Company and Alltel Corporation will discontinue the transitional operations and associated agreements and begin utilizing their own respective operating platforms and assets or if in their best interest, negotiate agreements for continued receipt and provision of any services which both parties determine should be continued.

Q. Will the allocation of assets and provision of transitional services result in changes to the Regulated Entities' current financial condition?

A. No. Since the transfer of shared assets and the provision of transition services are being conducted at the holding company level, the financial statements of the Regulated Entities are not directly affected. While the costs associated with these assets and services ultimately are allocated to the subsidiaries which they benefit, the Regulated Entities are not appreciably affected through allocations, because the allocations will not appreciably change. The use of shared assets and centralized services are already reflected on the books of the Regulated Entities because the costs are allocated today. Therefore, there is no additional expense allocation expected to occur to the Regulated Entities. In other words, the financial impact of the Regulated Entities using the shared assets is already reflected in the Regulated Entities' 2004 financials previously filed with this Commission. The operating costs (including depreciation expense) of these shared assets have historically been allocated to the individual local telephone companies each month. Additionally, the use of Transition Service Agreements described above will result in cost-based billing between the New Holding Company and Alltel Corporation for approximately one year after separation. These billings will ensure that the net book value, relative to the transfer of shared assets to the New Holding Company, is reduced to reflect Alltel Corporation's use of the assets during the transitional period following separation. Thus, the existing expense impacts already reflected on the Regulated Entities' annual reports are a reasonable representation of the expense impacts that will occur subsequent to the expiration of the transition period when the New Holding Company assumes ownership of the assets.

Conclusions

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

A. The New Holding Company will have solid financial capabilities similar to that currently possessed by Alltel Corporation and favorably comparable to other similarly situated publicly traded RLECs. Additionally, the Regulated Entities will continue to possess the same financial capabilities that they possess today. Upon separation and merger, the New Holding Company will generate more than sufficient revenues to pay all expenses; develop its networks and retain employees to enable its subsidiaries (including the Regulated Entities) to continue providing high quality service. The New Holding Company's capital structure and planned dividend are reasonable, as is the debt guarantee by the Regulated Entities. The New Holding Company will have the requisite ability to raise capital, service its debt, and make strategic investments. Undoubtedly, the New Holding Company will possess the requisite financial capability to support the Regulated Entities as they are presently supported, and the transactions will be in accordance with law, for a proper purpose, and consistent with the public interest. As demonstrated throughout my testimony, the financing of the transaction will be lawful and within the Regulated Entities' corporate purposes, necessary and appropriate for their performance, and reasonably necessary and appropriate for such purpose.

Q. Does this conclude your testimony?

A. Yes, at this time.

AFFIDAVIT

STATE OF ARKANSAS)
) SS:
COUNTY OF PULASKI)

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

Jeffery R. Gardner

Sworn and Subscribed to before me this 14th day of February, 2006.

(SEAL)

ANSJE P. DEAN
Pulaski County
My Commission Expires
March 15, 2011

Ansje P. Dean
Notary Public

My Commission Expires:
3-15-11

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the foregoing was served via United States Postal Service, First Class Mail, postage prepaid, upon:

Douglas F. Brent
Stoll Keenon & Ogden, PLLC
2650 Aegon Center
400 West Market Street
Louisville, Kentucky 40202

John Selent
Dinsmore & Shohl
Suite 2000
462 South Fourth Street
Louisville, Kentucky 40202-3466

David Barberie
Department of Law
Lexington-Fayette Urban County Government
200 East Main Street
Lexington, Kentucky 40507

Jonathan Amlung
1000 Republic Building
429 West Muhammad Ali Boulevard
Louisville, Kentucky 40202

Dennis Howard
Office of the Attorney General
Suite 200
1024 Capital Center Drive
Frankfort, Kentucky 40601

on this the 16th day of February, 2006.

Mark R. Overstreet

EXHIBIT 1

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								
Other current assets								
Total current assets								
Investments								
Goodwill								
Other intangibles								
Property, plant and equipment, net								
Other assets								
Total assets								
Liabilities and Shareholders' Equity								
Current liabilities								
Long-term debt								
Deferred income taxes								
Other liabilities								
Common stock								
Additional paid-in capital								
Treasury stock								
Parent company investment								
Accumulated other comprehensive income								
Deferred equity compensation								
Retained earnings (deficit)								
Total liabilities and shareholders' equity								

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 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				
Costs and expenses:				
Cost of services				
Cost of products sold				
Selling, general, administrative and other				
Depreciation and amortization				
Royalty expense to Parent				
Restructuring and other charges				
Operating income				
Other income (expense), net				
Intercompany interest income				
Interest expense				
Income before income taxes				
Income taxes				
Income before cumulative effect of accounting change				
Earnings per share:				
Basic				
Diluted				
Average common shares outstanding:				
Basic				
Diluted				

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
Adjustments to reconcile net income to net cash
provided from operations:
Depreciation and amortization
Other, net
Changes in operating assets and liabilities, net
Net cash provided from operations

Cash Flows from Investing Operations:
Additions to property, plant and equipment
Proceeds from sale of investments
Net cash used in investing activities

Cash Flows from Financing Activities:
Dividends on common stock
Change in intercompany balance with Alltel
Net cash used in financing activities

Decrease in cash and short-term investments
Cash and Short-Term Investments:
Beginning of year
End of year

CONFIDENTIAL

CONFIDENTIAL

Unaudited Pro Forma Combined Condensed Financial Information

CONFIDENTIAL

CONFIDENTIAL

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

a.

b.

c.

d.

e.

f.

CONFIDENTIAL

CONFIDENTIAL

g.

h.

i.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

j.

k.

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

CONFIDENTIAL

l.

m.

n.

o.

p.

q.

CONFIDENTIAL

CONFIDENTIAL

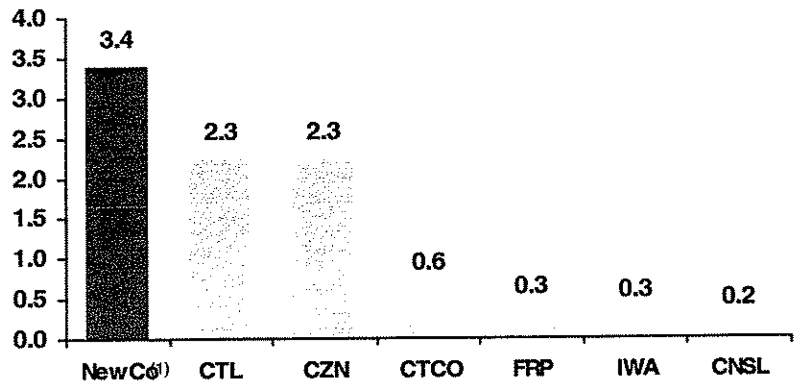
CONFIDENTIAL
CONFIDENTIAL
CONFIDENTIAL

EXHIBIT 2

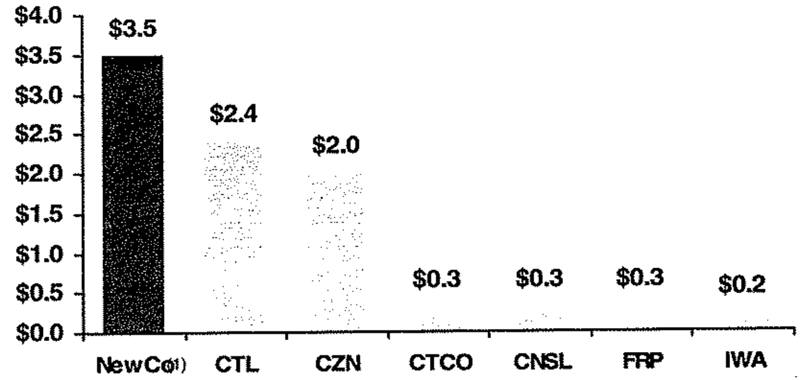
Premier Rural Wireline Company

Significant Scale and Profitability

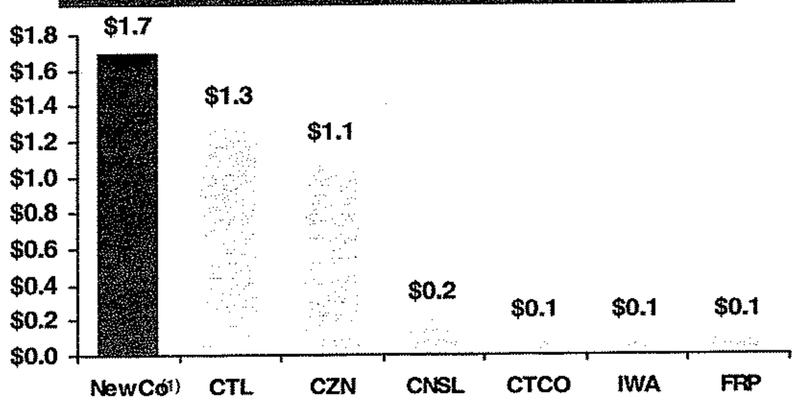
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

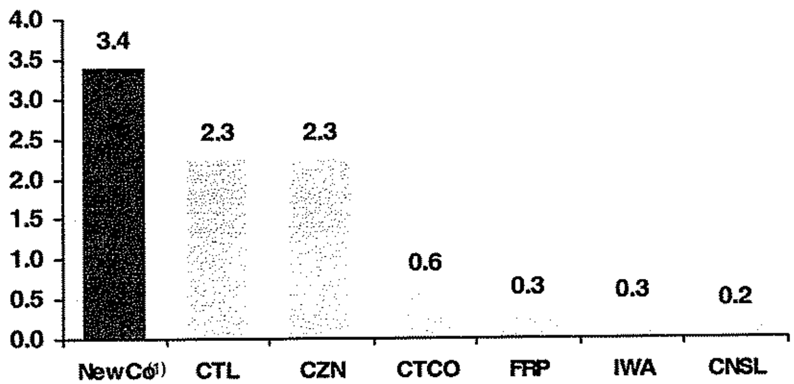


(1) Pro forma for Alltel/VALOR merger .

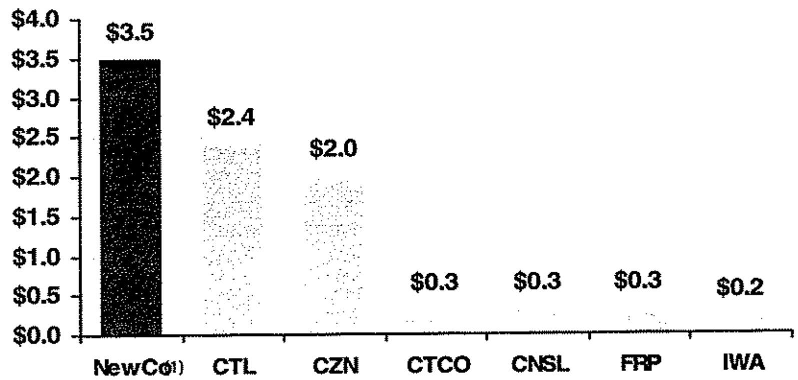
Premier Rural Wireline Company

Significant Scale and Profitability

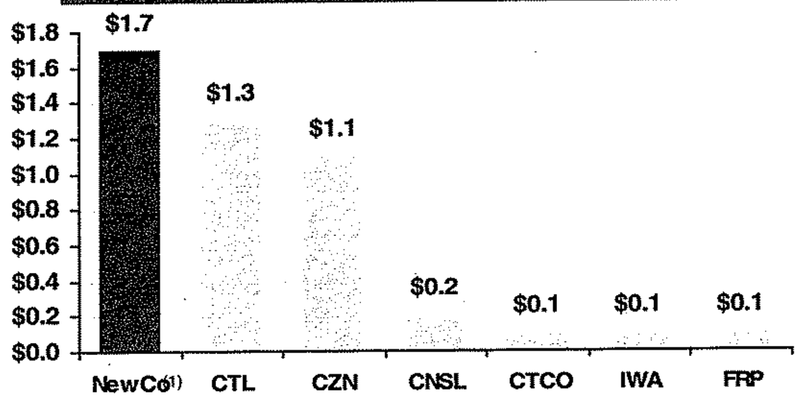
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

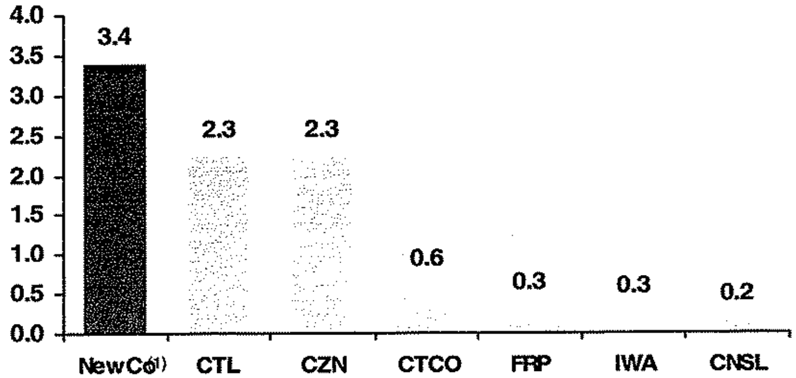


(1) Pro forma for Alltel/VALOR merger.

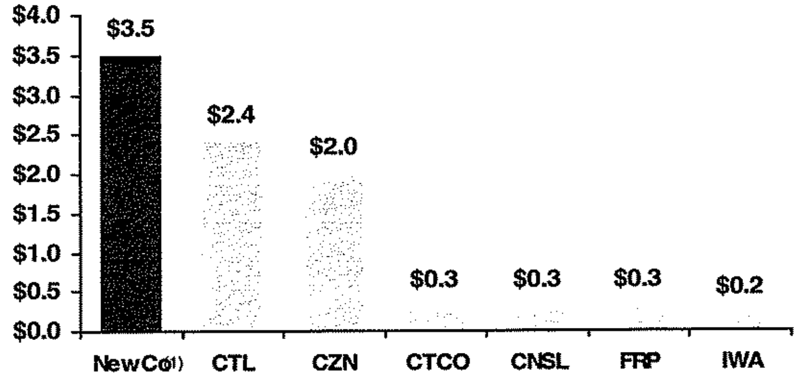
Premier Rural Wireline Company

Significant Scale and Profitability

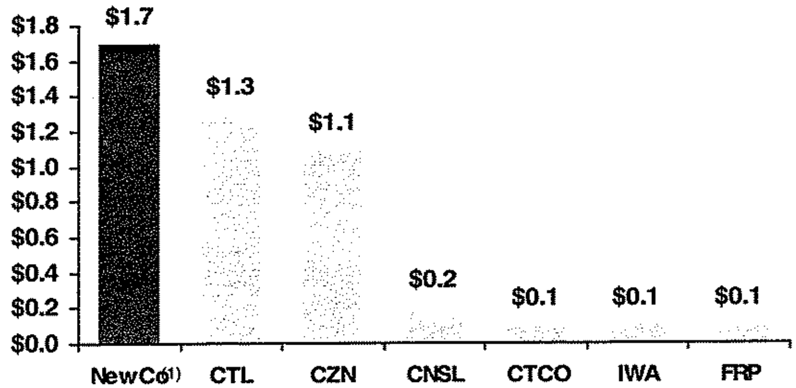
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

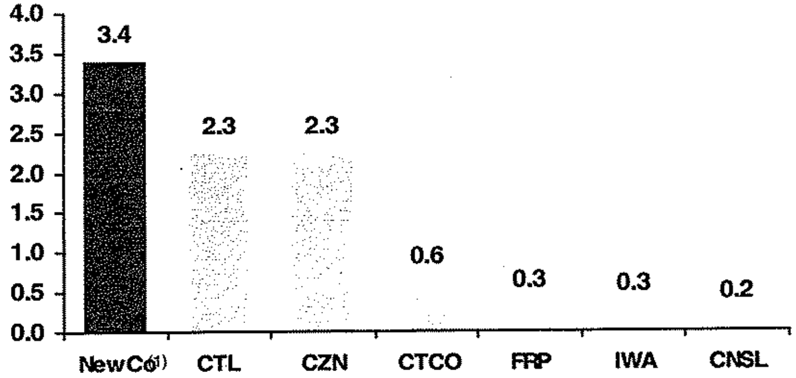


(1) Pro forma for Alltel/VALOR merger.

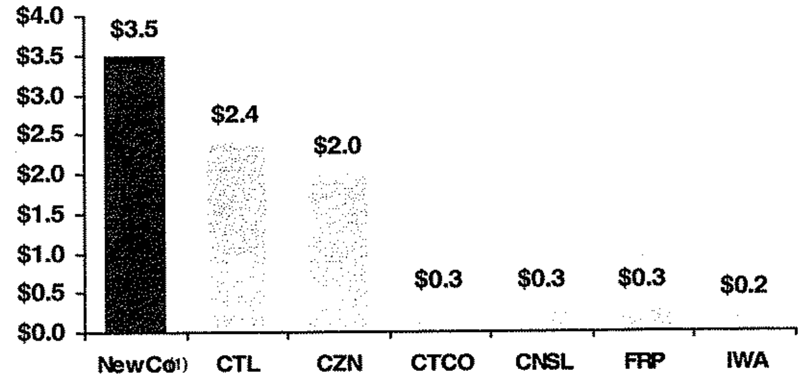
Premier Rural Wireline Company

Significant Scale and Profitability

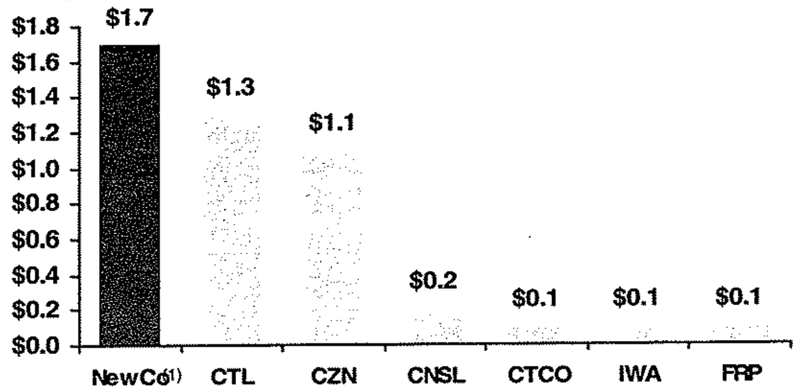
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

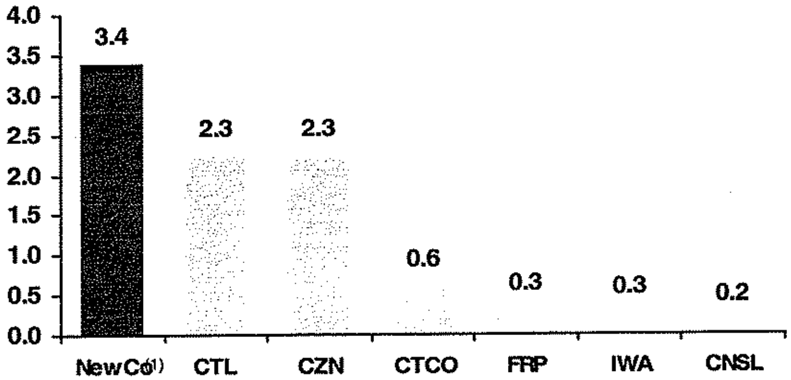


(1) Pro forma for Alltel/VALOR merger .

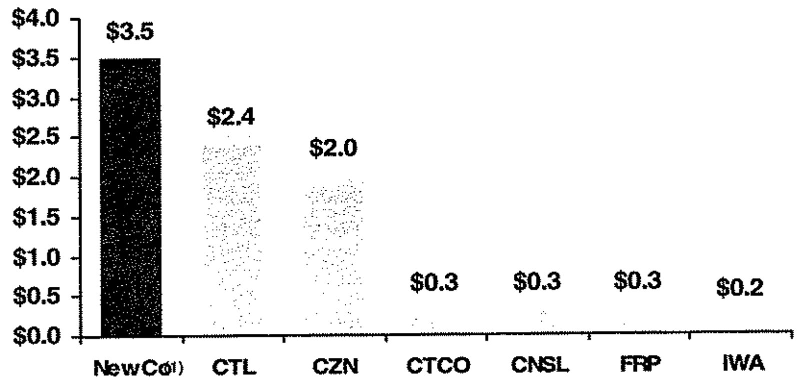
Premier Rural Wireline Company

Significant Scale and Profitability

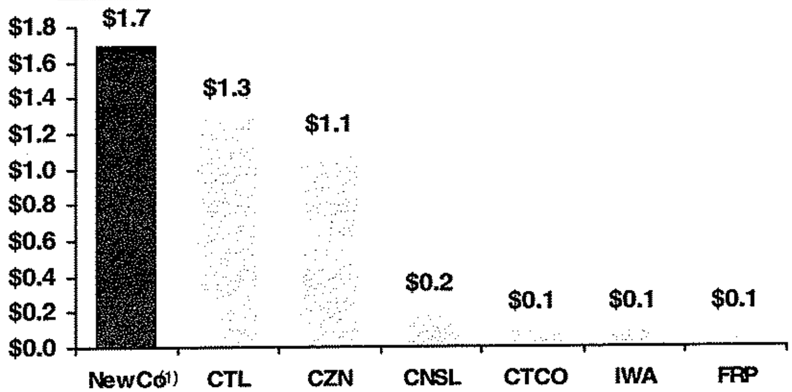
Q3'05 Access Lines (M)



2004 Revenue ($B)



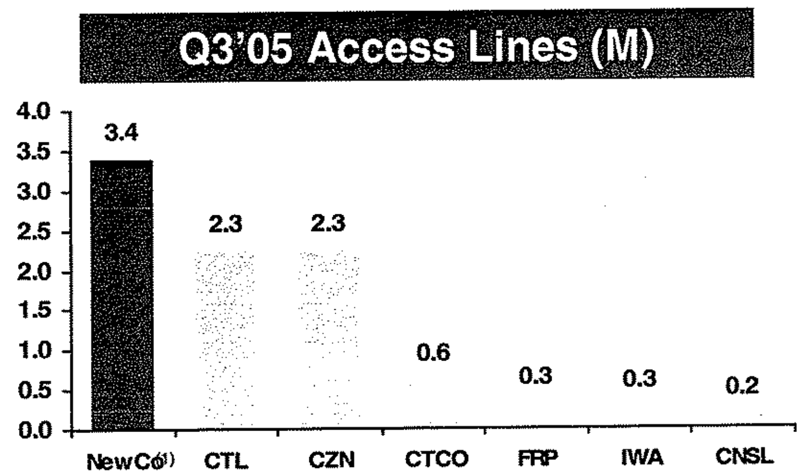
2004 OIBDA ($B)

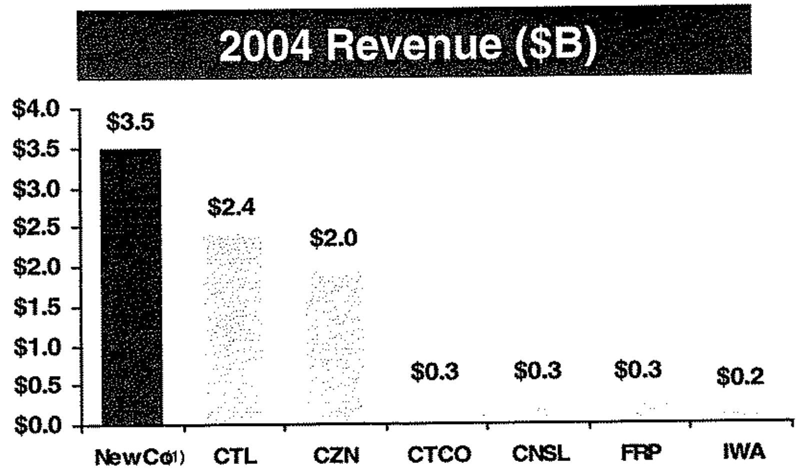


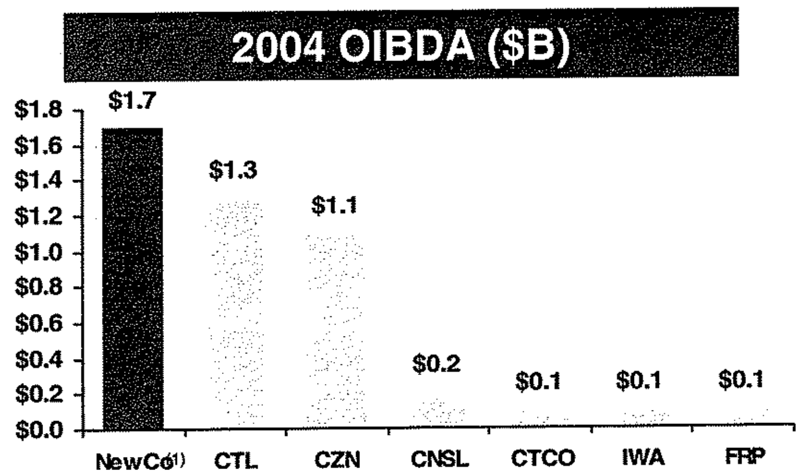
(1) Pro forma for Alltel/VALOR merger .

Premier Rural Wireline Company

Significant Scale and Profitability





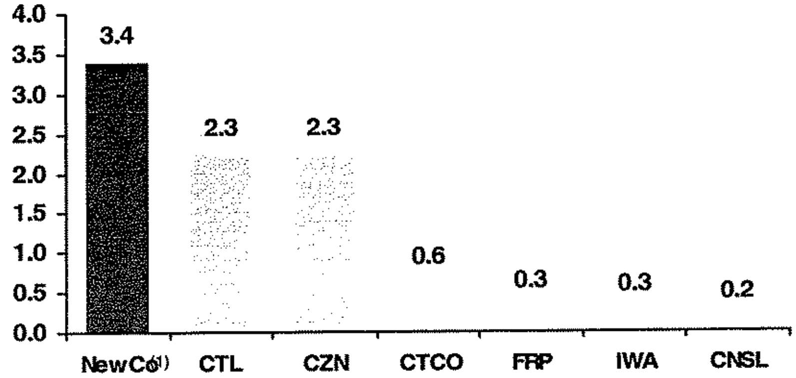


(1) Pro forma for Alltel/VALOR merger .

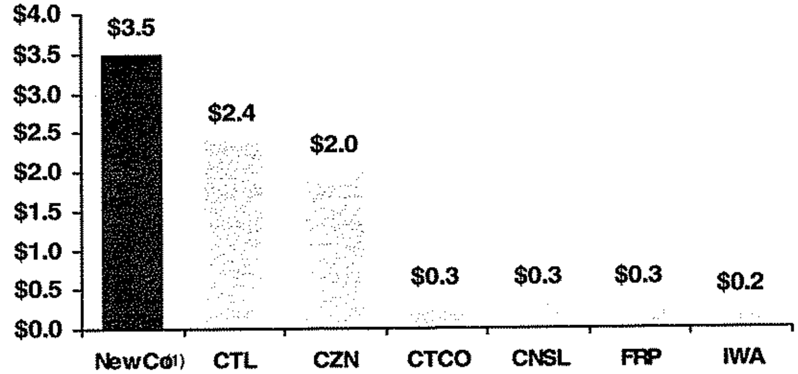
Premier Rural Wireline Company

Significant Scale and Profitability

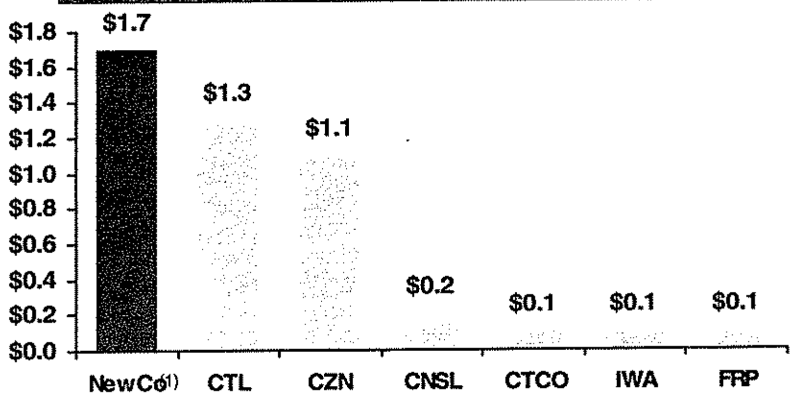
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

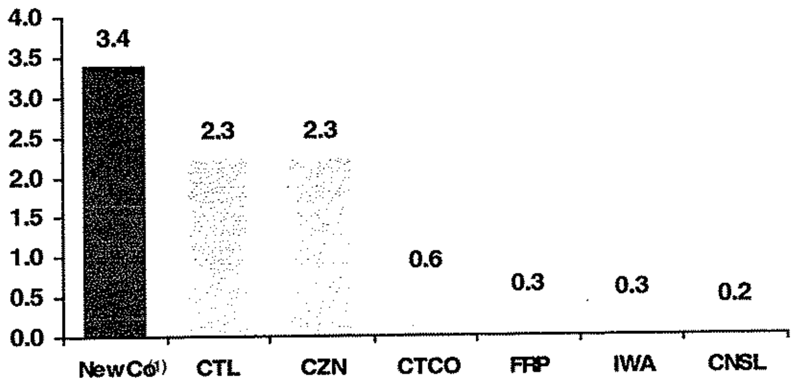


(1) Pro forma for Alltel/VALOR merger .

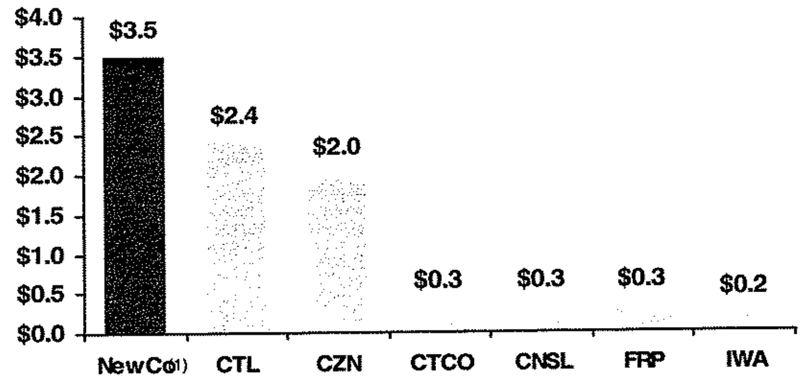
Premier Rural Wireline Company

Significant Scale and Profitability

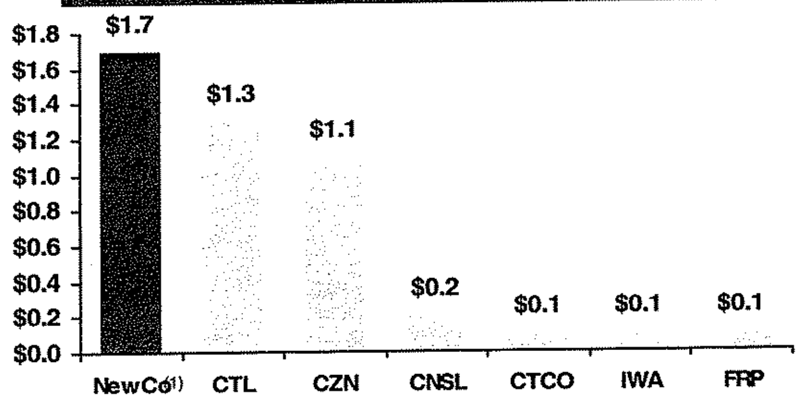
Q3'05 Access Lines (M)



2004 Revenue ($B)



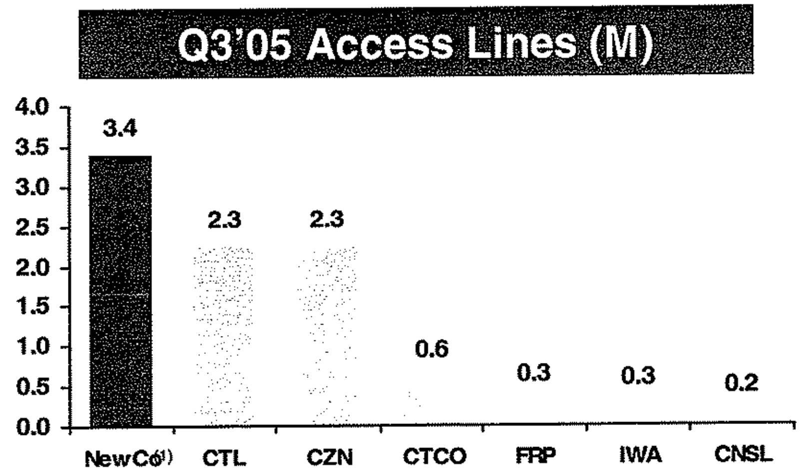
2004 OIBDA ($B)

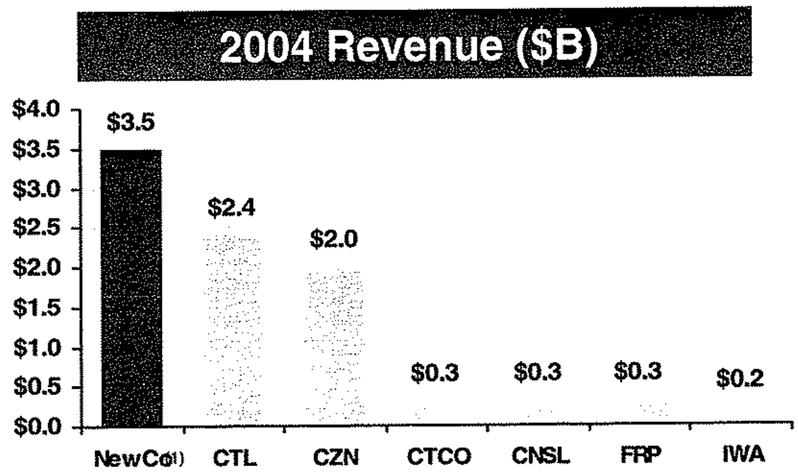


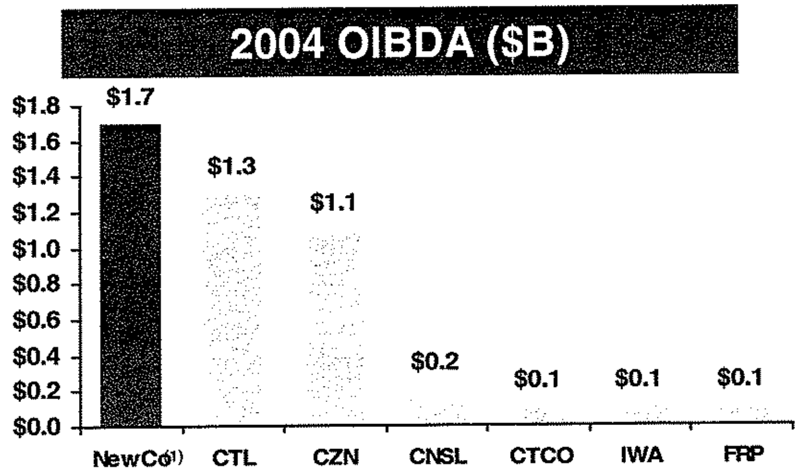
(1) Pro forma for Alltel/VALOR merger.

Premier Rural Wireline Company

Significant Scale and Profitability





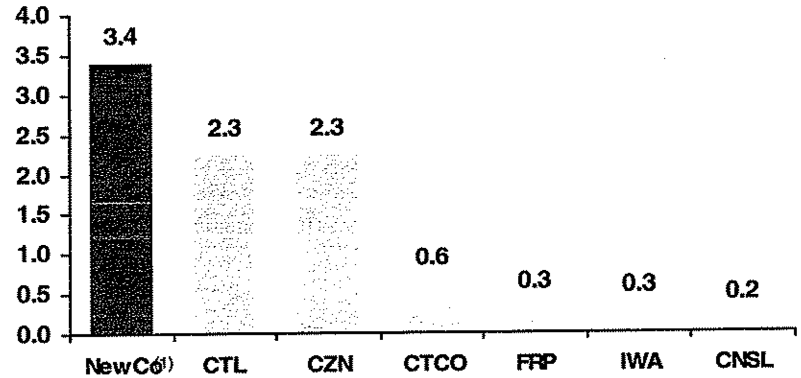


(1) Pro forma for Alltel/VALOR merger.

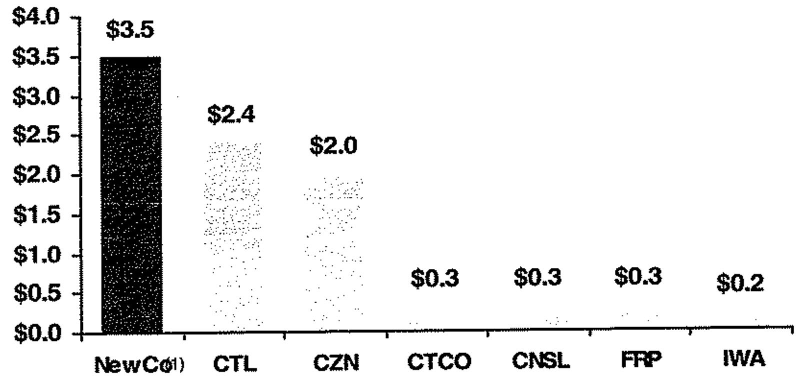
Premier Rural Wireline Company

Significant Scale and Profitability

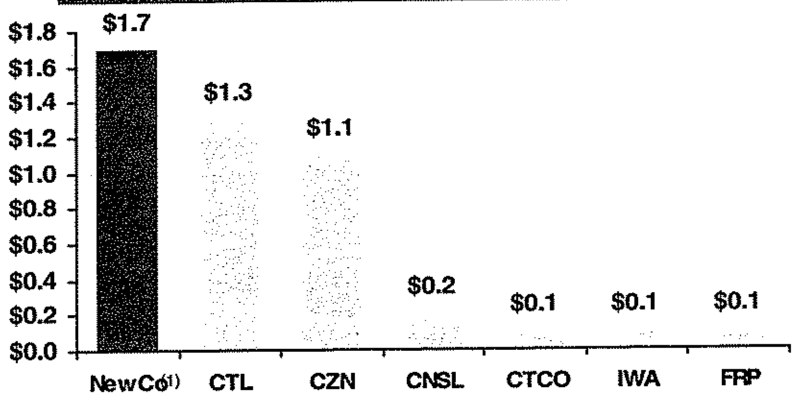
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

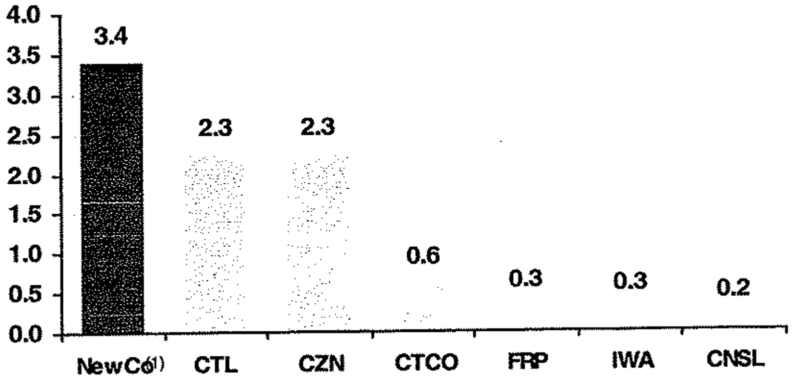


(1) Pro forma for Alltel/VALOR merger.

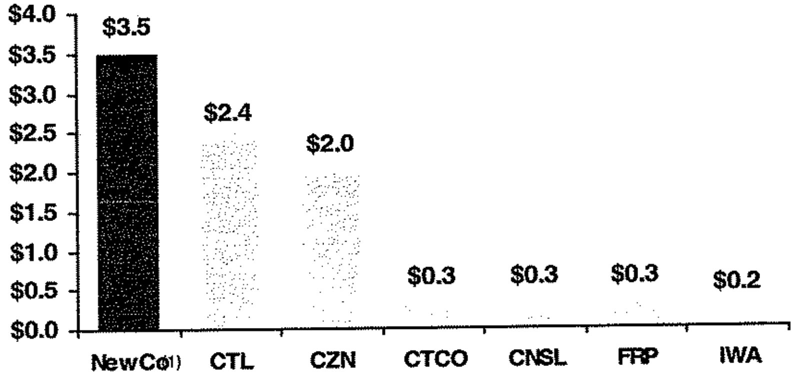
Premier Rural Wireline Company

Significant Scale and Profitability

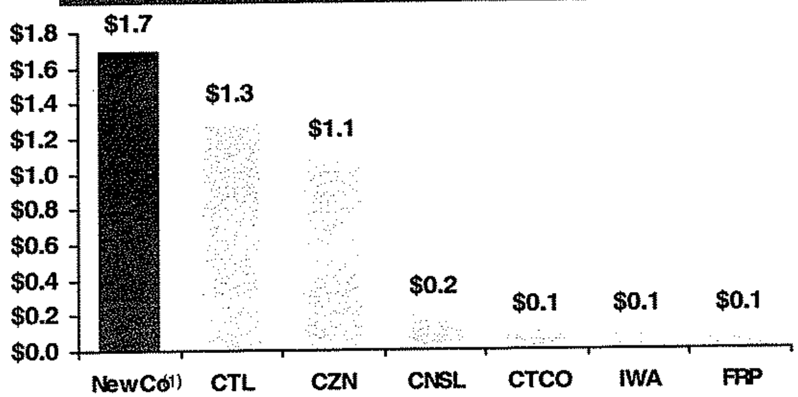
Q3'05 Access Lines (M)



2004 Revenue ($B)



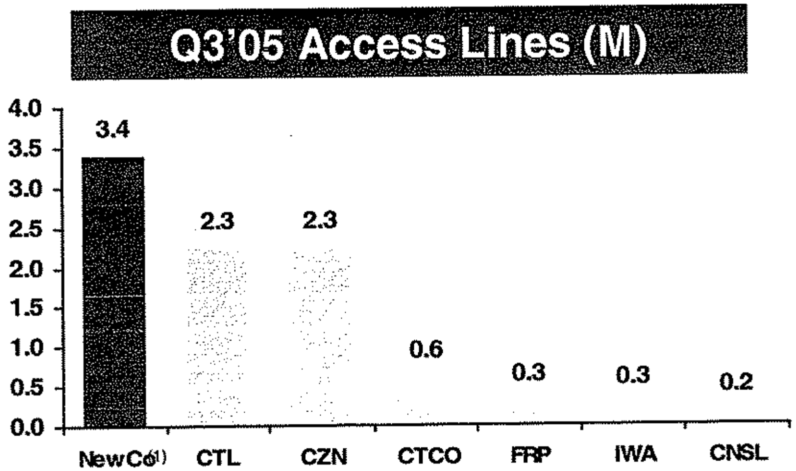
2004 OIBDA ($B)

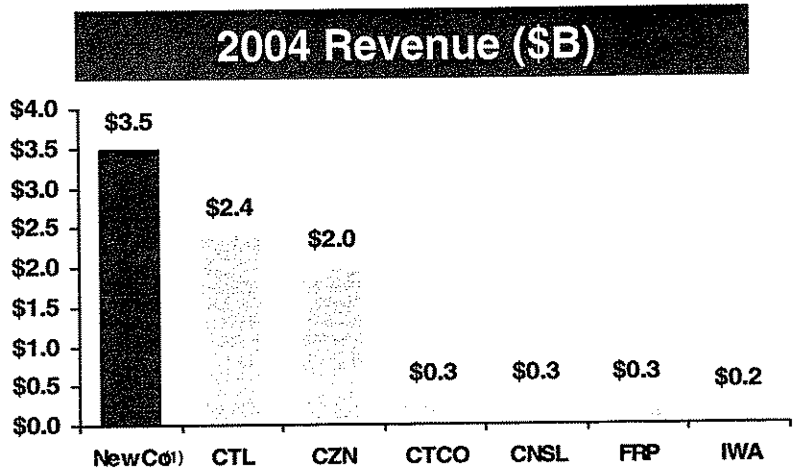


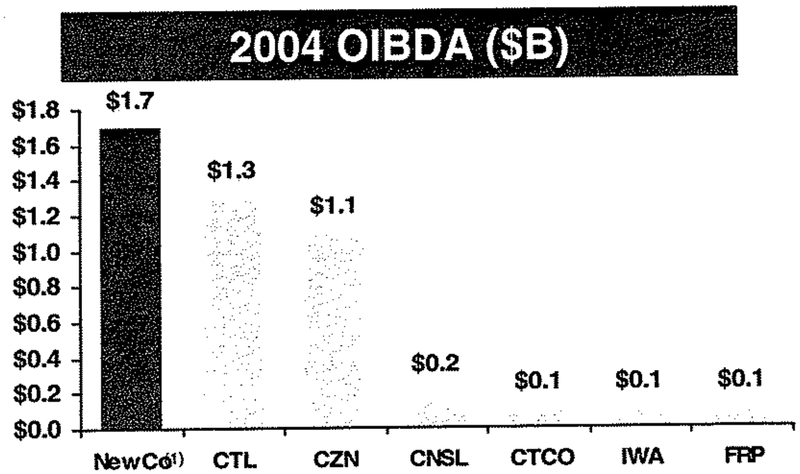
(1) Pro forma for Alltel/VALOR merger .

Premier Rural Wireline Company

Significant Scale and Profitability



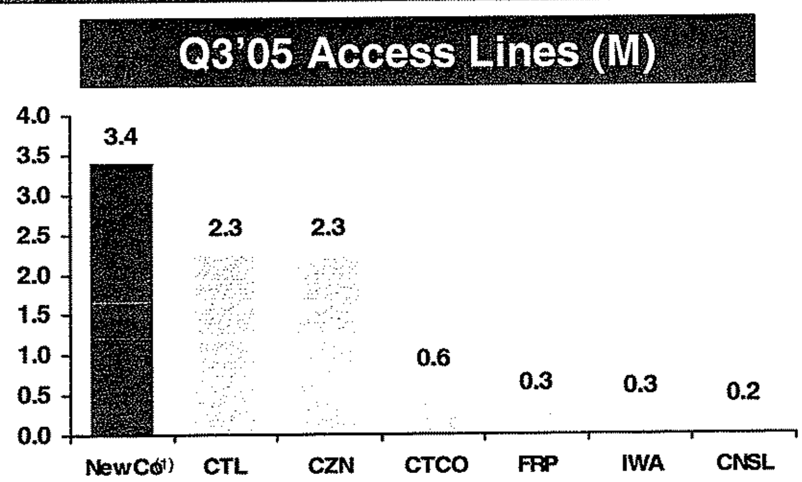


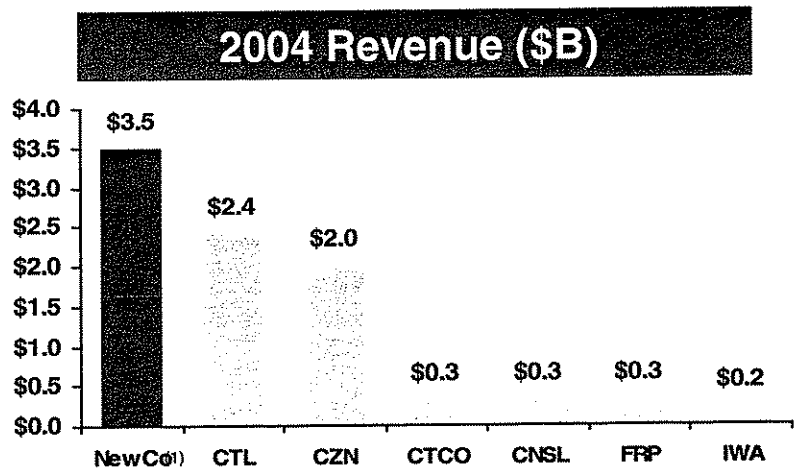


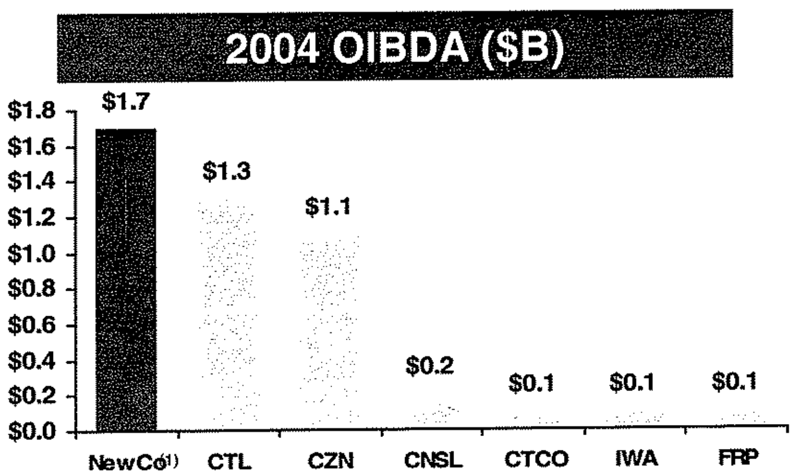
(1) Pro forma for Alltel/VALOR merger .

Premier Rural Wireline Company

Significant Scale and Profitability





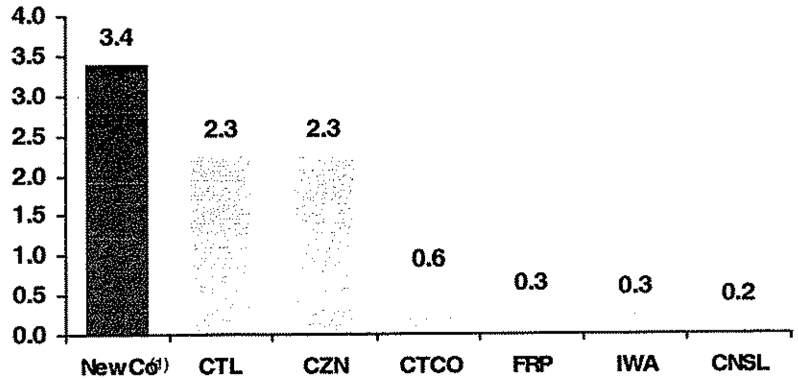


(1) Pro forma for Alltel/VALOR merger.

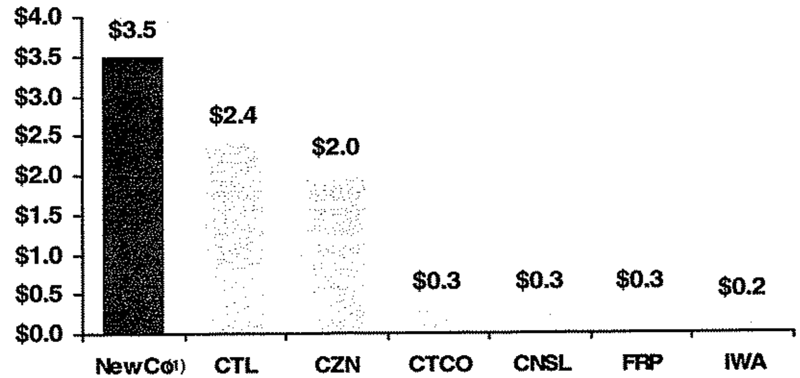
Premier Rural Wireline Company

Significant Scale and Profitability

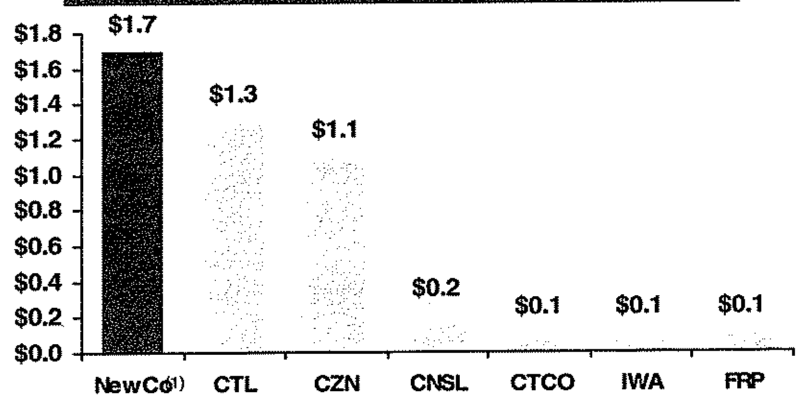
Q3'05 Access Lines (M)



2004 Revenue ($B)



2004 OIBDA ($B)

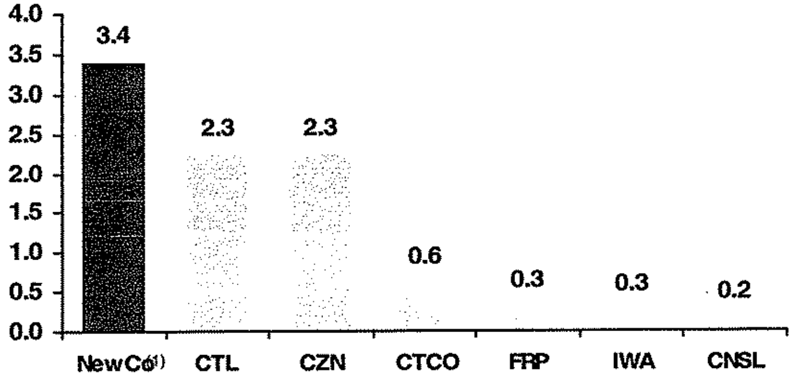


(1) Pro forma for Alltel/VALOR merger.

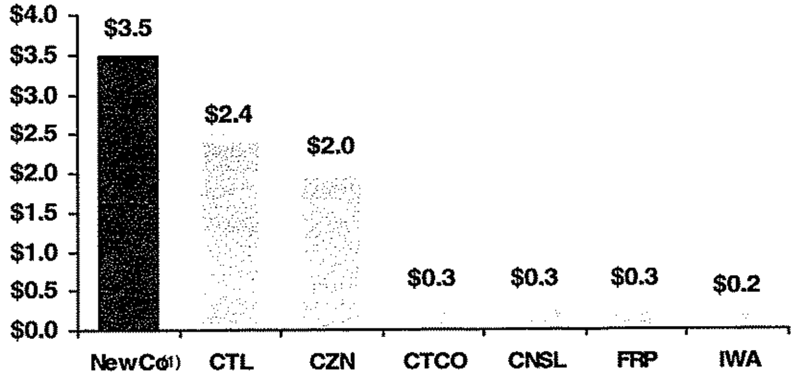
Premier Rural Wireline Company

Significant Scale and Profitability

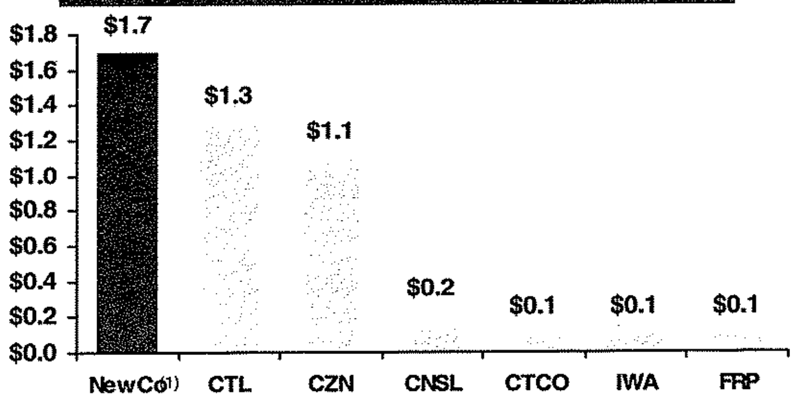
Q3'05 Access Lines (M)



2004 Revenue ($B)



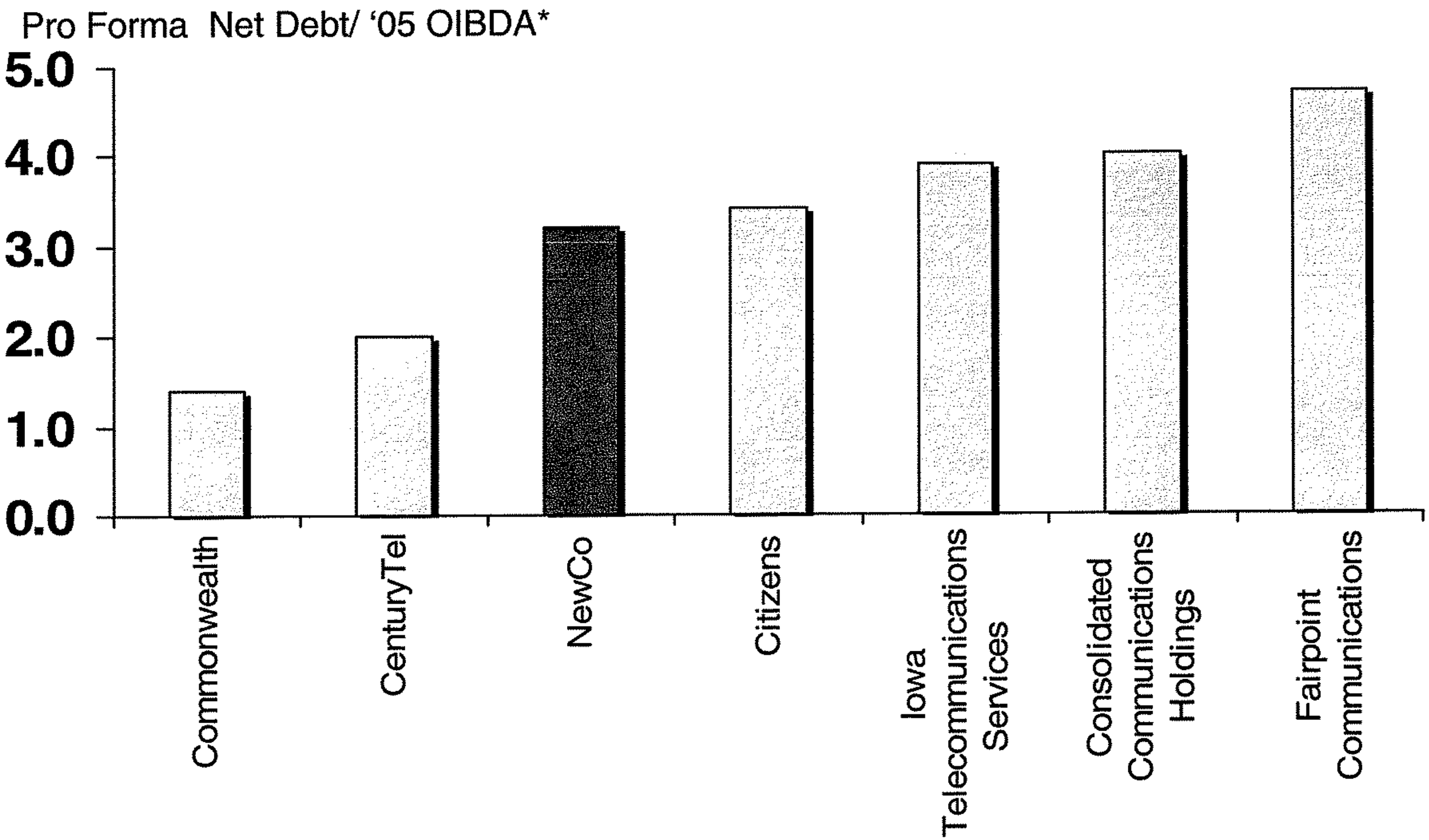
2004 OIBDA ($B)



(1) Pro forma for Alltel/VALOR merger.

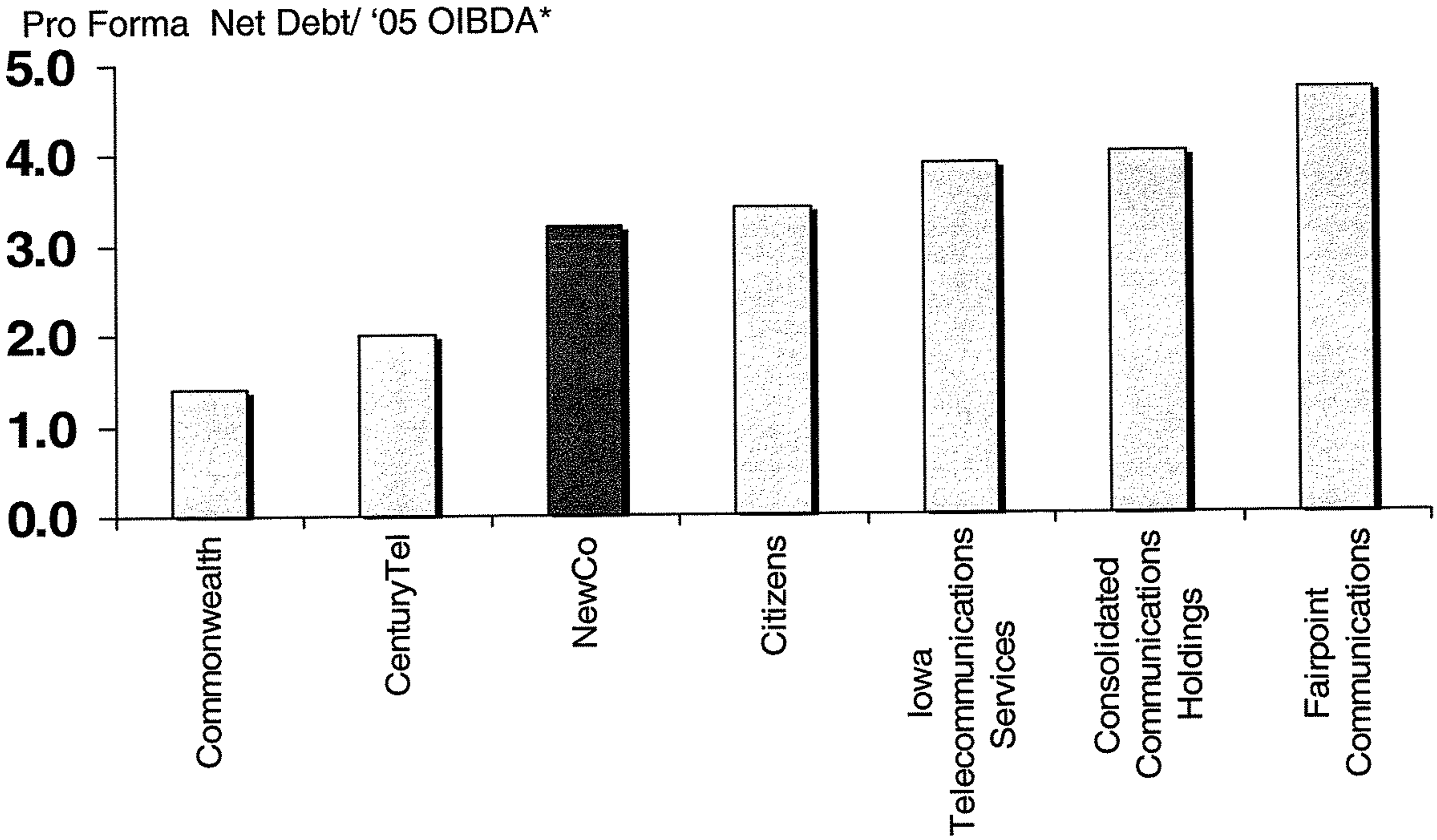
EXHIBIT 3

Proposed Wireline Capital Structure



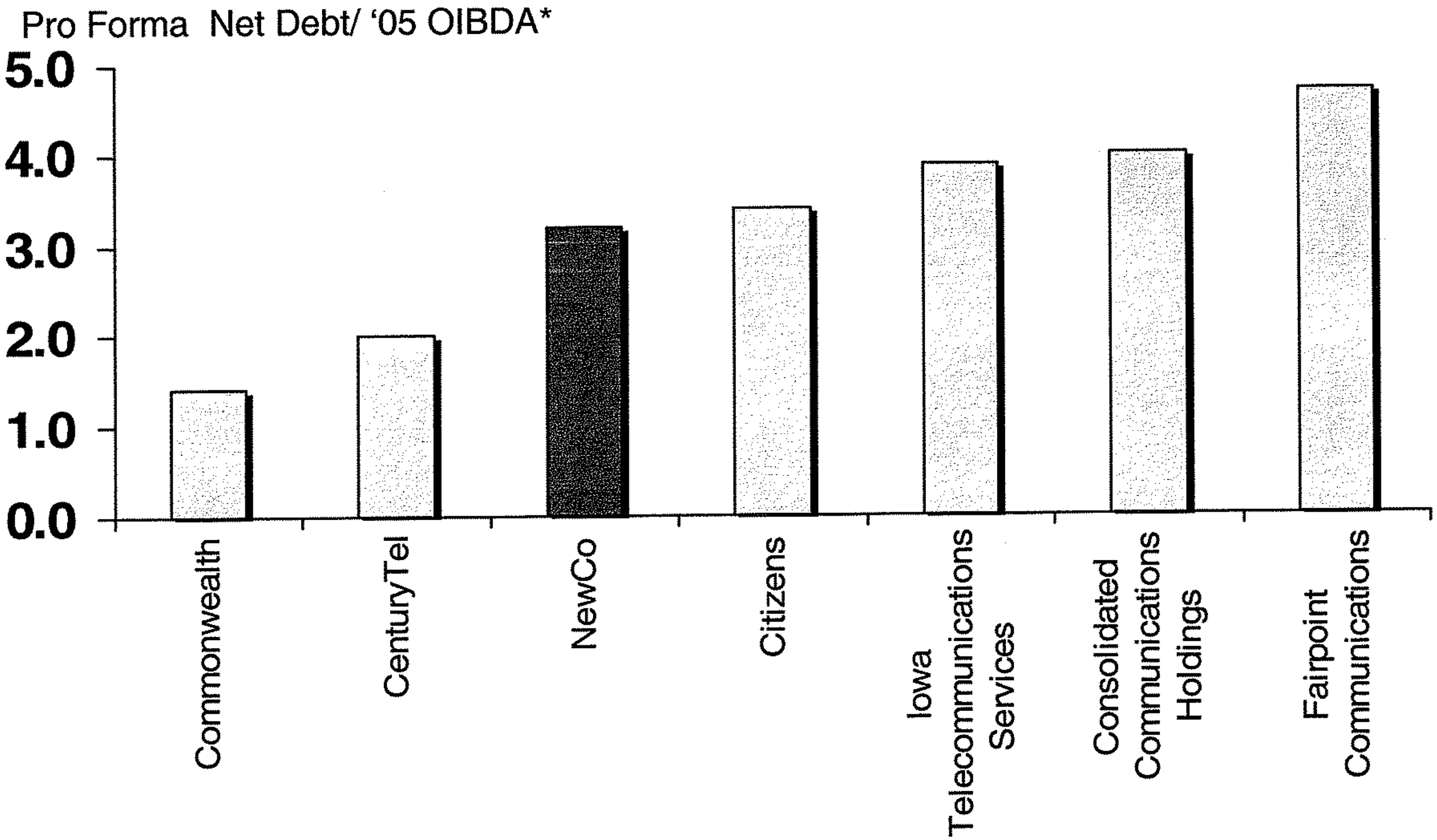
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



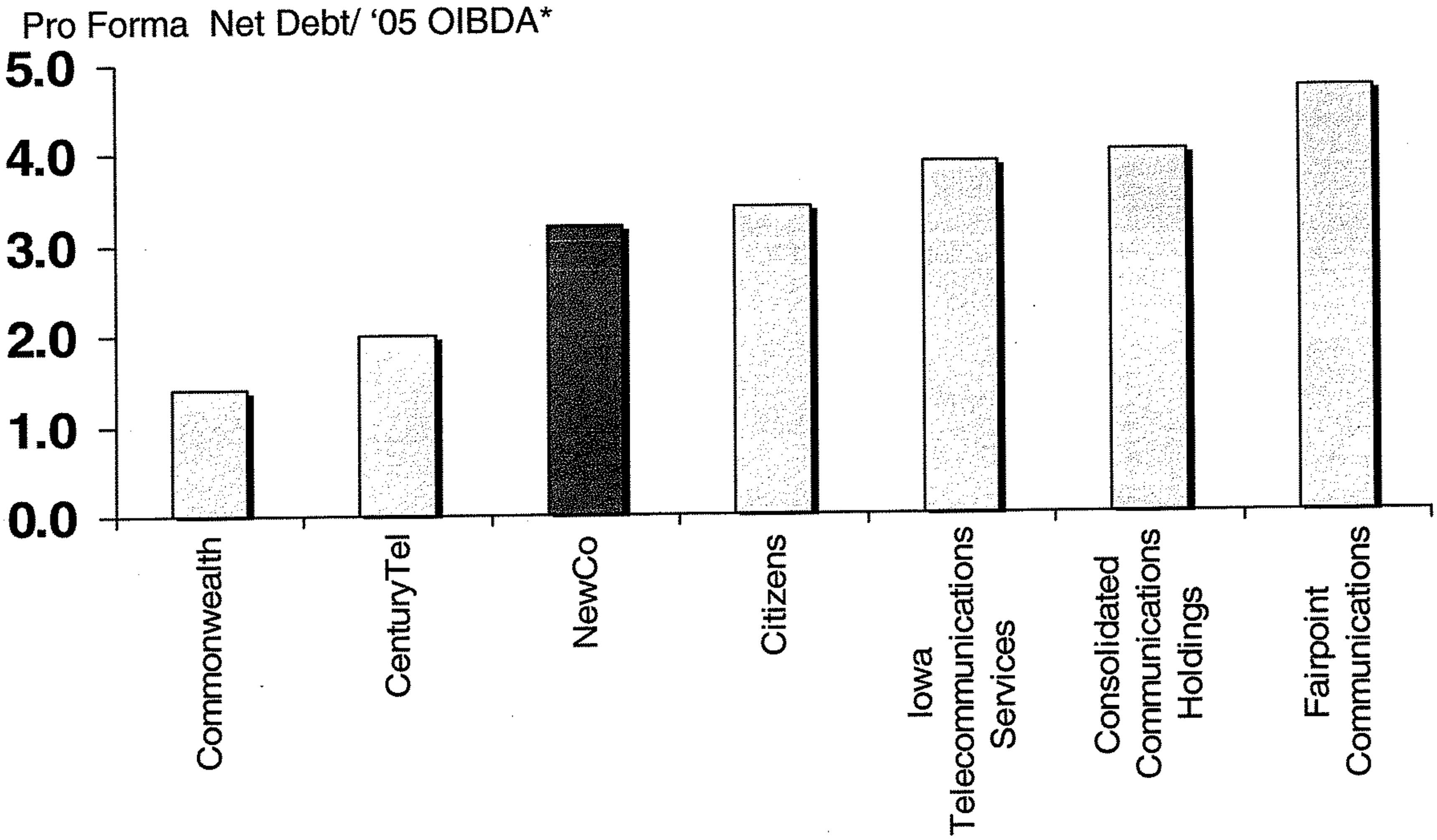
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



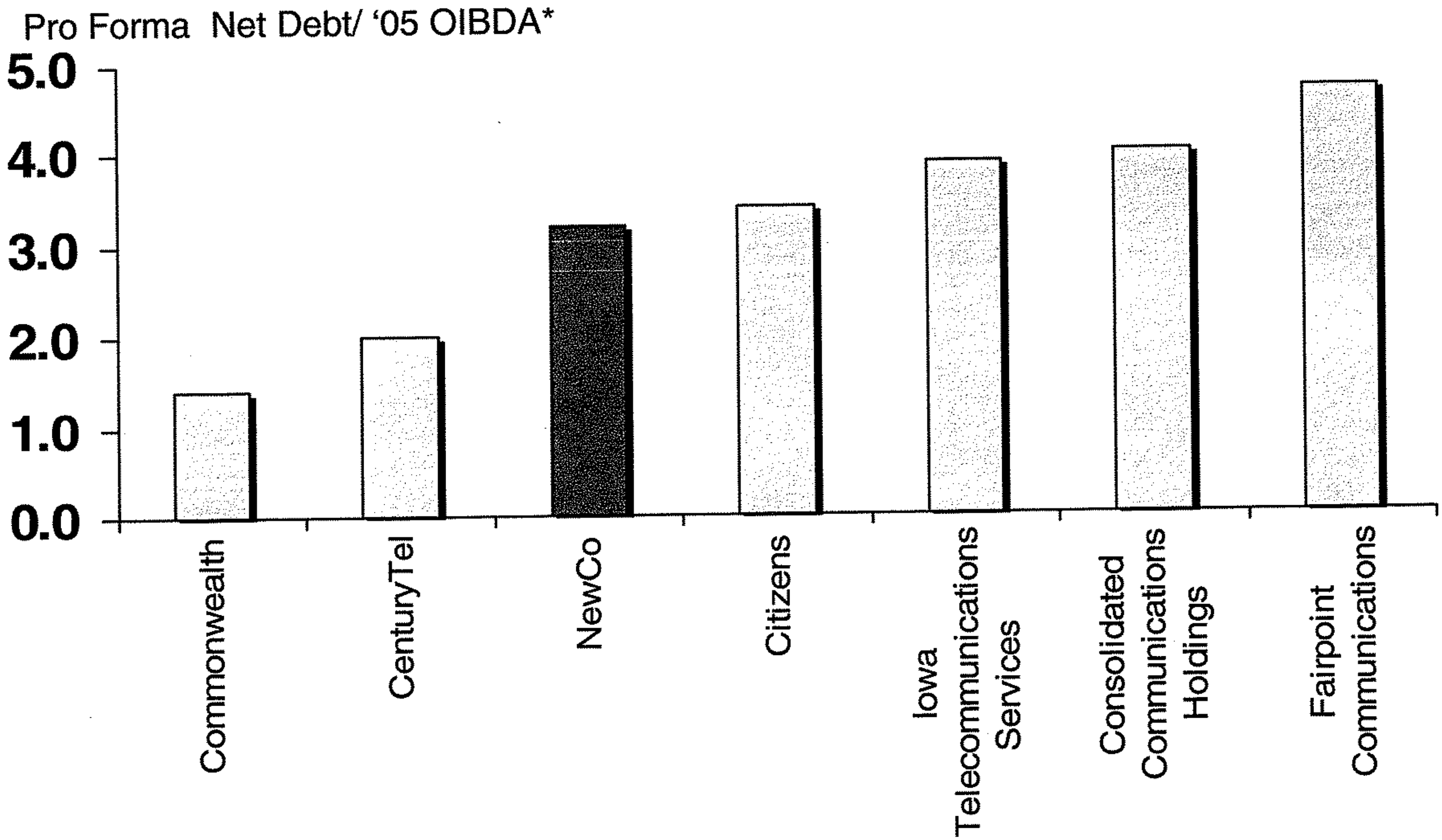
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

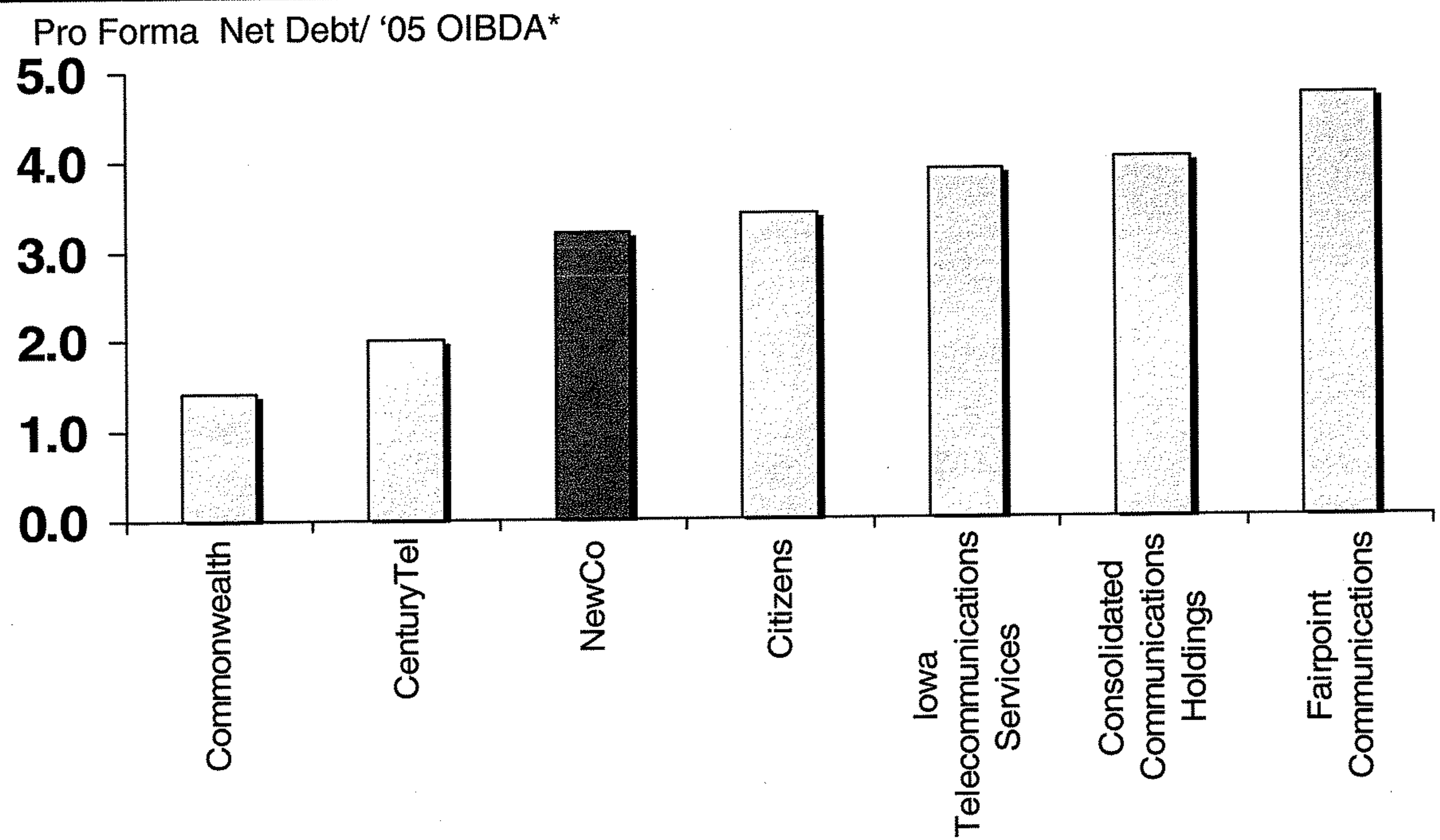
Proposed Wireline Capital Structure



*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

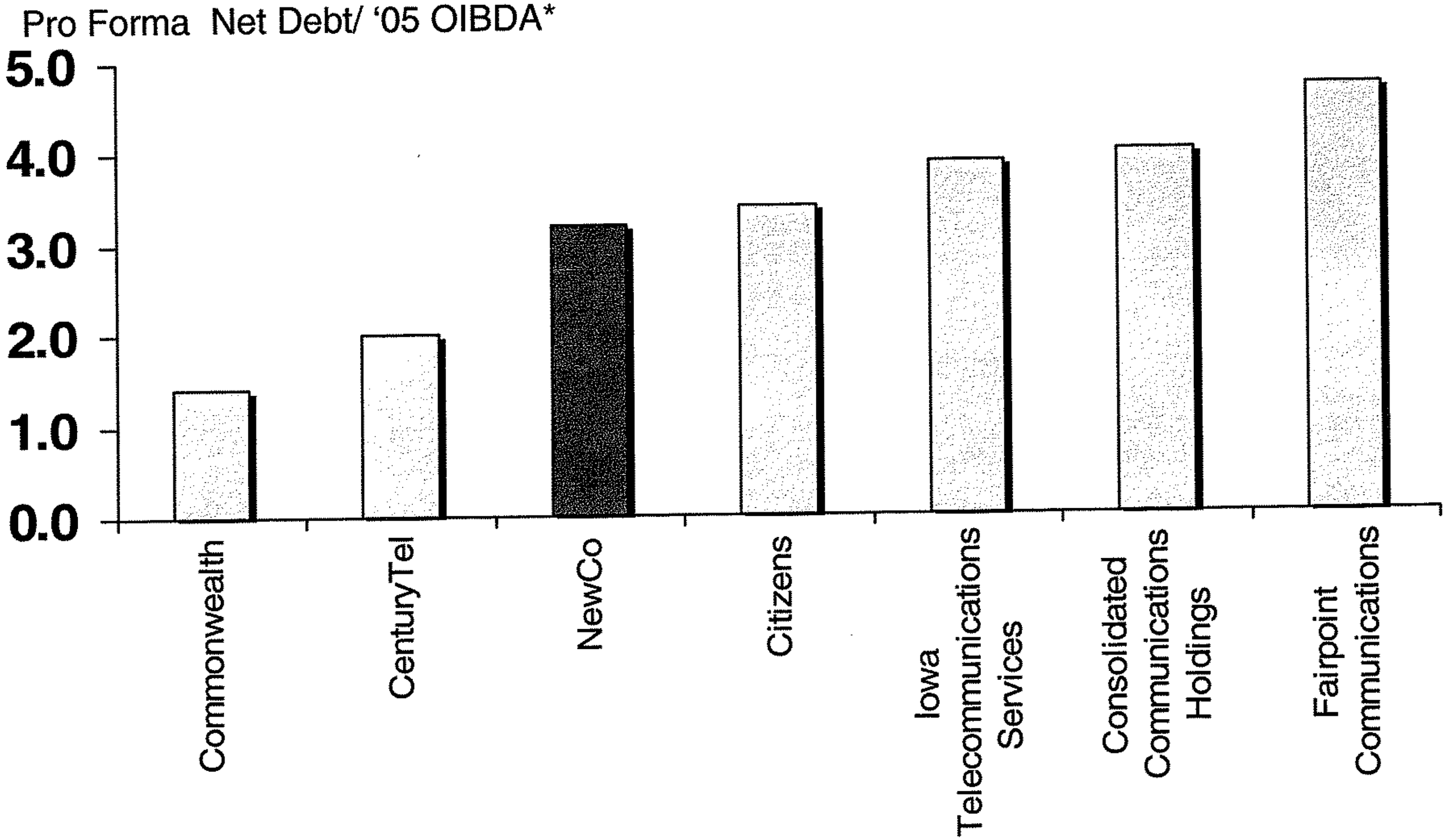
alltel

Proposed Wireline Capital Structure



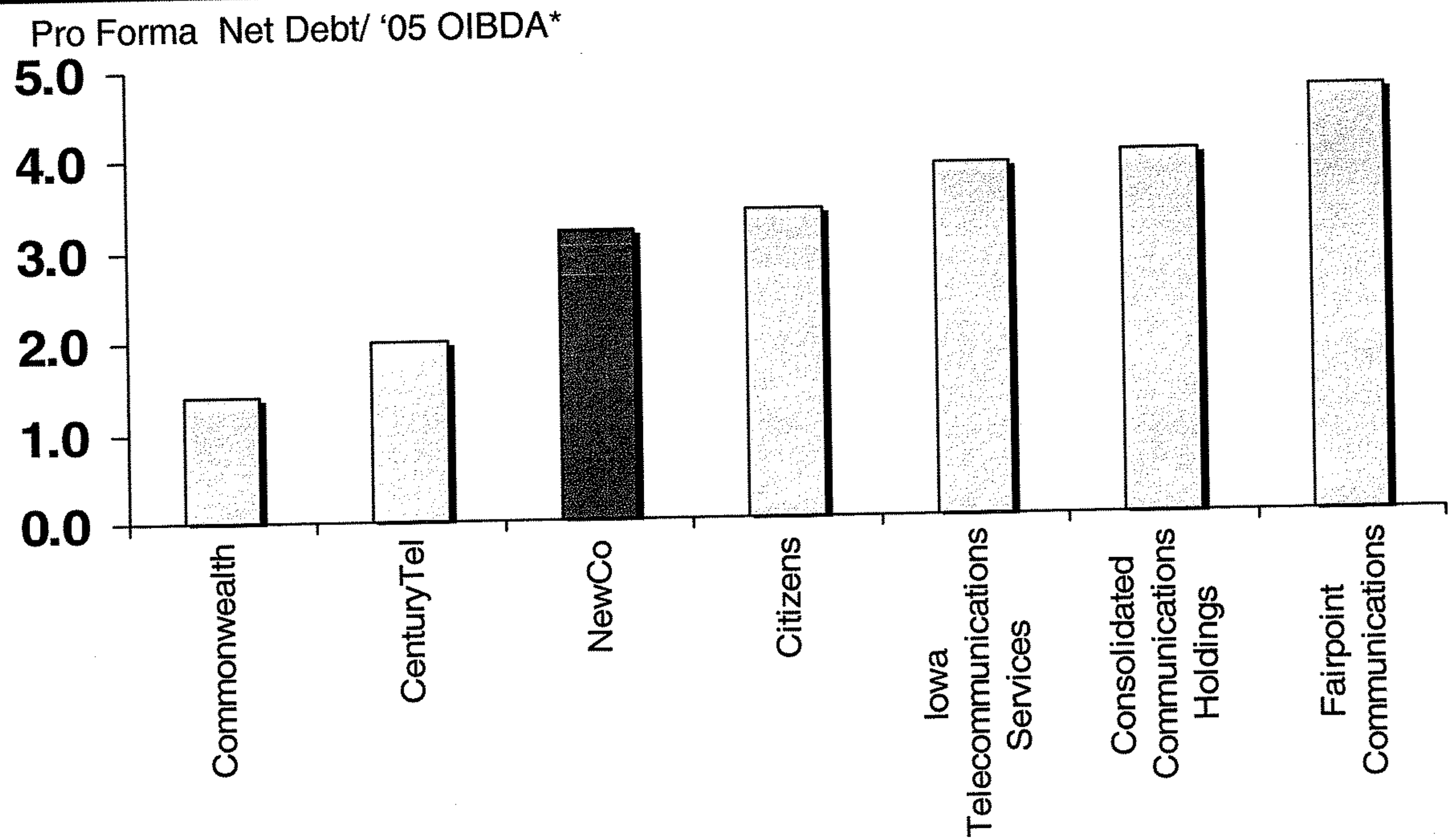
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

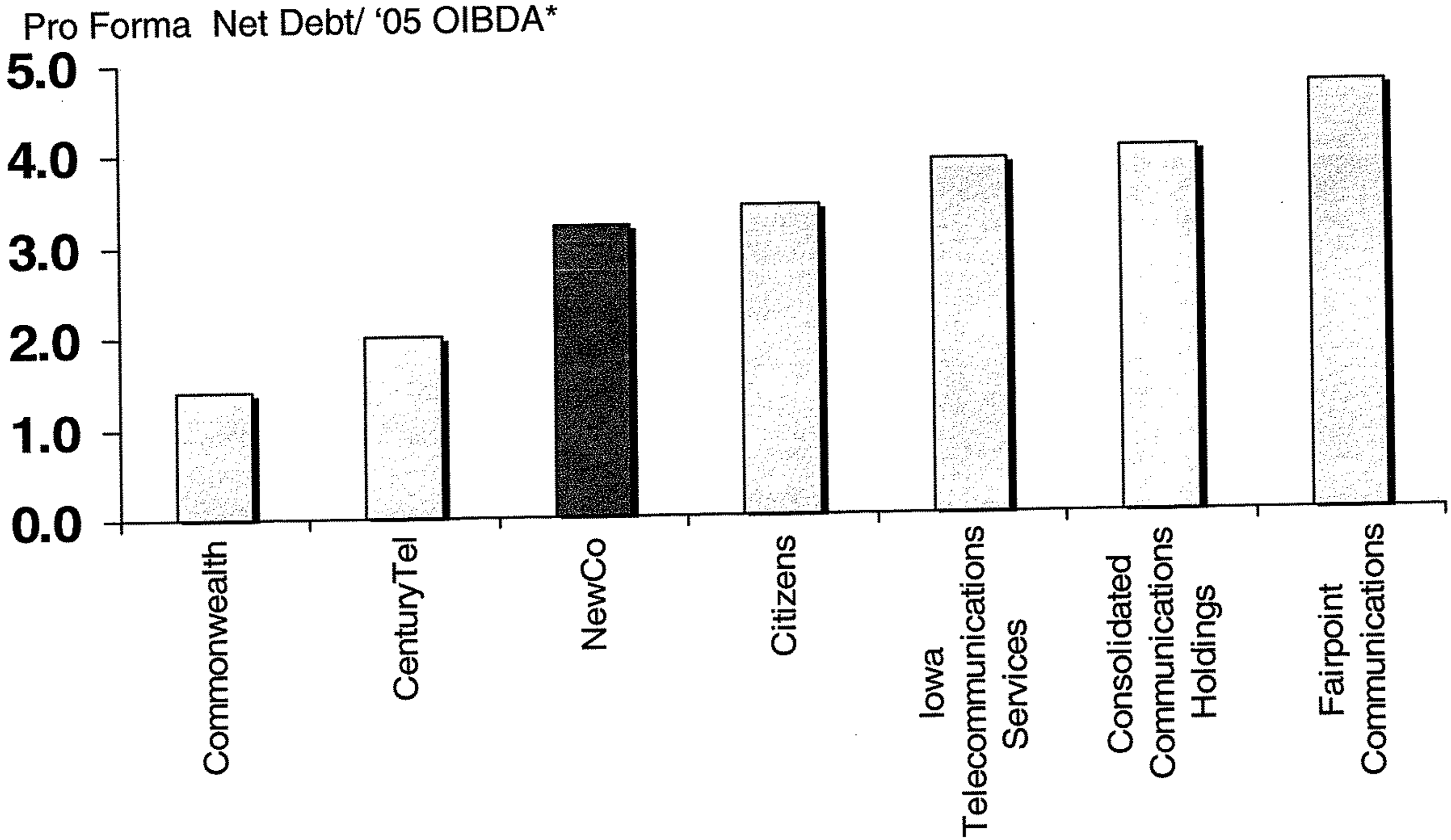
Proposed Wireline Capital Structure



*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

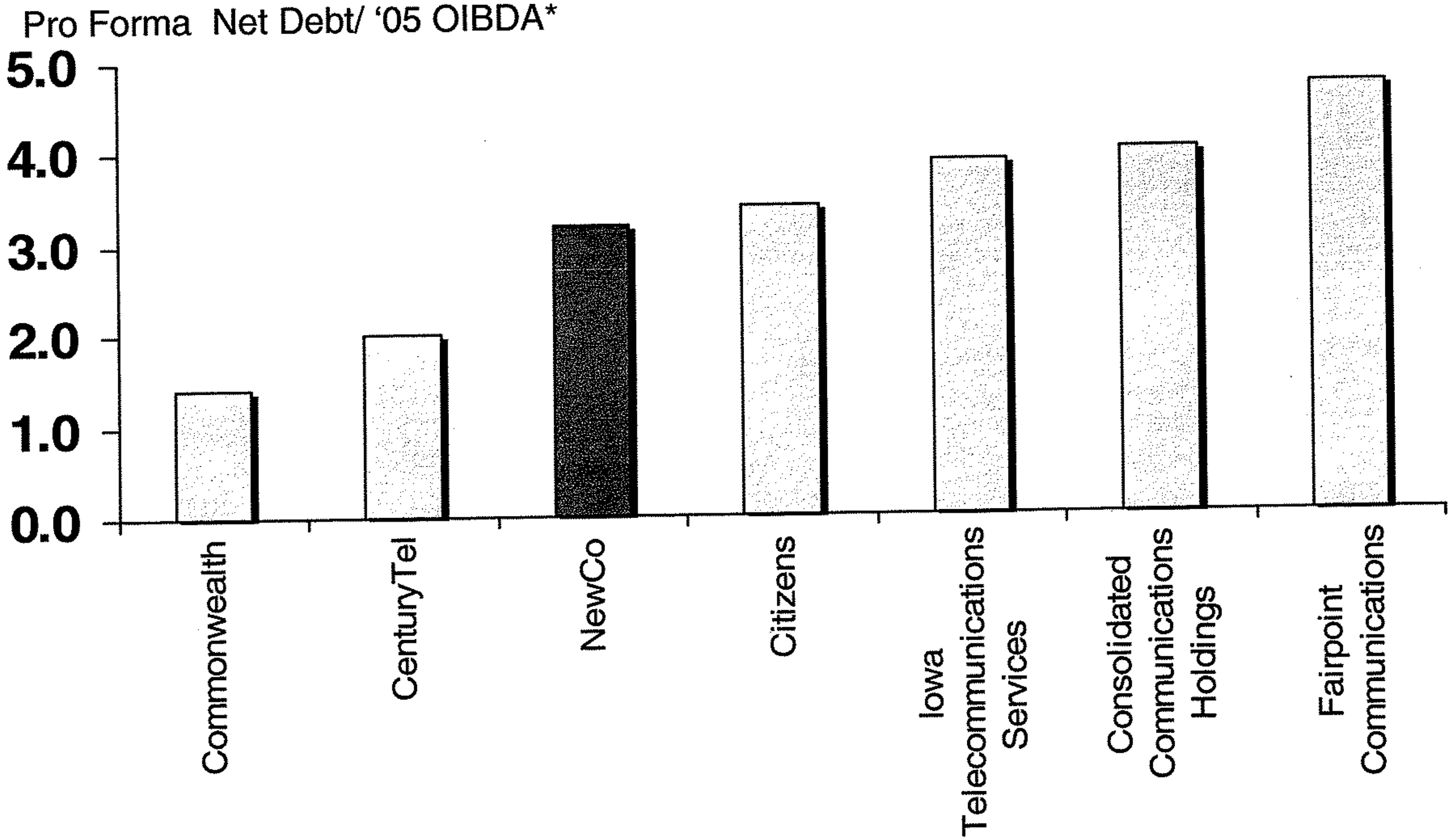
alltel

Proposed Wireline Capital Structure



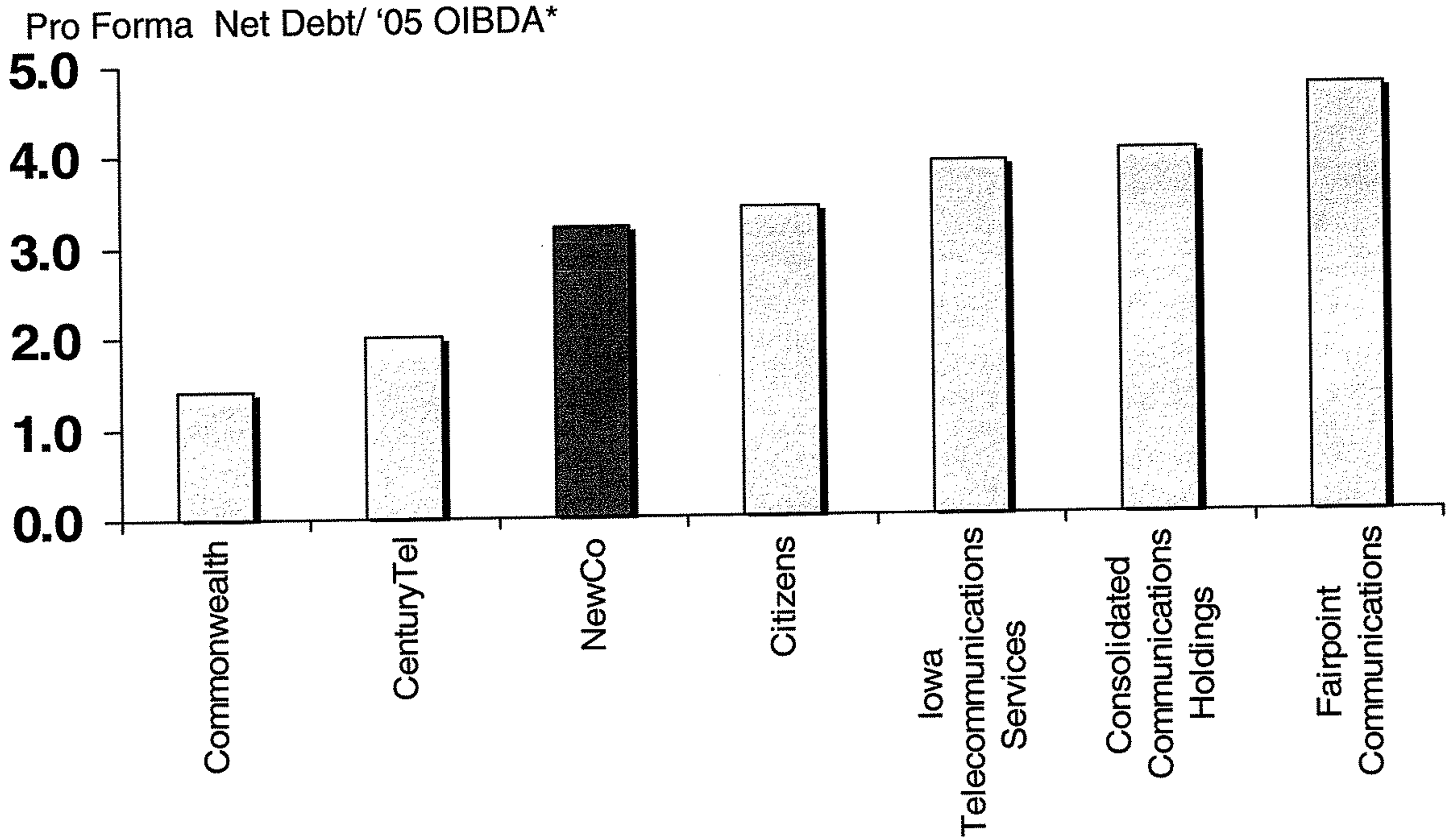
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



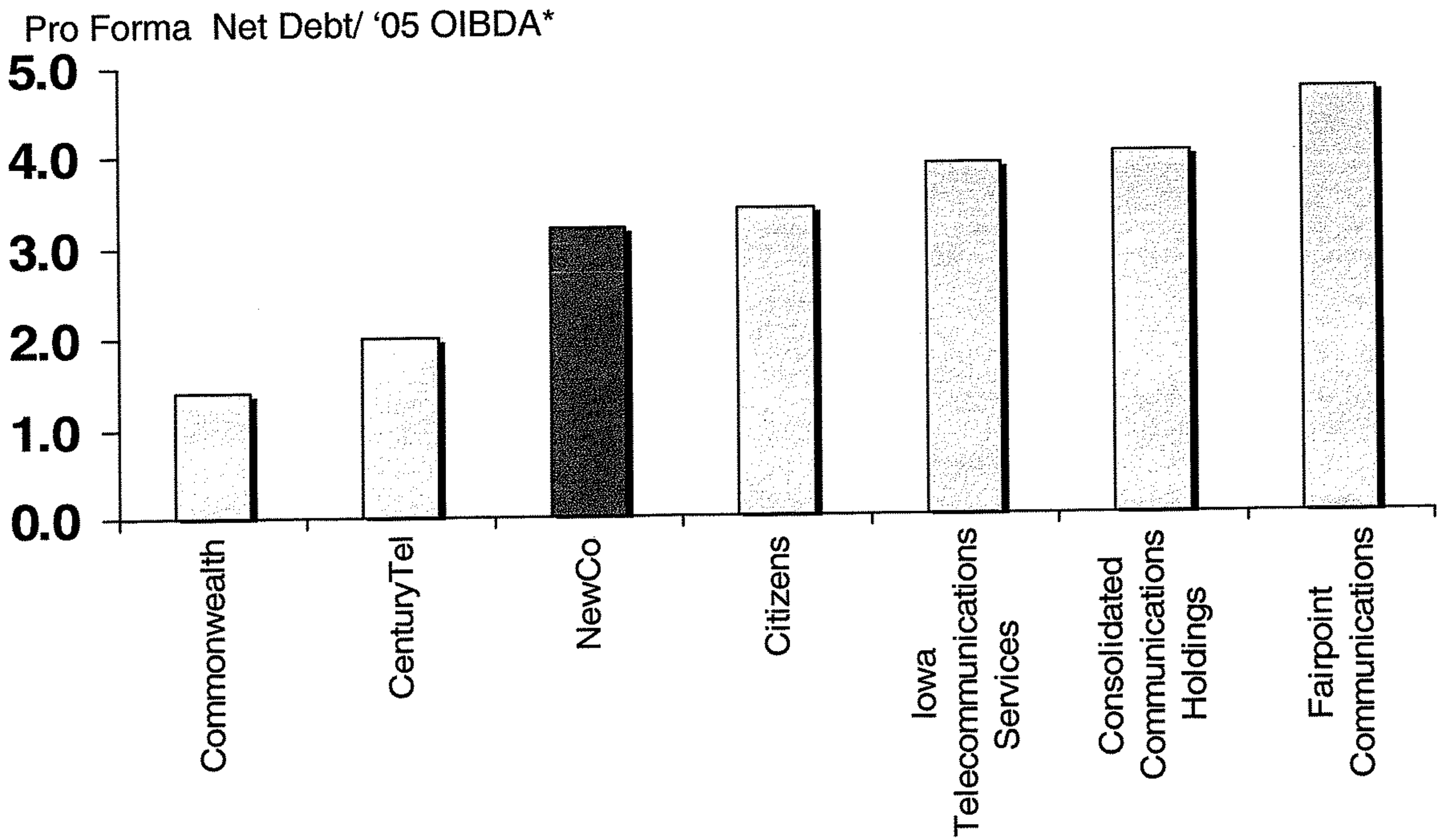
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



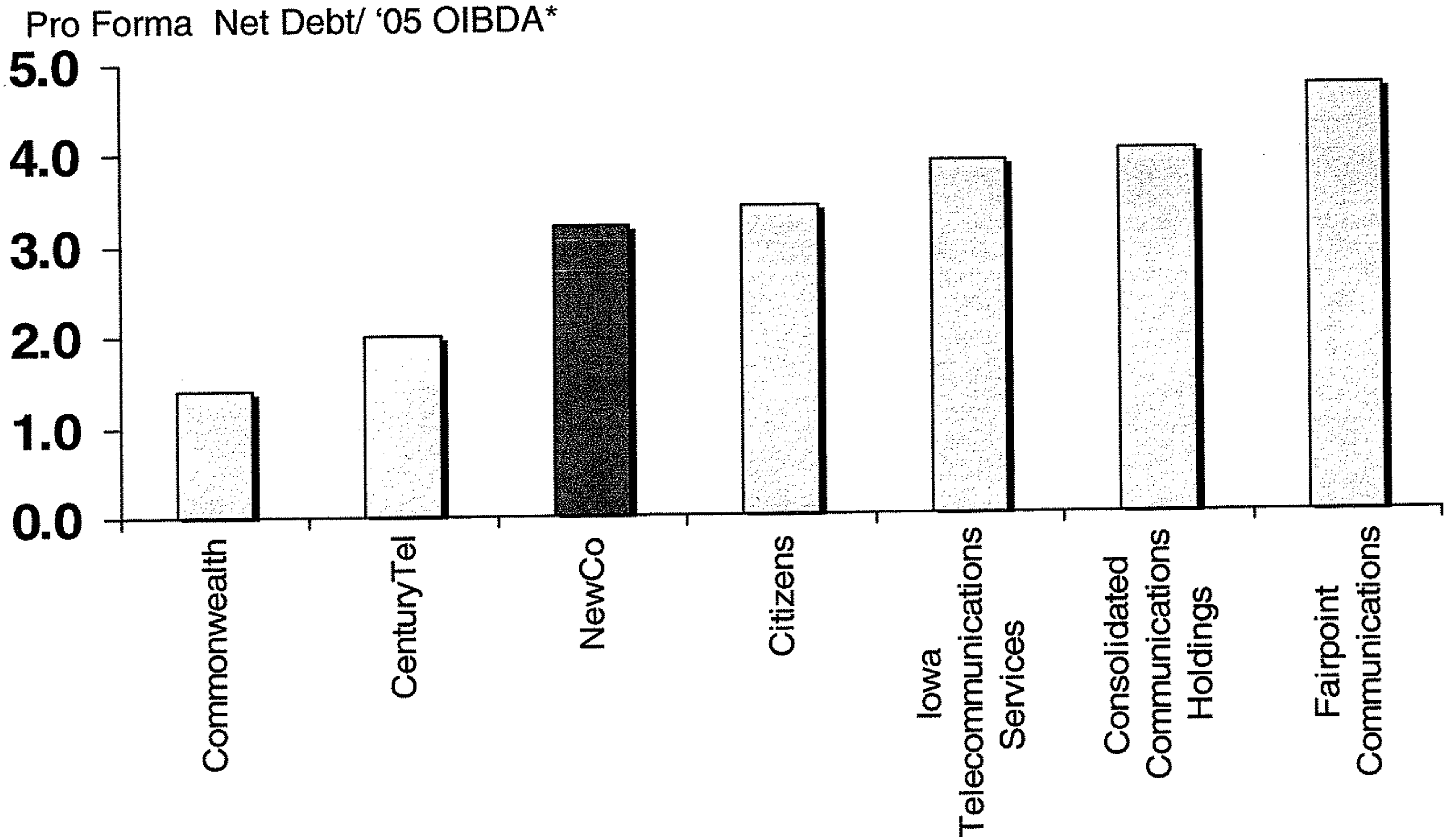
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



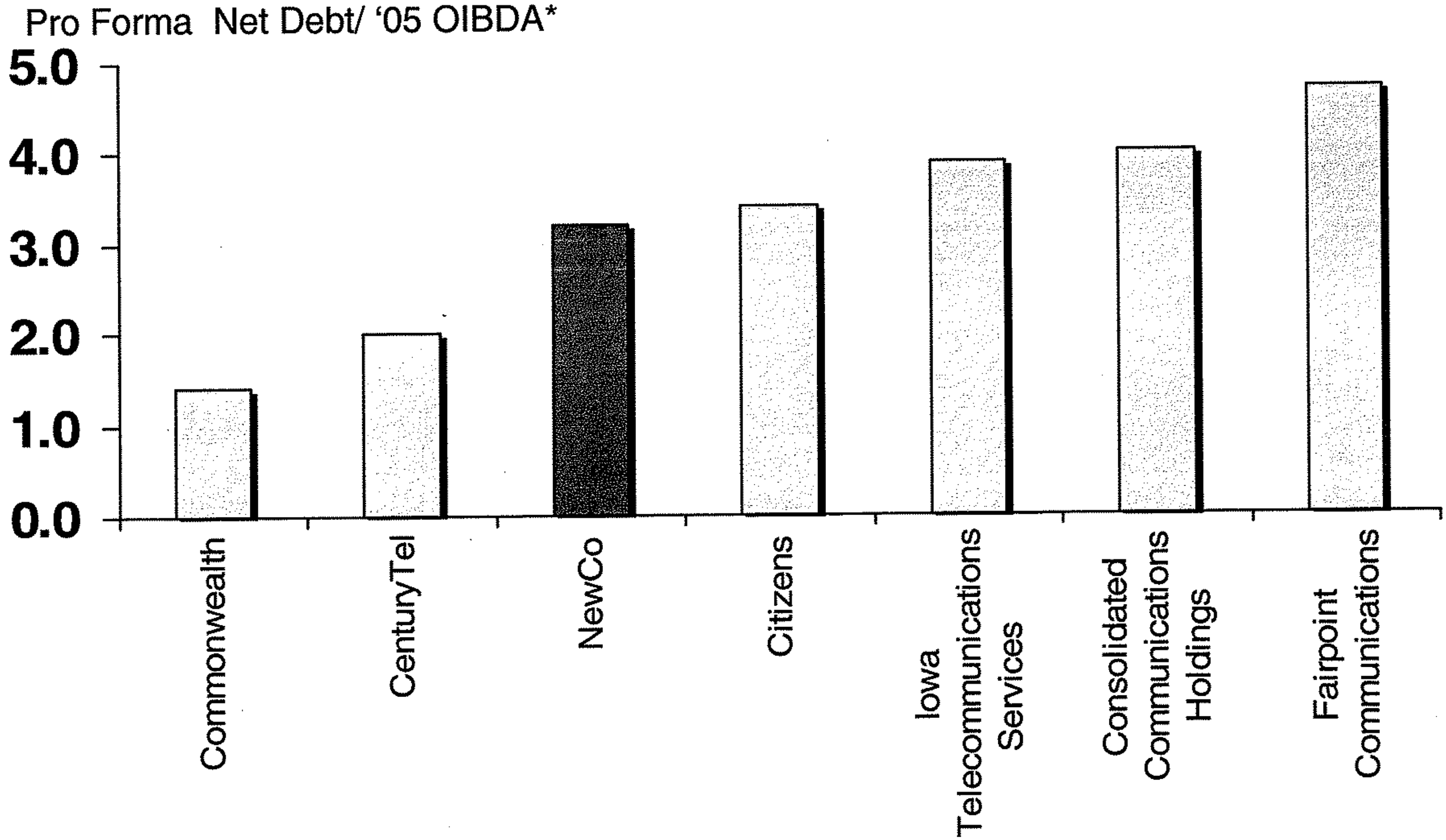
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



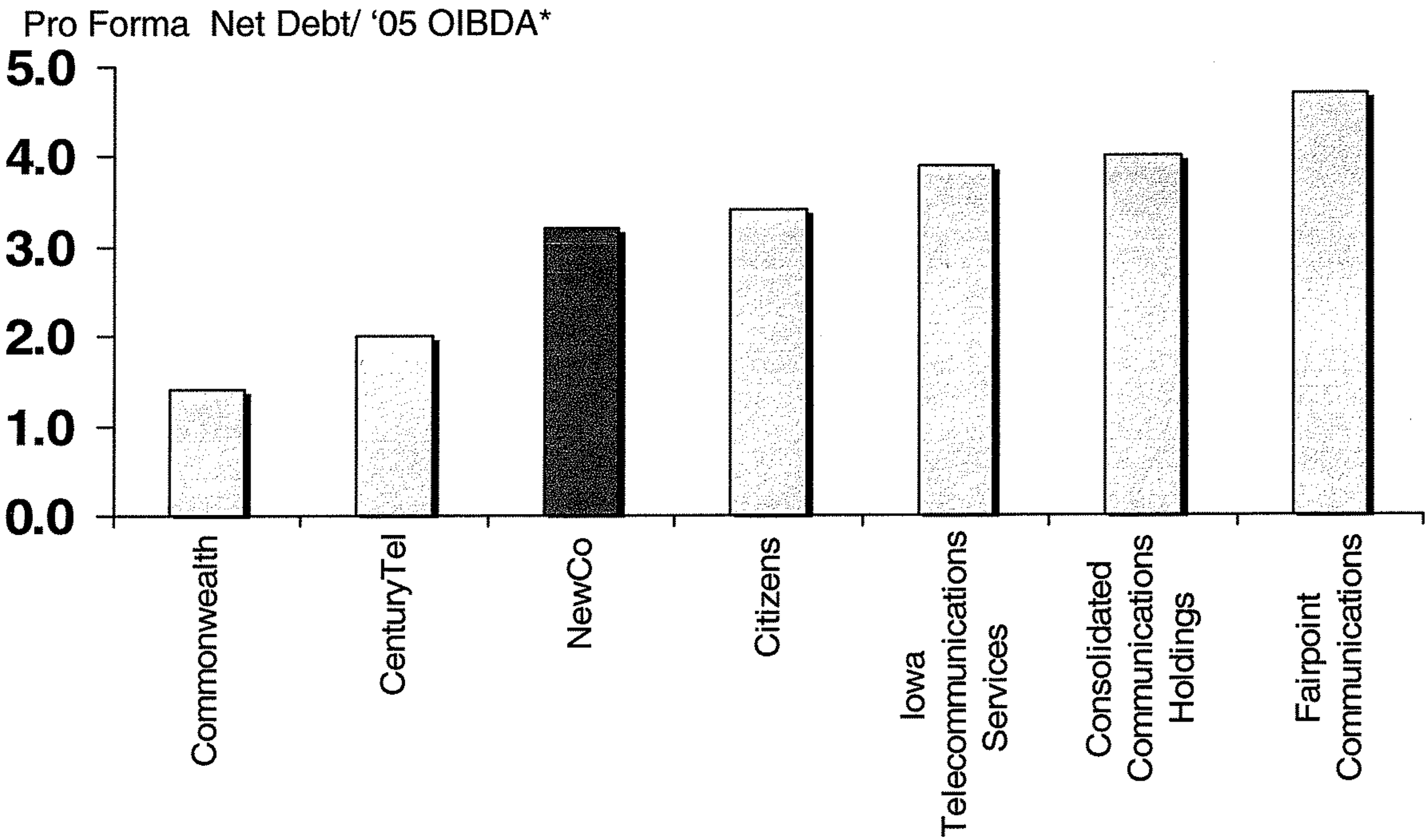
*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.

Proposed Wireline Capital Structure



*Newco ratio calculated using pro forma net debt divided by '05 OIBDA.