REDACTED

Data Request No. 3 – Docket 050938-TP

1. Why is Alltel Corporation liquidating its Rural Telephone Bank (RTB) stock?

<u>Response:</u>

On November 10, 2005, the President signed the Agriculture Appropriations bill triggering the dissolution and liquidation of the Rural Telephone Bank over the next six months.

2. According to a slide (see attached) presented at Alltel Analyst Day on February 1, 2006, the liquidation of the $100 million of RTB stock will accrue to Alltel Corporation's post spin/merge balance sheet. Why will the proceeds of the RTB stock liquidation by Alltel Corporation not apply or accrue to the new wireline company?

<u>Response</u>:

The expected liquidation of the RTB stock will accrue to Alltel Corporation and is a minor component to the overall capital structures established as a result of the spin-off and merger.

3. According to Standard and Poor's (S & P) report dated January 18, 2006, the spun off wireline entity will pay Alltel Corporation a $2.4 billion cash dividend.

a.) Why is the spun off wireline company paying Alltel Corporation this dividend?

<u>Response:</u>

The dividend represents consideration approximately equal to Alltel Corporation's tax basis in the wireline assets that comprise Spinco.

b.) Please provide a schedule showing the calculation of the $2.4 billion dividend.

Response: See Exhibit 1. This exhibit is proprietary and confidential.

c.) Will the payment of the $2.4 billion cash dividend by the new wireline company to Alltel Corporation (the new wireless company) be financed by the new wireline company issuing debt? Please explain.

<u>Response</u>:

The new wireline company plans to enter into new senior secured credit facilities in an aggregate amount of up to $4.2 billion, comprised of term loan facilities in an aggregate of up to $3.7 billion and a revolving credit facility of $500 million. A portion of the proceeds from the Term Facilities will be used to finance the $2.4 billion dividend payment to Alltel.

d.) If yes to question (c.) above, will the new wireline company issue high yield debt to finance the payment of the special dividend to Alltel Corporation (the new wireless company)? Please explain.

Response:

The proceeds of the Term Facilities will be used to finance a $2.4 billion dividend payment to Alltel.

4. Regarding the new wireline company's expected bond rating, S & P makes the following statement:

> Debt spun off to the new merged wireline business, which includes debt at the operating subsidiary ALLTEL Georgia Communications Corp. and ALLTEL Communications Holdings of the Midwest, Inc. (formerly Aliant Communications, Inc.) is likely to be lowered to non-investment grade, in line with expectations for the ratings of the new wireline company.

a.) Does Alltel Corporation agree that the expected S & P bond rating for the new wireline company (the merged wireline business) will be non-investment grade, i.e. speculative grade?

Response:

Alltel has reviewed this transaction with all three major credit rating agencies. At this time, the credit rating agencies have not established a credit rating for the new wireline company, although on December 9, 2005, Fitch issued a rating of "BBB-" on the total existing Alltel wireline operating company debt of $262 million. It would be inappropriate for us to speculate regarding future actions of the rating agencies.

b.) If yes to question (a.) above, what is Alltel Corporation's justification for the new wireline company having a non-investment grade bond rating?

Response:

Refer to response noted in 4a.

c.) If yes to question (a.) above, will the new wireline company strive to obtain an investment grade bond rating? If yes, please explain what efforts the new wireline company will make to obtain an investment grade bond rating. If no, please explain.

Response:

Refer to response noted in 4a.

5. According to Exhibit 5 of Alltel Florida's application, the new wireline company, i.e., the merged wireline business, will have $5.454 billion in long-term debt. This results in a 41% equity ratio, calculated using investor sources of capital.

a.) How did Alltel Corporation determine the allocation of debt between Alltel Corporation (the new wireless company) and the new wireline company in the spin-off/merger transaction?

<u>Response</u>:

The $3.965 billion of new wireline company financing is the amount of consideration given by the new wireline company to Alltel Corporation as a result of the separation of the wireless and wireline businesses. This amount was determined after careful consideration by Alltel's Board of Directors and executive management team in consultation with the Company's investment bankers.

b.) Is a 41% equity ratio for the new wireline company sufficient to allow the company to attract capital at a reasonable cost? Please explain.

<u>Response</u>:

The new wireline company will have a reasonable capital structure when compared to other publicly traded RLEC's, and will have the capability to access capital on an as needed basis. The expected annual cash flows from operations are more than adequate to service the debt, fund capital expenditures and pay dividends to shareholders.

c.) Paragraph 26 of Alltel Florida's application states the following:

> The Merged Wireline Business' capital structure will include a mix of debt and equity that balance financial risk with business risk while also maintaining an appropriate cost of capital, thereby maximizing the value of the Merged Wireline Business.

What is an appropriate cost of capital for the Merged Wireline Business? Please explain.

<u>Response</u>:

The new wireline company will have a reasonable capital structure when compared to other publicly traded RLEC's. The debt cost of capital ranges are outlined in the Commitment Letter and the expected annual cash flows from operations are more than adequate to service the debt, fund capital expenditures and pay dividends to shareholders, thus the cost of capital is appropriate.

6. Will the new wireline company (the merged wireline business) issue high yield debt to finance the spin-off from Alltel Corporation and the merger with Valor Communications? If yes, please explain and state the amounts of the debt.

<u>Response</u>:

The new wireline company plans to enter into new senior secured credit facilities in an aggregate amount of up to $4.2 billion, comprised of term loan facilities in an aggregate of up to $3.7 billion and a revolving credit facility of $500 million. In addition, the new wireline company will issue senior unsecured notes in an amount ranging from $1.565 billion to $2.3 billion. To the extent the amount of the senior unsecured notes exceed $1.565 billion, the borrowings available under the term loan portion of $4.2 billion senior secured facilities will be reduced by a corresponding amount.

7. According to Alltel Corporation's December 31, 2005 balance sheet, an amount for goodwill is presented. Please provide an analysis and breakdown of this goodwill amount and show the transactions, dates and amounts that created this goodwill.

Response: Alltel Corporation's amount of goodwill is comprised of a multitude of wireline and wireless acquisitions. Goodwill of Alltel Corporation's balance sheet amounted to $8,610 million at December 31, 2005. Of this amount, only 1,218 million is related to the wireline division. The bulk of this goodwill was generated as a result of the Kentucky acquisition in 2002.

8. According to Exhibit 5 of Alltel Florida's application, the new wireline company, i.e., the merged wireline business, will have $5.3606 billion in goodwill. Please provide an analysis and breakdown of this goodwill amount and show the transactions, dates and amounts that created this goodwill.

Response: Attached hereto are pro forma financial statements as of and for the year ended December 31, 2005. These statements are prepared on a basis as if the merger was completed on January 1, 2005 and include a statement of cash flows. Note (i) to those financial statements explains the complete basis for the amount of goodwill. Please note that this amount is different than the amount previously submitted, which was as of December 31, 2004. This is because the initial calculation of goodwill reflected Valor as the acquirer when in fact Alltel is the acquirer from an accounting perspective. This was determined, as Alltel shareholders will own approximately 85% of the Merged Wireline Business upon close of the transaction. Note that these statements are unaudited and are not intended to represent or be indicative of the combined results of operations or financial condition that would have occurred 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 the Merged Wireline Business. These statements are considered proprietary and confidential.

Exhibit One

Tax Basis

Estimated Wireline Tax Basis
6/30/06

Basis @ 6/30/05 Per E&Y

Depr in excess of Capex*

Book/Tax Differences

Estimated Tax Basis @ 6/30/06

* Depr in excess of Capex	2005	2006	Total
Est Capex			
Est Depr			
Half Year			

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Exhibit Two

Pro Forma 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.

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								

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

				Operating				Investing		Financing		
	12/31/2005	12/31/2004	Change	Income	Depr	Non-Cash	Change	Capex	Investmts	Dividend	Parent	Difference
Cash												
Other current assets												
Investments												
Goodwill												
Other intangibles												
PP&E, net												
Other assets												
Current liabilities												
Long-term debt												
Deferred taxes												
Other liabilities												
Equity												

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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

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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				
Current and long-term liabilities				
Customer list				
Franchise rights				
Net operating losses				
Valuation allowance-NOLs				
Goodwill				

Journal Entries:	Journal Entry	
	Debit	Credit
Current assets		
Property, plant and equipment		
Investments and other assets		
Customer list		
Franchise rights		
Goodwill		
Current liabilities		
Long-term debt		
Other liabilities		
Cash		
Common stock		
Additional paid-in capital		
Deferred income taxes		
Record preliminary purchase price allocation		

Calculation of book goodwill:

Total consideration given:	
Implied value of Valor business	$
Value of Valor treasury stock	
Transaction costs (legal, investment banker fees, etc.)	
Adjustments:	
Plant and other tangible assets	
Customer list	
Franchise rights	
Current liabilities	
Other liabilities	
Deferred tax (asset)/liability	
Book Goodwill	$

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	$	
Wireless Property, Plant and Equipment:		
Net Book Value		
Austria Write-Up		
Investments and other assets		
Plant and other tangible assets	$	
Current liabilities	$	
Long-term debt		
Other liabilities		
Current and long-term liabilities	$	

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Merger Consideration:
Shares of Valor stock outstanding at 12/31/05
Average Valor stock price
Market value of combined company
Valor debt assumed in merger transaction
Implied value of Valor business

Value of customer list:
Customers
Value per customer
Total value of customer list
Assumed life
Annual depreciation

Value of franchise rights:
Customers
Value per customer
Total value of franchise rights

Value of bonds:
Face value
Market price 12/31/05
Total value of bonds

Shares of VCG stock, 12/31/05
Shares to be issued to AT shareholders

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Unaudited Pro Forma Combined Condensed Financial Information

NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

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