BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Request of Sprint Nextel Corporation for an Order Declining to Assert Jurisdiction Over or, in the Alternative, Application of Sprint Nextel Corporation for Approval of the Transfer of Control of United Telephone Company of the Northwest and Sprint Long Distance, Inc. From Sprint Nextel Corporation to LTD Holding Company.	DOCKET NO.

THIS TESTIMONY IS BEING PROVIDED SOLELY IN CONNECTION WITH THE ABOVE-REFERENCED PROCEEDING AND MAY NOT BE RELIED UPON BY ANY PERSON OR ENTITY FOR ANY OTHER PURPOSE

DIRECT TESTIMONY OF GLENN R. DANIEL
ON BEHALF OF SPRINT NEXTEL CORPORATION

AUGUST 26, 2005

HIGHLY CONFIDENTIAL PER WAC 480-07-160

[REDACTED VERSION]

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Glenn R. Daniel. My business address is Houlihan, Lokey, Howard & Zukin Financial Advisors, Inc, One Sansome Street, 17th Floor, San Francisco, CA 94104.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed as a Managing Director at Houlihan, Lokey, Howard & Zukin Financial Advisors, Inc. ("HL"). HL is an international investment bank established in 1970. HL provides a wide range of services, including mergers and acquisitions, financing, financial opinions and advisory services, and financial restructuring. HL has rendered in excess of one hundred opinions addressing the impact of transactions on the capital adequacy of companies. These opinions have been accepted by boards of directors, by lenders, by regulators and tested in legal proceedings. Attached hereto as Exhibit GRD-2 is a further description of HL as well as a summary of my personal experience.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE IN CORPORATE FINANCE.

A. I have worked in investment banking providing financial advisory services, including capital adequacy analysis, for the past 17 years. As a Managing Director in the San Francisco office of HL, I direct San Francisco regional office operations, supervise financial opinion and corporate finance engagements, and I am a senior member of the firm's Technology Group. My educational background includes a B.A. in Economics and German, with distinction, from the University of Wisconsin. I have earned an M.S. in

Finance from the University of Wisconsin, Graduate School of Business, and I am also a Chartered Financial Analyst and registered NASD General Securities Principal.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. HL has been asked to evaluate certain aspects of the separation of Sprint's incumbent local wireline operations ("LTD Holding Company" or "Company") from its parent company (as further described in the Application of Sprint Nextel Corporation ("Sprint") for Approval of the Transfer of Control) from a financial point of view. In particular we have performed an independent valuation of LTD Holding Company and analyzed certain financial information regarding the capitalization of LTD Holding Company subsequent to the separation and its impact on the ability of the Company to pay its debts as they become due. Attached to my testimony as Exhibit GRD-3 is the "Report to Sprint Nextel Corporation", which represents the complete analysis and valuation undertaken by HL on behalf of Sprint ("Sprint Report"). The purpose of my testimony is to sponsor the Sprint Report as part of the separation application to demonstrate the financial strength of LTD Holding Company as an independent stand alone entity.

Q. PLEASE SUMMARIZE THE DEVELOPMENT OF THE ANALYSIS AND VALUATION CONTAINED IN THE REPORT.

Although the separation will not take place until the receipt of all necessary approvals, for purposes of our analysis, we have assumed that the Transaction will occur on June 1, 2006. To complete our valuation we have utilized projected financial statement information regarding the expected financial condition of LTD Holding Company as of

June 1, 2006 supplied by LTD Holding Company management, and assumed economic, market and financing conditions are the same as of today.

LTD Holding Company management provided financial projections for LTD Holding Company through fiscal year 2007 approved by LTD Holding Company management as part of their ongoing business operations ("Three Year Projections") (Sprint Report, Executive Summary - Tab 1, Contents of Report and Other Matters, page 3; Transaction Overview - Tab 2, page 14 – fiscal years 2005-2007). Although we have not independently verified the accuracy and completeness of the Three Year Projections or their underlying assumptions, nothing has come to the attention of our personnel working on this engagement during the course thereof that has caused us to believe, based on our best professional judgment, that it was unreasonable for us to utilize and rely upon the projections as part of our analysis.

In addition, HL independently undertook solely for purposes of this analysis to extend the Three Year Projections to 2010. (Id.) The extension for 2008 to 2010 was not developed by Sprint management and is not part of the projections approved by Sprint management: nevertheless, Sprint does not believe that it is unreasonable for HL to utilize the extended forecasts for purposes of its evaluation. HL developed the extension by trending from the Three Year Projections utilizing publicly available information relating to telecommunication industry and forecasts for use solely in the Cashflow Test, as hereinafter defined.

Finally, we understand that Sprint has obtained indicative ratings for LTD Holding Company from major ratings agencies.

Q. WHAT ARE THE PRIMARY CONSIDERATIONS IN DETERMINING WHETHER A COMPANY HAS ADEQUATE CAPITAL?

A. The typical analysis of adequate capital examines both the value of a company's assets relative to its liabilities, and its projected cash flows relative to its operating requirements (Sprint Report, Methodology – Tab 4, Capital Tests Methodology, Reasonable Capital Test, page 47). The analysis is conducted under the assumption that the transaction has been consummated as proposed. The analysis we concluded can be summarized as follows:

(a) The fair value of LTD Holding Company's assets in the aggregate;

(b) Whether the fair value of LTD Holding Company's assets would exceed its stated liabilities and identified contingent liabilities (referred to as the "Balance Sheet Test");

(c) Whether LTD Holding Company should be able to pay its debts as they become absolute and mature while (i) continuing to generate sufficient cash to re-invest in the business at a level indicated by the Company necessary to maintain the current level of service, and (ii) paying dividends in accordance with the planned dividend policy which the Company believes is commensurate with industry peers and after consideration of a commercially reasonable level of refinancing (referred to as the "Cashflow Test"); and

(d) Whether the capital remaining in LTD Holding Company after the Transaction would be reasonable for the business in which it is engaged, as management has indicated it is proposed to be conducted following the consummation of the Transaction (referred to as the "Reasonable Capital Test").

The fair value of a company's assets is defined as "the amount that may be realized if a company's aggregate assets (including goodwill) are sold in their entirety with reasonable promptness in an arm's length transaction under present conditions for the sale of comparable business enterprises, as such conditions can be reasonably evaluated."

Being "able to pay its debts as they become absolute and mature" means that, assuming the transaction has been consummated as proposed, the company's financial forecasts indicate positive cash flow for such period, including (and after giving effect to) the payment of installments due under loans made pursuant to the indebtedness incurred in the transaction, as such installments are scheduled at the close of the transaction, after consideration of a commercially reasonable level of refinancing."

To assess whether the capital remaining in a company is not unreasonably small requires a subjective analysis of the results of the Balance Sheet Test and the Cashflow Test. The analysis includes consideration of various factors including: (i) the degree of sensitivity to revenue growth or decline and margin assumptions demonstrated in the Cashflow Test; (ii) the historical and expected volatility of asset values; (iii) the maturity structure of the company's fixed obligations; (iv) the magnitude, timing, and nature of contingent liabilities; (v) the prevalent capital structures within the industry; and (vi) the amount of flexibility allowed by the financial covenants in the credit agreements. The size of LTD Holding Company and the diversity of its wireline assets across eighteen states are important factors in performing the Reasonable Capital test.

Q. WHAT METHODS ARE EMPLOYED TO ESTIMATE THE FAIR VALUE OF ASSETS OF A COMPANY?

A. We employed three approaches that are commonly used by investors and analysts in the valuation of companies (Sprint Report, Methodology – Tab 4, Valuation Methodology, pages 38-43).

First, in the Market Multiple Approach we derive valuation multiples from a group of comparable publicly traded companies. Upon a comparison of the subject company to the comparable companies across a number of qualitative and quantitative factors, we select multiples to apply in the valuation of the subject company.

Second, in the Comparable Transaction Approach we derive valuation multiples from precedent transactions within the industry representing the sale of comparable companies or assets. Similarly, based upon a comparison of the subject company to those companies involved in industry transactions, we select multiples to apply in the valuation of the subject company.

Finally, in the Discounted Cash Flow Approach, utilizing the financial projections prepared by management of the Company, we calculate the net present value of all future expected cash flows. Cash flows are discounted to the present at a risk-adjusted discount rate, which is measured as the industry weighted average cost of capital. At the final year of the projections, we estimate a terminal value using a valuation multiple in a similar fashion to the first two approaches. This terminal value is also discounted to the present.

The conclusion of the fair value of the Company (or its assets in the aggregate) is determined by taking into consideration the indicated values from the above three approaches.

Q. IS BOOK VALUE OF EQUITY A RELEVANT INDICATOR OF FAIR VALUE FOR THE COMPANY'S ASSETS?

A. In this case, no. In certain situations, for example with financial institutions, book value (or a multiple thereof) is often utilized in valuation analyses. However, for operating companies, including telecommunication companies, book value of equity is often a function of accounting conventions and historical accounting treatment and is not a directly applicable figure for valuation purposes. Book value results from the myriad accounting rules and often has no direct correlation to fair value. This can be observed in the marketplace where companies with negative book equity values have positive and substantial market equity values.

Q. BASED ON THE CURRENT INTENTIONS OF SPRINT CORPORATION REGARDING THE SEPARATION OF THE LOCAL TELECOMMUNICATIONS DIVISION, INCLUDING THE ANTICIPATED DEBT AND DIVIDEND LEVELS OF LTD HOLDING COMPANY, WHAT ARE YOUR SUMMARY CONCLUSIONS?

A. Based on our valuation analysis, the fair value of the assets of LTD Holding Company is reasonably stated in the range of **Begin Highly Confidential** [redacted] **End Highly Confidential** to **Begin Highly Confidential** [redacted] **End Highly Confidential** (Sprint Report, Valuation Analysis - Tab 5, Valuation Summary, page 50). Further, it is our conclusion that LTD Holding Company, assuming that the transaction is consummated as proposed, passes the previously described tests relating to adequate capital. The estimated fair value of the assets exceeds the pro forma debt **Begin Highly Confidential** and [redacted] **End Highly Confidential** of $7.3 billion. LTD Holding Company should be able to pay its debts as they become absolute and mature, after consideration of a commercially reasonable level of refinancing, while (i) continuing to generate sufficient cash to re-invest in the business at a level indicated by the Company necessary to maintain the current level of service, and (ii) paying dividends in accordance with the planned dividend policy which the Company believes is commensurate with industry peers. Finally, after review of the previously cited factors we concluded the capital remaining in LTD Holding Company is not unreasonably small for the business in which it is engaged (Sprint Report, Capital Tests – Tab 6, pages 65-68).

Q. IS THE ANTICIPATED LEVEL OF DEBT OF LTD HOLDING COMPANY AFTER THE SEPARATION WITHIN THE LEVELS THAT CAN BE OBSERVED FOR SIMILAR INDUSTRY PARTICIPANTS?

A. Yes. Investors, analysts and rating agencies examine a number of leverage ratios when assessing the creditworthiness of a company. These ratios often include (i) total debt to

EBITDA (earnings before interest, taxes, depreciation and amortization), (ii) fixed charge coverage defined as (EBITDA-capital expenditures)/annual interest payments, and (iii) total debt to enterprise value (defined as market value of equity, plus debt and preferred stock, less cash). LTD Holding Company is expected to have a debt to EBITDA ratio of approximately **Begin Highly Confidential** [redacted] **End Highly Confidential** at the time of the separation. This is a **Begin Highly Confidential** [redacted] **End Highly Confidential** of leverage as compared to the selected comparable companies, which have an average debt to EBITDA ratio of 3.7x. (Sprint Report, Executive Summary – Tab 1, Summary of Findings, page 8) Based on the forecasts for LTD Holding Company, EBITDA is expected to cover fixed charges in 2006 by approximately **Begin Highly Confidential** [redacted] **End Highly Confidential**, (Sprint Report, Capital Tests – Tab 6, Summary of Analyses, page 73) which is **Begin Highly Confidential** [redacted] **End Highly Confidential** the average 3.2x fixed charge coverage ratio for the comparable companies (Sprint Report, Telecommunications Industry Analysis - Tab 3, Comparable Companies Analysis, page 26). Based upon the midpoint of our valuation range for LTD Holding Company, we estimate that at the time of the separation the Company's debt will account for approximately **Begin Highly Confidential** [redacted] **End Highly Confidential** percent of its capital. (Sprint Report, Telecommunications Industry Analysis - Tab 3, Comparable Companies Analysis, page 26). This is **Begin Highly Confidential** [redacted] **End Highly Confidential** the average debt to capital ratios for the comparable companies of 46.1 percent. (Sprint Report, Telecommunications Industry Analysis - Tab 3, Comparable Companies Analysis, page 26).

Q. HOW DOES LTD HOLDING COMPANY'S ANTICIPATED DIVIDEND POLICY FACTOR INTO THE ANALYSIS?

A. LTD Holding Company currently anticipates paying approximately $300 million per year in dividends on its common stock (Sprint Report, Transaction Overview – Tab 2, page 13). Dividends are an important aspect of equity securities and LTD Holding Company's dividend yield is expected to attract investors who are interested in current yield thereby providing support for the stock price. Based on the forecasts for LTD Holding Company, the Company is expected to have sufficient cash flows from operations to reinvest in its business through capital expenditures, pay the dividend and make principal payments on its debt. In fact, its dividend payout ratio (defined as the dividend payment as a percentage of free cash flows after payment of interest, taxes and capital expenditures) is projected to be in the range of **Begin Highly Confidential** [redacted] **End Highly Confidential** to **Begin Highly Confidential** [redacted] **End Highly Confidential** over the projection period, (Sprint Report, Capital Tests – Tab 6, Summary of Analyses, page 73) which is **Begin Highly Confidential** [redacted] **End Highly Confidential** than the median expected 2005 payout ratio for the comparable companies of 70 percent (Sprint Report, Executive Summary - Tab 1, Summary of Findings, page 7). Additionally, notwithstanding that equity investors will view the dividend payment favorably, the dividend payment will be at the discretion of LTD Holding Company's board of directors and the payment can be modified at any time.

Q. DO YOU EXPECT THAT THE ANTICIPATED CAPITAL STRUCTURE WILL LIMIT LTD HOLDING COMPANY'S ABILITY TO REINVEST IN ITS BUSINESS?

A. No. The management of LTD Holding Company has projected future capital expenditure requirements. The aggregate capital expenditures in each of the next several years is expected to be approximately **Begin Highly Confidential** [redacted] **End Highly Confidential** of revenues, which is **Begin Highly Confidential** [redacted] **End Highly Confidential** than the average projected for 2005 for the comparable companies of approximately 13 percent of revenues (Sprint Report, Executive Summary - Tab 3, Comparable Companies Analysis , page 35). As discussed above, LTD Holding Company should have excess cash flows beyond those needed for dividend payments should capital expenditure requirements be higher than anticipated or if the Company has investment opportunities with favorable economics.

Q. WITH THE PROPOSED CAPITAL STRUCTURE, WILL LTD HOLDING COMPANY BE IN A POSITION TO OBTAIN FUTURE FINANCING?

A. The ability of a company to raise financing is a function of a number of factors, including, but not limited to attractiveness of its business, leverage and capital market conditions. Based on the Company's forecasts and assuming market conditions are reasonably similar to those existing today, LTD Holding Company's leverage should decline and it should maintain a substantial equity value. As an independent company with a size that places it well within the Fortune 500, LTD Holding Company should have numerous alternatives for accessing capital in the future.

Q. HOW HAS CURRENT AND FUTURE COMPETITION BEEN FACTORED INTO THE ANALYSIS?

A. The Company recognizes that its business has been and will continue to be subject to competition from a number of competitive communication providers including wireless voice and data providers, cable companies offering voice services and potentially other competitors in the future. The expectation for future competition is factored into the Company forecasts in which it has assumed access line **Begin Highly Confidential** [redacted] **End Highly Confidential** from **Begin Highly Confidential** [redacted] **End Highly Confidential** (Sprint Report, Telecommunications Industry Analysis - Tab 3, Comparable Companies Analysis, page 28) to **Begin Highly Confidential** [redacted] **End Highly Confidential** per year (Sprint Report, Capital Tests – Tab 6, Summary of Analysis, page 72) over the 2005 to 2007 period, **Begin Highly Confidential** [redacted] **End Highly Confidential** certain of its product offerings and **Begin Highly Confidential** [redacted] **End Highly Confidential** its **Begin Highly Confidential** [redacted] **End Highly Confidential** DSL business. While the Company plans to respond to these competitive threats to minimize the impact to its business, the assumptions regarding competition in the Company's forecasts are inherently embedded in our analysis. Further, to test less favorable potential outcomes for the Company, we have tested cases with **Begin Highly Confidential** [redacted] **End Highly Confidential** to competition and have determined that the Company has reasonable cushion to underperform it forecasts yet maintain a positive operating cash flow.

Q. IN SUMMARY, WHAT IS YOUR VIEW REGARDING THE CURRENTLY ANTICIPATED CAPITAL STRUCTURE OF LTD HOLDING COMPANY?

A. In summary, based on an extensive review of the operations and financial condition of LTD Holding Company, my knowledge and experience in both telecommunications and corporate finance, and my valuation and financial analysis, and assuming that the transaction is consummated as proposed, LTD Holding Company passes the three tests relating to adequate capital as previously discussed. Further, neither the level of debt nor the anticipated dividend policy should limit the Company's ability to reinvest at the levels that the Company forecasts will be required to maintain its current or an improved level of quality of service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.