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. UT-051291

DIRECT TESTIMONY OF RICHARD G. PFEIFER
ON BEHALF OF SPRINT NEXTEL CORPORATION

AUGUST 26, 2005
RESUBMITTED NOVEMBER 1, 2005

HIGHLY CONFIDENTIAL
PER PROTECTIVE ORDER IN DOCKET NO. UT-051291

[REDACTED VERSION]

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Richard G. Pfeifer and my business address is 330 South Valley View Boulevard, Las Vegas, Nevada 89107. I am the Vice President, External Affairs for Sprint Nextel Corporation ("Sprint").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I graduated with a B.S. in Business Administration from the University of Nevada, Las Vegas, concentrating my studies in the area of accounting. I have been a Certified Public Accountant since January 1986. I have 34 years of experience in the telecommunications industry in various regulatory, planning and financial capacities. I began my career in 1971 with Continental Telephone Company ("Contel") and held several financial positions until 1980 when I was promoted to Revenue Requirements Manager. In that position, I was responsible for the regulatory activity in seven of Contel's Western Region states. In 1983, I was promoted to Assistant Vice President – Controller in Contel's Eastern Region where I served as the Chief Accounting Officer for fifteen operating telephone properties. In 1987, I became Assistant Vice President – Planning and Policy at Contel's corporate headquarters in Atlanta, Georgia.

In May of 1989, I accepted the position of Director of Revenues for Sprint's United Telephone – Midwest with specific responsibilities for the United Telephone Companies operating in the State of Kansas. In February of 1991, I assumed the position of Director of Network Planning, responsible for the central office, interexchange, and outside plant planning for all of the United Telephone – Midwest properties, which was comprised of seven local telephone companies. In January of 1993, I accepted the position of Treasurer for United Telephone – Midwest. In addition to these positions, I served as Chairman of the Kansas Network Committee, a committee established by the Kansas Public Service Commission to negotiate disputes between local exchange companies.

In November 1993, I accepted the position of Vice President – Finance for Central Telephone Company – Nevada. In August 1996, I began serving as Nevada's Vice President, Regulatory and Finance with responsibility for all regulatory and finance activities. I became the Vice President, External Affairs in January 1998.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am presenting testimony on behalf of Sprint, United Telephone Company of the Northwest ("United") and LTD Holding Company that demonstrates the strong financial capabilities possessed by United and the newly created LTD Holding Company as referenced in the "Application of Sprint Nextel Corporation for Approval of the Transfer of Control." Further, I will show that, upon completion of the separation of LTD Holding Company and the transfer of control, United will be fiscally unaffected by the change in its parent company. It will continue to possess the financial capability to invest in its network and employees and to generate a sufficient level of cash to pay expenses and a dividend to its shareholder. Thus, United will be in a position to continue to provide quality service to customers.

In addition, my testimony, combined with the testimony of Houlihan Lokey witness Mr. Glenn Daniel (Exhibit GRD-1T), will show that the newly formed LTD Holding Company will also be financially secure. Specifically, LTD Holding Company will have the necessary financial resources to raise capital, invest in networks, employees, and systems, and generate sufficient cash to pay all expenses, service debt and pay a dividend to shareholders. My testimony, combined with the testimony of Houlihan Lokey, will collectively demonstrate that the new LTD Holding Company, upon separation, will have solid financial capabilities as a financially secure Fortune 500 company**.** These attributes will help ensure that United and LTD Holding Company both will have the fiscal stability and flexibility necessary to well position themselves competitively and pursue strategies necessary to succeed.

Q. ARE YOU SPONSORING ANY EXHIBITS TO YOUR TESTIMONY?

A. Yes, I am sponsoring the following seven exhibits to my testimony:

1. Exhibit RGP-2 - Statement of Operations for the 12 months ended 12/31/04 for United;
2. Exhibit RGP-3 - Balance Sheet at 12/31/04 for United;
3. Exhibit RGP-4 - Statement of Cash Flows for 12 months ended 12/31/04 for United;
4. Exhibit RGP-5 - Adjusted Historical Consolidated Statement of Operations for 12 months ended 12/31/04 for LTD Holding Company;
5. Exhibit RGP-6 - Adjusted Historical Condensed Consolidated Balance Sheet at 12/31/04 for LTD Holding Company;
6. Exhibit RGP-7 - Adjusted Historical Consolidated Statement of Cash Flows for 12 months ended 12/31/04 for LTD Holding Company; and
7. Exhibit RGP-8 - Adjustment No. 1, Capital Structure.

FINANCIAL CAPABILITY OF UNITED

Q. WHAT IS THE CURRENT FINANCIAL CONDITION OF UNITED?

A. Exhibits RGP-2 through RGP-4 provide the basic financial statements and illustrate the financial condition of United for the twelve months ended December 31, 2004, the most recent annual period for which data is available. The financial statements have been prepared and presented on a total company basis consistent with the FCC's Automated Reporting Management Information System ("ARMIS") reporting requirements. The ARMIS reports show the historically recorded data from the books and records of United, 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 United was financially capable for 2004.

Q. PLEASE EXPLAIN HOW THESE STATEMENTS DEMONSTRATE FINANCIAL CAPABILITY.

A. As illustrated in the 2004 financial statements, United had total assets with a book value of $216 million and produced operating income of $26 million, $14 million from its' Washington operations. United also generated cash from operating activities of $48 million, while investing $23 million in capital expenditures and paying dividends of $16 million. Clearly, United generated sufficient cash to cover all operating expenses, invested in its network and was able to provide quality service to customers. In addition, it had money left over to pay a dividend to its shareholder. All of these results demonstrate that United has been operating as a financially capable company.

Q. WILL UNITED CONTINUE TO OPERATE AS A FINANCIALLY CAPABLE COMPANY AFTER THE SEPARATION?

A. Yes. United will continue to possess more than adequate financial capability after the separation.

Q. PLEASE EXPLAIN.

A. United's telecommunication operations have historically operated with significant independence from the operations of other Sprint divisions. As discussed by Sprint State Executive witness Ms. Nancy L. Judy (Exhibit NLJ-1T), these operations will remain essentially unaffected by the separation. This is primarily because, after the separation, the vast majority of the assets, liabilities, revenues and expenses will remain the same and United will continue to operate as an independent entity. Thus, the financial results for United will not be significantly affected.

Q. WILL THERE BE ANY CHANGES TO ACCOUNTING FOR FINANCIAL TRANSACTIONS AS A RESULT OF THE SEPARATION?

A. No. The accounting for the separation will occur at the LTD Holding Company level only. Ownership in the stock of United will simply transfer from Sprint's balance sheet to the new LTD Holding Company's balance sheet. Thus, accounting for all day-to-day financial transactions within United will remain essentially the same as before the separation. United will continue to use Part 32 to account for its assets, liabilities, revenues and expenses, in the same manner as it does today.

Q. WHAT ABOUT ANY IMPACTS AS A RESULT OF CHANGES IN THE CENTRALIZED SERVICES PROVIDED TO UNITED BY THE NEW MANAGEMENT COMPANY?

A. There will be no significant impacts. United currently receives certain centralized services from a management subsidiary of Sprint. These include human resources, finance, tax, communications, legal, planning, general support and information services. After separation, United will continue to receive similar management services from a new affiliated management company of LTD Holding Company. Any expense impacts as a result of the transition from the former management company to the new one will be minimal. Initially, operating expenses may increase as much as [redacted], an amount which is not significant to either United or LTD Holding Company. Further, consistent with the manner in which Sprint has managed its operating expenses over the last several years, LTD Holding Company will either manage these costs such that any incremental increase is eliminated over time or offset them by reducing other costs.

Q. TAKING ALL OF THE ABOVE INTO CONSIDERATION, WHAT CAN YOU CONCLUDE ABOUT THE FINANCIAL CAPABILITY OF UNITED AFTER THE SEPARATION TAKES PLACE?

A. The 2004 financial statements demonstrate that United has been a financially solid company. Because there will be no significant change to United's operations and financial status as a result of the separation, United will continue to have the financial capability to invest in its network, generate sufficient cash to pay all expenses and pay a dividend to its shareholder. Thus, post-separation, it will possess all of the attributes of financial capability it has enjoyed historically. As a result, United will continue to be financially capable.

FINANCIAL CAPABILITY OF LTD HOLDING COMPANY

Q. PLEASE BEGIN BY DESCRIBING THE OVERALL FINANCIAL CHARACTERISTICS OF LTD HOLDING COMPANY.

A. LTD Holding Company, a Delaware corporation, is a newly-formed subsidiary of Sprint, and will be the ultimate parent of United. Upon separation, LTD Holding Company will be the largest independent local telephone company in the United States with 2004 annual revenues exceeding $6 billion. This level of revenue places LTD Holding Company at approximately 335 on the Fortune 500 list. As a Fortune 500 company, LTD Holding Company's stock is expected to be traded on the NYSE. Based on its financial attributes, and as further discussed by Houlihan Lokey witness Mr. Glenn Daniel (Exhibit GRD-1T), LTD Holding Company anticipates a level of debt consistent with companies that have been rated "investment grade." Mr. Daniel concludes that, all in all, LTD Holding Company will have the ability to raise capital, invest in networks, employees and systems, all of which will ensure that LTD Holding Company's local telephone operating entities such as United will continue providing high quality service. He further states that LTD Holding Company will be attractive to investors because it will generate sufficient cash flow and will pay a reasonable dividend. Even after taking into consideration the readily identifiable financial effects of separation that will have lasting impacts, as I describe below, LTD Holding Company will maintain solid fiscal capabilities which will enable it and its subsidiaries to effectively position themselves and pursue strategies necessary to achieve financial success.

Q. HOW WILL THE SEPARATION IMPACT THE FINANCIAL CONDITION OF LTD HOLDING COMPANY?

A. There are three areas of readily identifiable and lasting impacts that will result directly from the separation. Please refer to Adjustment Nos. 1 through 3 shown on Exhibits RGP-5 through RGP-7. These Exhibits illustrate in a summary and numerical form the impacts that the separation will have on the financial condition of LTD Holding Company, assuming the separation of the local telephone operations had occurred as of January 1, 2004. These three adjustments are entitled “Capital Structure,” “Dividend Policy” and “Long Distance,” respectively. I will discuss each of the adjustments in just a moment.

Q. WHY DID YOU ASSUME FOR PURPOSES OF YOUR ANALYSIS THAT THE SEPARATION OCCURRED AS OF JANUARY 1, 2004?

A. The separation was assumed to occur as of January 1, 2004 to provide an opportunity to review the separation’s financial impact on a full year’s worth of operations, and 2004 was the most recent full year in which data was available. By overlaying adjustments from the separation on top of the otherwise static 2004 actual financial results for LTD Holding Company, we can isolate and evaluate the financial impacts of the separation.

Q. BEFORE YOU EXPLAIN THE AREAS OF ADJUSTMENT, PLEASE SUMMARIZE THE FINANCIAL STATEMENTS OF LTD HOLDING COMPANY INCLUDED IN EXHIBITS RGP-5 THROUGH RGP-7, IN WHICH THE ADJUSTMENTS APPEAR.

A. Exhibits RGP-5 through RGP-7 begin by providing the unadjusted consolidated financial statements of LTD Holding Company for the twelve months ended December 31, 2004. Please refer to the "Historical LTD Holding Company" column. This starting point illustrates the solid financial condition and capability of LTD Holding Company as if it existed and was reported separately from its parent company, Sprint, during that period. For 2004, the financial results of LTD Holding Company show that it generated enough cash to pay all operating expenses, invested [redacted] into its network and serviced its debt, leaving funds available to pay an [redacted] dividend to its shareholder. Next, the starting point was adjusted to take into consideration each of the three adjustments I mentioned previously, to reflect the immediate and material financial impacts of the separation transaction. Finally, the sum of the starting point and all three adjustments equal the final column, labeled "Adjusted Historical LTD Holding Company." This column reflects the financial condition of LTD Holding Company for 2004, including the financial impacts as a result of the separation, as if the separation transaction occurred on January 1, 2004.

Q. PLEASE SUMMARIZE THE OVERALL IMPACTS FROM ADJUSTMENT NOS. 1 THROUGH 3 TO THE FINANCIAL STATEMENTS OF LTD HOLDING COMPANY.

A. Adjustment Nos. 1 through 3 reflect, respectively, the impact to LTD Holding Company's financial statements from: 1) use of debt to meet a target capital structure; 2) increased cash flow due to the new dividend policy; and 3) additional operating income from providing long distance service. These adjustments will be described in more detail below. The impact from Adjustment Nos. 1 through 3 to the Adjusted Historical Consolidated Statement of Operations for LTD Holding Company in Exhibit RGP-5 is an overall increase in revenue of [redacted], an increase in operating expense of [redacted], an increase in interest and tax expense of [redacted], and a decrease in net income of [redacted]. The impact from Adjustment Nos. 1 through 3 to the Adjusted Historical Condensed Consolidated Balance Sheet reflects an increase in assets of [redacted], which is matched by an identical increase in liabilities and shareholders' equity. Finally and importantly, the impact of Adjustment Nos. 1 through 3 to the Adjusted Historical Consolidated Statement of Cash Flows is an increase in cash of [redacted].

Q. PLEASE EXPLAIN ADJUSTMENT NO. 1 TITLED "CAPITAL STRUCTURE."

A. Adjustment No. 1 reflects the financial impact resulting from the issuance of unsecured debt in the amount of approximately [redacted] and retirement of long-term intercompany debt of [redacted] by LTD Holding Company. The debt issuance is part of the process of establishing an appropriate overall capital structure determined by Sprint's Treasury Department. LTD Holding Company's capital structure is intended to represent an efficient use of investor capital by balancing the overall cost of capital with the need to maintain ample financial flexibility. This capital structure and its intended objectives is supported by the analysis and testimony of Houlihan Lokey witness Mr. Glenn Daniel (Exhibit GRD-1T) who concludes that the capital structure is reasonable and appropriate for the type of business in which LTD Holding Company is engaged, and is adequate for purposes of servicing debt, reinvesting in its business, maintaining access to capital markets, and paying dividends in accordance with its dividend policy.

Q. WHAT INTEREST RATE WILL THE NEW DEBT ISSUANCE HAVE?

A. The overall weighted interest rate of the LTD Holding Company debt will be approximately [redacted]. The ultimate overall weighted interest rate will depend on prevailing market conditions at the time of issuance.

Q. IS THERE INTEREST EXPENSE THAT WILL BE INCURRED RESULTING FROM THE ISSUANCE OF DEBT?

A. Yes, LTD Holding Company will incur interest expense of [redacted] which when reduced by a [redacted] tax benefit, produces a net impact of [redacted], as shown in Exhibit RGP-8. As I discuss later, this increased interest expense will be more than offset by the additional cash flow resulting from LTD Holding Company's new dividend plan.

Q. DOES THE ISSUANCE OF DEBT IMPACT CAPITAL STRUCTURE?

A. Yes it does, because capital structure is the proportion of debt and equity a company uses to finance its assets. The greater the level of debt a company uses to finance its assets, the more leveraged a company is in terms of its capital structure.

Q. ARE THERE BENEFITS TO MAINTAINING A CERTAIN AMOUNT OF LEVERAGE IN A CAPITAL STRUCTURE?

A. Yes. All else held equal, a higher use of leverage (the amount of debt used to finance assets) causes a downward effect on a company's overall weighted average cost of capital when compared to a capital structure with a lower level of debt. As a result of higher leverage, under certain circumstances, a company can benefit from a higher level of cash flow.

Q. PLEASE EXPLAIN HOW THE USE OF DEBT LOWERS A COMPANY'S OVERALL WEIGHTED AVERAGE COST OF CAPITAL AND PROVIDES THE OPPORTUNITY FOR INCREASING CASH FLOW.

A. Financing a company through debt is cheaper than using equity. Lenders require a lower rate of return than shareholders require because, all else held equal, debt securities present a lower risk than equity securities due to their preferential claims on annual income and liquidation proceeds. Additionally, companies effectively pay less for debt capital than equity because interest expense on debt securities can be offset against pretax income, thus reducing tax expense and tax payments. Under these circumstances, the cost of debt is less than the cost of equity which, in turn, lowers the company's overall weighted average cost of capital in comparison to a higher equity-based capital structure. Lowering the overall cost of capital and having the advantage of associated tax benefits will have a positive impact on a company's cash flow.

Q. WILL LTD HOLDING COMPANY GENERATE HIGHER CASH FLOW FROM THE USE OF LEVERAGE IN THE FORM OF DEBT?

A. Yes, LTD Holding Company will benefit significantly from additional cash flow as the result of its use of debt (versus equity) in its capital structure. Even though as I discussed previously LTD Holding Company will pay interest expense on the new debt, it will experience tax benefits associated with that interest and will pay a lower total dividend, all of which results in an overall net increase in cash. I will explain how this works mechanically and numerically when I discuss Adjustment No. 2 next in order.

Q. TURNING TO ADJUSTMENT NO. 2 TITLED "DIVIDEND POLICY," WHAT LEVEL OF DIVIDEND DOES LTD HOLDING COMPANY PLAN TO PAY?

A. Adjustment No. 2 results in a payment of a $300 million dividend by LTD Holding Company to its shareholders. Based on the range of shareholders' equity values as determined by Houlihan Lokey witness Mr. Glenn Daniel (Exhibit GRD-1T), LTD Holding Company's dividend yield will be approximately [redacted]. In addition, as a result of the new dividend plan, LTD Holding Company will gain an increase in cash flow which can be used for debt reduction or strategic investment.

Q. WHAT INCREASE TO CASH FLOW RESULTS FROM THE NEW DIVIDEND PLAN, AND HOW DOES THAT OCCUR?

A. There will be an increase to cash flow in the amount of [redacted]. As illustrated in Exhibit RGP-7, Adjusted Historical Consolidated Statement of Cash Flows, LTD Holding Company paid dividends of [redacted] to its shareholder in 2004. Since LTD Holding Company expects to pay only $300 million in future dividends to its shareholders, a positive adjustment to cash flow and shareholders' equity of [redacted] is necessary to reflect the anticipated shareholder dividend level.

Q. HOW DOES THE GENERATION OF HIGHER CASH FLOW FROM THE NEW DIVIDEND PLAN RELATE TO THE USE OF LEVERAGE YOU DISCUSSED PREVIOUSLY IN ADJUSTMENT NO. 1?

A. As I just explained and as illustrated on Exhibit RGP-7, the expected lower dividend will generate additional cash of [redacted]. As also shown in Exhibit RGP-7, LTD Holding Company will pay [redacted] (additional interest expense of [redacted] less tax benefit of [redacted]) on its debt leaving a net increase in cash of [redacted] ([redacted]. [redacted]). This increase in cash is attributable to the additional leverage in LTD Holding Company's capital structure and the lower dividend obligation, both of which would not be available but for the separation. An increase in cash flow is a valuable benefit to LTD Holding Company because it can be used for activities such as debt reduction or strategic investment.

Q. PLEASE EXPLAIN ADJUSTMENT NO. 3, TITLED "LONG DISTANCE."

A. As discussed in the application and the testimony of Sprint State Executive witness Ms. Nancy L. Judy (Exhibit NLJ-1T), after separation, United will continue to provide a complete portfolio of services to its customers in Washington, including long distance services. The ability to continue offering long distance service will occur through a combination of commercial agreements, including sales agency and wholesale long distance agreements, entered into between LTD Holding Company (or a subsidiary)[1] and Sprint Communications Company L.P ("Sprint L.P."). Adjustment No. 3 is necessary to reflect

[1] For ease and simplicity, I refer to LTD Holding Company generically when describing the provision of long distance services in this section of my testimony even though the provider actually will be a subsidiary of LTD Holding Company, referred to as "LTD Long Distance" in the Application.

the long distance financial results that would have occurred for 2004, had LTD Holding Company operated at that time under the commercial agreements it will enter into with Sprint L.P. in accordance with the separation.

Q. WHAT RESIDENTIAL CUSTOMERS ARE REFLECTED IN THE ADJUSTMENT NO. 3?

A. The existing residential long distance customers of Sprint L.P. who are located in all LTD Holding Company service areas are reflected in Adjustment No. 3. The existing in-territory residential long distance customers of Sprint L.P. will be given the opportunity to continue purchasing residential long distance services from LTD Holding Company under the same "one stop shop" terms and conditions they enjoy today. Thus, Adjustment No. 3 reflects actual 2004 in-territory Sprint L.P. residential customers and their associated long distance service purchases, adjusted for the terms of the new commercial agreements. The Long Distance adjustment effectively assumes that those same customers purchased the same long distance services and quantities from LTD Holding Company instead of Sprint L.P., consistent with the plan to allow customers to seamlessly move to LTD Holding Company.

Q. WHAT LONG DISTANCE PRODUCTS WILL BE OFFERED TO RESIDENTIAL CUSTOMERS UNDER THE NEW COMMERCIAL AGREEMENTS?

A. LTD Holding Company will offer switched voice long distance services (including intrastate, interstate and international calling) to residential customers.

Q. WHAT BUSINESS LONG DISTANCE CUSTOMERS ARE REFLECTED IN ADJUSTMENT NO. 3?

A. The existing business long distance customers of Sprint L.P. whose corporate headquarters are located in an LTD Holding Company service area are reflected in Adjustment No. 3. This set of business customers will be given the opportunity to continue purchasing long distance services from LTD Holding Company under the same "one stop shop" terms and conditions they enjoy today. Thus, Adjustment No. 3 reflects actual 2004 in-territory Sprint L.P. business customers whose corporate headquarters are located in an LTD Holding Company service area, and their respective long distance purchases, adjusted for the terms of the new commercial agreements. The Long Distance adjustment effectively assumes that those same customers purchased the same long distance services and quantities from LTD Holding Company instead of Sprint L.P., consistent with the plan to move those customers seamlessly to LTD Holding Company pursuant to the customer's choice.

Q. WHAT LONG DISTANCE PRODUCTS WILL LTD HOLDING COMPANY OFFER TO THIS SET OF BUSINESS CUSTOMERS UNDER THE NEW COMMERCIAL AGREEMENTS?

A. A full suite of long distance voice (including intrastate, interstate and international) and data products will be offered to these business customers including most prominently, Switched WATS and Switched Toll Free voice products and ATM, Frame Relay and Dedicated IP data products.

Q. PLEASE SUMMARIZE ADJUSTMENT NO. 3 LONG DISTANCE, AS DEPICTED ON EXHIBITS RGP-5 RGP-6 AND RGP-7 TO THE TESTIMONY, AND YOUR CONCLUSION AS TO HOW THIS ADJUSTMENT IMPACTS THE FINANCIAL CAPABILITY OF LTD HOLDING COMPANY.

A. Adjustment No. 3 on Exhibit RGP-5, Adjusted Historical Consolidated Statement of Operations, reflects the revenue and expense results of offering long distance products to the residential and business customer segments described above. The customer quantities and product demands are the actual amounts purchased by these respective customers from Sprint L.P. in 2004. The revenue and expenses are adjusted such that they are consistent with the rates and terms of the commercial agreements described above. The adjusted outcome provides a meaningful and accurate depiction of the financial results that would have occurred had LTD Holding Company operated under the new commercial agreements in 2004. This depiction of financial results demonstrates that there is a substantial financial contribution of net income from long distance products. This will contribute to the overall financial health and viability of LTD Holding Company upon separation. The associated adjustment to Exhibits RGP-6 and RGP-7, Adjusted Historical Condensed Consolidated Balance Sheet and Adjusted Historical Consolidated Statement of Cash Flows, reflect the cash effect of the contribution to net income.

Q. IN ADDITION TO PROVIDING SUBSTANTIAL POSITIVE RESULTS CONTRIBUTING TO THE OVERALL FINANCIAL HEALTH OF LTD HOLDING COMPANY, ARE THERE OTHER BENEFITS ASSOCIATED WITH THE COMMERCIAL LONG DISTANCE AGREEMENTS?

A. Yes. The commercial long distance wholesale agreement ensures LTD Holding Company's ability to offer competitively priced long distance services to customers through the contractual provision for Most Favored Nation (MFN) pricing. MFN contract provisions entitle LTD Holding Company to wholesale prices for long distance voice and data products equal to or lower than prices provided under contract to other similarly situated non-affiliate purchasers of wholesale long distance services from Sprint.

Q. YOU MENTIONED IN DISCUSSING THE LONG DISTANCE ADJUSTMENT THE IMPORTANCE OF LTD HOLDING COMPANY'S ABILITY TO PROVIDE A FULL PORTFOLIO OF SERVICES TO MEET CUSTOMER NEEDS. PLEASE DISCUSS WHETHER LTD HOLDING COMPANY'S PROVISION OF WIRELESS SERVICES IS EXPECTED TO HAVE A NEAR-TERM MATERIAL IMPACT TO ITS FINANCIAL STATEMENTS.

A. The application and testimony of Sprint State Executive witness Ms. Nancy L. Judy (Exhibit NLJ-1T) discuss the targeted local focus that will result from the separation and the emphasis in delivering a full portfolio of services to meet local customer needs, including wireless services. As I will explain more fully in a moment, LTD Holding Company through its subsidiaries, has secured commercial agreements with Sprint enabling it to offer a fully featured, wide range of wireless voice and data services. However, unlike the business plan for long distance described above, there is no expectation of LTD Holding Company having a substantial wireless customer base at the initial point of separation. LTD Holding Company will work to build a wireless customer base over time. Additionally, while LTD Holding Company has in place the necessary billing and customer care capabilities for long distance services, those same capabilities are still under development for wireless service. Given these factors, wireless services are initially expected to have little impact on the overall financial results of LTD Holding Company.

Q. PLEASE EXPLAIN THE TYPES OF COMMERCIAL AGREEMENTS THROUGH WHICH LTD HOLDING COMPANY WILL OFFER WIRELESS SERVICES.

A. LTD Holding Company's wireless service offerings will be effectuated through a combination of commercial sales agency and Mobile Virtual Network Operator (MVNO) resale agreements entered into between LTD Holding Company (or a subsidiary)[2] and Sprint. These arrangements will allow LTD Holding Company to offer services to a wide range of low to high usage wireless customer segments. These commercial agreements provide LTD Holding Company with a complete portfolio of wireless and data services which will be offered to both residential and business customers. The MVNO resale option will allow LTD Holding Company to develop over time, new and different wireless plans which best match LTD Holding Company markets and customer preferences.

Q. THE APPLICATION DISCUSSES SHARED ASSET PLATFORMS – WILL THE SHARING OF ASSETS AND RELATED TRANSACTIONS IMPACT THE FINANCIAL STATUS OF LTD HOLDING COMPANY?

A. No. The application and the testimony of Sprint State Executive witness Ms. Nancy L. (Exhibit NLJ-1T) describe how the efficient use of shared asset platforms support a portion of United's operational capabilities. The application further explains that, upon separation,

[2] Similar to the above discussion on long distance services, when describing the provision of wireless services in my answer, I refer to LTD Holding Company generically, even though the provider actually will be a subsidiary of LTD Holding Company referred to as "LTD Long Distance" in the Application.

some of these shared assets will be transferred to LTD Holding Company and some will remain with Sprint. These asset transfers and related transactions are not expected to have a substantial, long term financial impact on LTD Holding Company for reasons I will explain in a moment. First, however, I think it would be helpful for me to describe the nature of these shared assets, their current shared use, and the process by which decisions as to future ownership and use between LTD Holding Company and Sprint will be determined.

Q. PLEASE PROCEED.

A. Today, the vast majority of United's operations are supported by assets owned and operated by United and employees who reside in its service territory. However, United also has available to it the efficient use of certain out-of-area shared asset platforms, which United does not own or operate itself. Rather, these shared assets are predominately owned and operated by United's affiliate, Sprint United Management Corporation ("SUMC"). For example, the System Signaling Seven ("SS7") platform which currently provides Local Number Portability ("LNP") call routing information and related capabilities for United, is owned and operated by SUMC. This SS7 platform provides LNP capabilities not only to the individual operating telephone companies of Sprint (such as United), but also to the long distance and wireless affiliates. Sprint is utilizing a fact-based decision making process whereby shared assets will be moved to the newly formed LTD Holding Company or to Sprint upon separation.

Q. PLEASE DESCRIBE THE DECISION MAKING PROCESS BY WHICH SHARED ASSETS WILL BE IDENTIFIED AND MOVED TO EITHER LTD HOLDING COMPANY OR SPRINT UPON SEPARATION.

A. The process utilizes a set of straightforward criteria to determine the most logical future owner of each currently shared asset. The first step in the process identifies each individual shared asset. This step has already been completed. The second step, which also has been completed, is to determine for each shared asset if LTD Holding Company or Sprint, or both, require continued use of that asset upon separation. This step has resulted in the identification of some assets which are required for future use by LTD Holding Company, but not by Sprint and vice versa. Those shared assets identified as being required for future use by LTD Holding Company but not by Sprint, will be titled and moved to the balance sheet of LTD Holding Company at the point of separation. They will be recorded on LTD Holding Company's balance sheet at net book value.

Q. YOU STATED THAT THE SECOND STEP IN THE PROCESS HAS IDENTIFIED CERTAIN SHARED ASSETS WHICH ARE REQUIRED FOR THE FUTURE USE OF <u>BOTH</u> THE LTD HOLDING COMPANY AND SPRINT. HOW WILL THE FUTURE OWNER OF THESE TYPES OF ASSETS BE DETERMINED?

A. Sprint has developed a set of logical criteria which are being applied to each individual asset decision relative to shared assets required for the future operation of both LTD Holding Company and Sprint. These decision making criteria require analysis regarding the primary use of the asset, the level of revenue generation from the asset, the physical location and maintenance of the asset, expected asset migration and the like. The examination of these objective criteria will ultimately determine whether each shared asset will be moved to LTD Holding Company or will remain with Sprint at the point of separation.

Q. RELATIVE TO SHARED ASSETS WHICH ARE REQUIRED FOR LTD HOLDING COMPANY'S FUTURE OPERATIONS, BUT ARE DETERMINED TO REMAIN WITH SPRINT AT SEPARATION, HOW WILL LTD HOLDING COMPANY ENSURE THAT IT AND ITS OPERATING TELEPHONE COMPANY SUBSIDIARIES HAVE ADEQUATE ACCESS TO ASSET SERVICES?

A. LTD Holding Company will purchase the necessary capabilities from Sprint. The reverse is also the case for assets transferring to LTD Holding Company at separation which Sprint needs to use for a transitional period of time. This purchase of the use of asset services will be transacted through Transition Service Agreements executed between LTD Holding Company and Sprint. The transitional services subject to these agreements will be priced at cost and are generally expected to be in place for approximately one year to allow sufficient time for LTD Holding Company and Sprint to develop and implement their respective stand-alone capabilities. At the end of the transitional period, LTD Holding Company and Sprint will discontinue the transitional operations and associated agreements, and begin utilizing their own respective operating platforms/assets.

Q. WHY IS THE PROCESS DESCRIBED ABOVE NOT EXPECTED TO GENERATE A SUBSTANTIAL CHANGE TO THE LTD HOLDING COMPANY'S FINANCIAL STATEMENTS CONTAINED IN EXHIBITS RGP-5, RGP-6 AND RGP-7?

A. The financial impacts of the LTD Holding Company telephone companies' (including United's) use of shared assets are already reflected in the 2004 Historical LTD Holding Company starting point shown in Exhibits RGP-5 and RGP-7. As stated earlier, these shared assets currently reside on the balance sheet of SUMC. However, the operating costs (including depreciation expense) of these shared assets are allocated from SUMC to the individual local telephone companies (including United) each month, using in most cases the same relative use criteria referenced above. Additionally, the use of Transition Service Agreements described above will result in cost-based billing between LTD Holding Company and Sprint for approximately one year after separation. These billings will ensure that the cost of ownership, relative to the transfer of shared assets to LTD Holding Company, is reduced to reflect Sprint's use of the assets during the approximately one-year transitional period following separation. Thus, the existing expense and cash impacts already reflected in Exhibits RGP-5 and RGP-7 are a reasonable representation of the expense and cash impacts that will occur from a combination of asset ownership costs and the recording of transitional transactions, and no adjustment is therefore necessary.

Q. PLEASE DESCRIBE THE OVERALL IMPACT TO THE FINANCIAL STATEMENTS OF LTD HOLDING COMPANY AS ADJUSTED FOR THE SEPARATION.

A. The Adjusted Historical Consolidated Statement of Operations for LTD Holding Company in Exhibit RGP-5 reflects an overall increase in revenue of [redacted], an increase in operating expense of [redacted], an increase in interest and tax expense of [redacted], and a decrease in net income of [redacted]. The Adjusted Historical Condensed

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Consolidated Balance Sheet for LTD Holding Company in Exhibit RGP-6 reflects an increase in assets of [redacted], which is matched by an identical increase in liabilities and shareholders' equity. The Adjusted Historical Consolidated Statement of Cash Flows for LTD Holding Company in Exhibit RGP-7 reflects an increase in cash of [redacted] . after accounting for all of the separation transactions.

Q. WHAT CONCLUSIONS CAN BE REACHED CONCERNING THE OVERALL FINANCIAL CAPABILITY OF LTD HOLDING COMPANY?

A. My testimony, combined with the testimony of Houlihan Lokey, collectively demonstrates that the new LTD Holding Company has solid financial capabilities as a financially secure Fortune 500 company. Upon separation, the LTD Holding Company will have the ability to generate revenues to pay all expenses, invest in its network, employees, and systems to continue providing high quality service, and pay an attractive dividend to its shareholders. The analysis and testimony of Houlihan Lokey illustrates that LTD Holding Company's capital structure and dividend policy is reasonable, and it will have the ability to raise capital, service its debt, and make strategic investments. All of this evidence confirms that the new LTD Holding Company will have the financial capability necessary to succeed.

Q. HOW DOES THE POSITIVE FINANCIAL CAPABILITY OF LTD HOLDING COMPANY, IN TURN, BENEFIT THE LOCAL OPERATING COMPANY, UNITED?

A. The positive financial characteristics of LTD Holding Company will help ensure that it will have the financial stability to position itself and pursue strategies necessary to assist United to succeed. With a solid financial structure, LTD Holding Company will produce sufficient revenues and cash flow to allow LTD Holding Company to attract capital to invest in its local telephone company operations. This investment will facilitate a focused local strategy, and the local telephone operations will benefit from a continuing ability to deliver a full portfolio of services to meet targeted customer needs.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.