

AUGUST 15, 2005

Report to Sprint Nextel Corporation

Analysis of LTD Holding Company

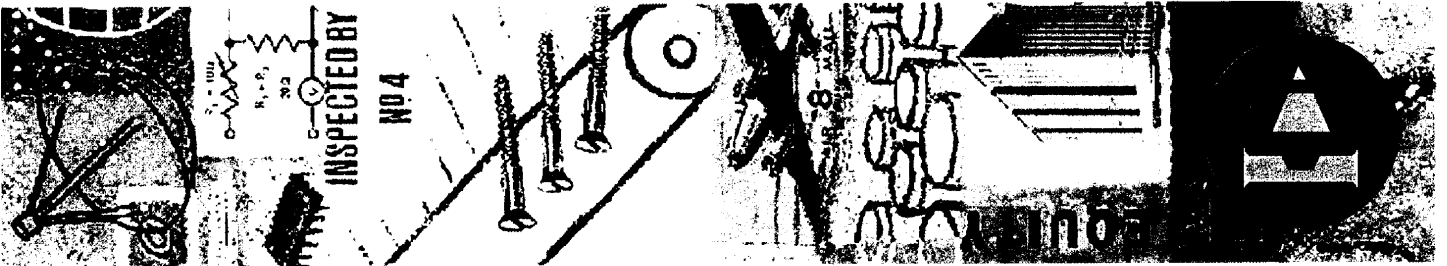
SPRINT NEXTEL REDACTED PUBLIC VERSION

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Executive Summary



Executive Summary

SUMMARY DESCRIPTION OF TRANSACTION

We understand that Sprint Nextel Corporation ("Sprint"), intends to separate its local telephone division ("LTD Holding Company" or the "Company") to the shareholders of the combined entity. We further understand that it is currently contemplated that LTD Holding Company will retain a debt leverage position that is consistent with the characteristics of companies rated "investment grade" by recognized rating agencies and that it is expected that LTD Holding Company will pay dividends commensurate with industry peers. Prior to the separation, Sprint must obtain regulatory approval for the separation from the various states in which it operates. The separation and other similar or related transactions disclosed to Houlihan Lokey are referred to collectively herein as the "Transaction."

LTD Holding Company will consist of a local telecommunications business operating in eighteen (18) states and Sprint North Supply, an organization principally engaged in the procurement and distribution of equipment and supplies used in the telecommunications industry. LTD Holding Company currently has 7.5 million access lines and over 590,000 DSL subscribers.

Executive Summary

CONTENTS OF REPORT

Sprint Nextel Corporation has requested that Houlihan Lokey provide a written report regarding:

- (a) the fair value of LTD Holding Company's assets in the aggregate (the "Valuation Analysis");
- (b) assuming the Transaction has been consummated as proposed, immediately after and giving effect to the Transaction, as to the following (collectively the "Capital Tests"):
 - (i) whether the fair value of LTD Holding Company's assets would exceed its stated liabilities and identified contingent liabilities (the "Balance Sheet Test");
 - (ii) 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 (the "Cash Flow Test"); and
 - (iii) 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 (the "Reasonable Capital Test").

Executive Summary

CONTENTS OF REPORT AND OTHER MATTERS

For purposes of the Report, LTD Holding Company is valued on a going-concern (including goodwill) basis and on a pro forma basis, immediately after and giving effect to the Transaction and the associated indebtedness. “Fair value” shall be defined as the amount that may be realized if LTD Holding 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 by Houlihan Lokey. We have used the same valuation methodologies in determining the value of each of LTD Holding Company and the assets of LTD Holding Company, for purposes of the Report.

The term “identified contingent liabilities” shall mean the stated amount of contingent liabilities identified to us and valued by responsible officers of the Company, upon whom we will rely without independent verification; no other contingent liabilities were considered.

Being “able to pay its debts as they become absolute and mature” shall mean that, assuming the Transaction has been consummated as proposed, the Company’s financial forecasts for the fiscal periods ending December 31, 2005 to 2007, in the form provided to Houlihan Lokey in writing (the “Projections”) indicate positive cash flow for such period, including (and after giving effect to) (i) 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, and (ii) the anticipated dividend policy. Sprint provided Houlihan Lokey certain financial projections through December 31, 2007. 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.

The professional fee for this engagement is not contingent upon the conclusions set forth in the Report.

Executive Summary

DUE DILIGENCE PERFORMED

Among other things, we:

1. visited certain business offices of the Company and held meetings and discussions with certain members of the senior management of the Company to discuss the operations, financial condition, future prospects and projected operations and performance of the Company and the Transaction;
2. reviewed Sprint's Form 10-K for the fiscal years ending December 31 2003 and 2004;
3. reviewed the Local Telecommunications Division Closing & Scorecard Review of April 22, 2005 containing certain financial and operating data for the quarter ending March 31, 2005;
4. reviewed certain financial forecasts and budgets prepared by Sprint (collectively "the Projections"), including:
 - a. the Local Telecommunications Division 2005-2007 Business and Financial Plan
 - b. the Local Telecommunications Division Financial Reports – 2004 Actuals and 2005 Budget
 - c. LTD Financial Projections – Consultant Package of May 12, 2005
 - d. LTD Capital Expenditures – Consumer, Business & Wholesale of May 17, 2005;
5. reviewed the Separation of Local Division – Rating Agency Overview and Rating Agency Financial Schedules of May 5, 2005;
6. reviewed certain data regarding historic access line counts for the quarters ending March 2000 through March 2005;
7. reviewed certain reports prepared by Sprint regarding competition in the Company's markets;
8. reviewed publicly available financial data for the Company and certain companies that we deem comparable to the Company;
9. reviewed Sprint's certificate regarding projections addressed to Houlihan Lokey, dated August 15, 2005; and
10. conducted other such studies, analyses and investigations as we have deemed appropriate.

Executive Summary

LIMITING CONDITIONS

We have relied upon and assumed, without independent verification, that the Projections have been reasonably prepared and reflect the best currently available estimates of the future financial results and condition of the Company, and that there has been no material adverse change in the assets, financial condition, business or prospects of the Company since the date of the most recent financial statements made available to us. Although we have not independently verified the accuracy and completeness of the 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.

We have not independently verified the accuracy and completeness of the information supplied to us with respect to the Company and do not assume any responsibility with respect to it. We have not made any physical inspection or independent appraisal of any of the properties or assets of the Company. All valuation methodologies that estimate the worth of an enterprise as a going-concern are predicated on numerous assumptions pertaining to prospective economic and operating conditions. Our analysis is necessarily based on business, economic, market and other conditions as they exist and can be evaluated by us at the date of this Report. Unanticipated events and circumstances may occur and actual results may vary from those assumed. The variations may be material.

Notwithstanding the use of the defined term “fair value”, we have not been engaged to identify prospective purchasers or to ascertain the actual prices at which and terms on which the Company or the Company’s assets can currently be sold. Because the sale of any business enterprise involves numerous assumptions and uncertainties, not all of which can be quantified or ascertained prior to engaging in an actual selling effort, we express no opinion as to whether the Company would actually be sold for the amount we believe to be its fair value.

This Report is furnished solely for the benefit of Sprint Nextel Corporation and does not constitute advice to any other person without our express, prior written consent. This Report is delivered to each recipient subject to the conditions, scope of engagement, limitations and understandings set forth in this Report and our engagement letter with Sprint Corporation, and subject to the understanding that the obligations of Houlihan Lokey in the Transaction are solely corporate obligations, and no officer, director, employee, agent, shareholder or controlling person of Houlihan Lokey shall be subjected to any personal liability whatsoever to any person, nor will any such claim be asserted by or on behalf of you or your affiliates.

Executive Summary

SUMMARY OF FINDINGS

The following findings are based upon the investigation, premises, provisos, and analyses outlined above, and more fully described in this Report.

- (A) The fair value of LTD Holding Company's assets, in the aggregate are reasonably stated in the range of [REDACTED] to [REDACTED];
- (B) Assuming the Transaction will be consummated as proposed, immediately after and giving effect to the Transaction:
 - (i) the fair value of LTD Holding Company's assets would exceed its stated liabilities and identified contingent liabilities;
 - (ii) LTD Holding Company should be able to pay its debts as they become absolute and mature, while (a) 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 (b) 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; and
 - (iii) 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.

Executive Summary

SUMMARY OF FINDINGS (CONTINUED)

The following table summarizes certain operating, valuation, and credit statistics of LTD Holding Company (giving effect to the Transaction where applicable) and of the selected comparable companies.

Operating and Credit Statistics – LTD Holding Company versus Comparable Companies

(figures in millions)

| | Operating Statistics | | | | Credit Statistics | | | | |
|------------------------------------|------------------------------------|------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------------------------|---------------------------------------|----------------------------|
| | Access Line Decline 2003 - 2004 | 2004 Capex/ Revenue | EV/ 2005E EBITDA | Equity/ Total Capital | Debt/ 2004 EBITDA | 2004 Interest Coverage | 2004 Fixed Charge ⁽¹⁾ | Indicated Dividend as a % of 2005E | Credit Rating (Moody's) |
| Citizens Communications | (2.8%) | 12.6% | 7.5x | 51.4% | 3.6x | 3.1x | 2.4x | 64.6% | Ba3 ⁽²⁾ |
| CenturyTel Inc. | (2.6%) | 16.0% | 6.0x | 60.5% | 2.4x | 5.9x | 4.1x | 7.3% | Baa2 ⁽³⁾ |
| Valor Communications Group | (2.9%) | 13.0% | 7.9x | 37.8% | 5.9x | 2.5x | 1.9x | 80.4% | NR ⁽⁴⁾ |
| Fairpoint Communications | (2.9%) | 14.4% | 8.5x | 48.3% | 4.2x | 1.3x | 1.0x | 86.6% | B1 ⁽⁵⁾ |
| Iowa Telecommunications | (3.9%) | 15.7% | 8.6x | 53.2% | 4.1x | 2.3x | 1.7x | 75.5% | Ba3 ⁽⁶⁾ |
| Commonwealth Telephone Enterprises | (1.6%) | 13.0% | 6.9x | 72.0% | 1.9x | 10.7x | 8.1x | 43.0% | NR |
| LTD Holding Company | (2.9%) | 17.9% | [REDACTED]x ⁽⁷⁾ | [REDACTED]% ⁽⁷⁾ | [REDACTED]x ⁽⁷⁾ | [REDACTED]x ⁽⁷⁾ | [REDACTED]x ⁽⁷⁾ | [REDACTED]% ⁽⁷⁾ | TBD |
| Comps Median | (2.8%) | 13.7% | 7.7x | 52.3% | 3.8x | 2.8x | 2.1x | 70.1% | |
| Comps Mean | (2.8%) | 14.1% | 7.6x | 53.9% | 3.7x | 4.3x | 3.2x | 59.6% | |

(1) Adjusted for capitalized leases. (EBITDA + Capitalized Interest - CapEx) divided by (Interest Expense + Capitalized Interest)

(2) Ba3 rating reflects Moody's rating for Senior Implied Issuer, Bank Loan Debt, and Senior Unsecured Debt; On July 7, 2005, Moody's had withdrawn rating for Issuer.

(3) Baa2 rating reflects Moody's rating for Senior Unsecured Debt; Moody's does not have an Issuer rating.

(4) On October 8, 2004, Moody's had withdrawn all ratings.

(5) B1 rating reflects Moody's rating for Senior Implied Issuer and Bank Loan Debt; On July 7, 2005, Moody's had withdrawn rating for Issuer

(6) Ba3 rating reflects Moody's rating for Senior Implied Issuer and Bank Loan Debt; On July 7, 2005, Moody's had withdrawn rating for Issuer.

(7) Based on LTD Holding Company 2006 projected results. LTD Holding Company total capital based on the midpoint of Houlihan Lokey's range. LTD Holding Company total debt based on pro forma 6/1/2006 total debt of \$7.25 billion. Interest Coverage based on annualized projected 7 months results ended 12/31/06, with total interest expense of \$[REDACTED].

Definitions:

EV: Enterprise Value: market value of equity plus debt less cash

EBITDA: Earnings before interest, taxes, depreciation and amortization

FCF: Free Cash Flow: EBITDA less cash taxes, interest expense, and capital expenditures

Interest Coverage: EBITDA divided by interest expense

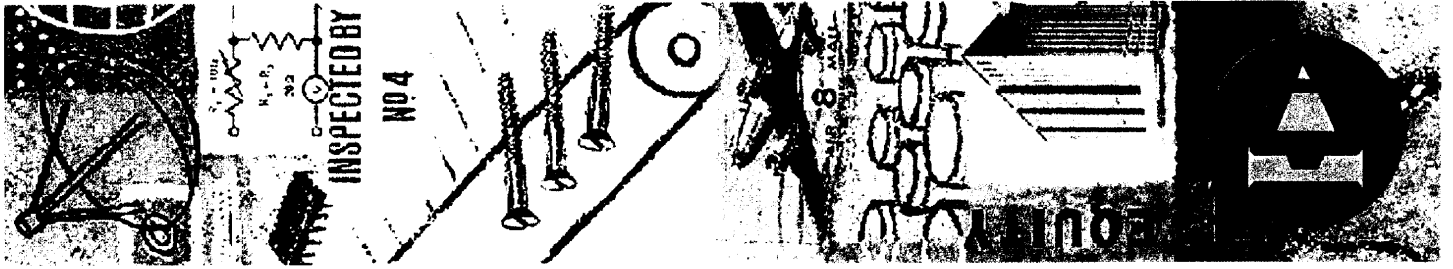
Executive Summary

SUMMARY OF FINDINGS (CONTINUED)

Based upon our analysis of LTD Holding Company and the selected comparable companies, as summarized above and further detailed later in this report, we make the following observations:

- ❖ LTD Holding Company has experienced access line declines that are at approximately the median of the comparable companies.
- ❖ LTD Holding Company's capital expenditures, measured as a percentage of revenues, have been above the median level of the comparable companies.
- ❖ Pro forma for the Transaction, LTD Holding Company will have consolidated leverage of approximately [REDACTED]x total debt/EBITDA⁽¹⁾, [REDACTED].
- ❖ Owing to LTD Holding Company's size (approximately 3 times that of the largest comparable company) and diversity of wireline assets across 18 states, the company should enjoy enhanced access to capital as compared to the selected comparable companies.
- ❖ Pro forma for the Transaction, LTD Holding Company is expected to have an interest coverage ratio (EBITDA/Interest Expense) of [REDACTED]x for the 7 months ended 12/31/06 on an annualized basis, which is [REDACTED] than the current median interest coverage ratios for the comparable companies of 2.8x.
- ❖ Pro forma for the Transaction, and based upon the anticipated dividend policy, LTD Holding Company would be expected to pay out approximately [REDACTED]% - [REDACTED]% of its free cash flows in dividends over the projection period, which is [REDACTED] the median of 70% estimated for the comparable companies.

⁽¹⁾ Based on pro forma total debt of \$7.25 billion as of 6/1/06 and 2006E EBITDA of \$[REDACTED].



Transaction Overview

Transaction Overview

TRANSACTION DESCRIPTION

LTD HOLDING COMPANY DESCRIPTION

Sprint Nextel intends to separate Sprint's local telecom business, LTD Holding Company, to the combined shareholders in a tax-free transaction. LTD Holding Company will consist of the following assets and/or arrangements:

| | LTD Holding Company Businesses |
|-----------------------------|--|
| Local (ILEC) | <ul style="list-style-type: none"> ❖ 7.5 million access lines in 18 states, primarily in rural areas ❖ Includes all local residential, business access lines in territory and wholesale customers ❖ Operating agreements with Sprint Nextel for distribution of long distance services for local customers |
| Long Distance | <ul style="list-style-type: none"> ❖ Operating agreements with Sprint Nextel for distribution of long distance services for local customers |
| Wireless | <ul style="list-style-type: none"> ❖ Operating agreements with Sprint Nextel for distribution of wireless services <ul style="list-style-type: none"> ◆ Future residential customers under MVNO agreement ◆ Business customers and high volume residential customers under agency contract |
| Sprint North Supply ("SNS") | <ul style="list-style-type: none"> ❖ SNS is a supply chain integrator serving network service providers, manufacturers and resellers. For 2004, services to LTD Holding Company Division accounted for \$[REDACTED] out of total revenue of \$[REDACTED]. |

Transaction Overview

CERTAIN DEFINITIONS AND ASSUMPTIONS

ASSUMPTIONS

- ❖ Unless otherwise noted, the income statement of LTD Holding Company is presented exclusive of SNS through “Telco EBITDA.” EBITDA of SNS is included in total EBITDA. All balance sheets are inclusive of SNS.
- ❖ Assumed date of separation is June 1, 2006.

DEFINITIONS

- ❖ EBITDA = Earnings Before Interest, Taxes, Depreciation & Amortization
- ❖ PF = Pro Forma
- ❖ FYE = Fiscal Year Ended (FY = Fiscal Year)

Transaction Overview

TRANSACTION OVERVIEW

DEBT STRUCTURE

- ❖ We understand that concurrent with LTD Holding Company’s separation, the resulting Company will be supporting approximately \$7.25 billion in debt.
- ❖ The Company’s post-Transaction debt structure is summarized in the table below.

| Post Transaction Debt Structure | |
|---------------------------------------|-------------------|
| <i>(\$ in millions)</i> | |
| | Pro Forma |
| <u>Existing Debt</u> | |
| Existing Debt - Note to Sprint Parent | [REDACTED] |
| Existing Debt - External | |
| Existing Debt - Centel | |
| Subtotal | |
| <u>New Debt</u> | |
| Bank Debt | |
| New Notes | |
| Subtotal | |
| Total | \$7,250 |

Transaction Overview

TRANSACTION OVERVIEW (CONTINUED)

DIVIDEND POLICY

- ❖ After the separation, we further understand that the Company intends to institute an annual dividend policy, paid quarterly. The annual dividend is projected to start at a pro-rata share of \$300 million in 2006, and [REDACTED]% per year. The partial year 2006 dividend payment is estimated at \$175 million, with an estimated full-year dividend of \$[REDACTED] in 2007, with the dividend [REDACTED]% per year thereafter.

| Dividend Payments | | | | | |
|--|-------|-------------------|------|------|------|
| <i>(\$ in millions)</i> | 2006 | 2007 | 2008 | 2009 | 2010 |
| Annualized First Year Dividend | \$300 | | | | |
| Partial Year Adjustment (7 out of 12 months) | 58% | [REDACTED] | | | |
| Dividends Paid | \$175 | [REDACTED] | | | |
| <i>Growth Rate</i> | | [REDACTED] | | | |

Transaction Overview

FINANCIAL PROJECTIONS

Income Statement – Historical and Projected

| FYE December 31, | 2003PF | 2004PF | 2005E | 2006E | 7 mths ended 12/31/06E | 2007E | 12/31/08E | 12/31/09E | 12/31/10E |
|---|--------|--------|-------|-------|---------------------------|-------|-----------|-----------|-----------|
| Average access lines | | | | | | | | | |
| Voice ARPU | | | | | | | | | |
| Average DSL Lines | | | | | | | | | |
| DSL ARPU | | | | | | | | | |
| REVENUE | | | | | | | | | |
| Voice | | | | | | | | | |
| Data | | | | | | | | | |
| Equipment & Other Revenue | | | | | | | | | |
| Access Revenue | | | | | | | | | |
| Wholesale Revenue | | | | | | | | | |
| Intradivisional Revenue | | | | | | | | | |
| Business LD, Wireless, and Other Revenue | | | | | | | | | |
| Telco Revenue | | | | | | | | | |
| <i>Telco Revenue Growth</i> | | | | | | | | | |
| EXPENSES | | | | | | | | | |
| Cost of Revenue | | | | | | | | | |
| Operating expenses | | | | | | | | | |
| Sales & Marketing | | | | | | | | | |
| CSO | | | | | | | | | |
| Network | | | | | | | | | |
| Information Services | | | | | | | | | |
| Support & Other | | | | | | | | | |
| Business LD, Wireless, and Other Expenses | | | | | | | | | |
| Total operating expenses | | | | | | | | | |
| <i>% of revenue</i> | | | | | | | | | |
| Telco EBITDA | | | | | | | | | |
| <i>% margin</i> | | | | | | | | | |
| Plus: North EBITDA | | | | | | | | | |
| Total EBITDA | | | | | | | | | |

[REDACTED]

Transaction Overview

FINANCIAL PROJECTIONS (CONTINUED)

Income Statement – Historical and Projected (continued)

| FYE December 31, | 2003PF | 2004PF | 2005E | 2006E | 2007E | 12/31/06E | 12/31/08E | 12/31/09E | 12/31/10E |
|------------------|--------|--------|-------|-------|-------|-----------|-----------|-----------|-----------|
|------------------|--------|--------|-------|-------|-------|-----------|-----------|-----------|-----------|

7 mths ended

Total EBITDA

Total Depreciation

% of revenue

EBIT

% margin

Interest Expense, Net

Restructuring and Asset Impairments

Other Income (expense), net

Pre-tax Income

Taxes

Net Income

% margin

[REDACTED]

Transaction Overview

FINANCIAL RESULTS

PRO FORMA OPENING BALANCE SHEET

- ❖ A 12/31/04 actual balance sheet was provided by the Company
- ❖ The following adjustments were made to estimate the Company's balance sheet as of 6/1/06:
 - ◆ 12/31/04 – 12/31/05:
 - Changes in Net PP&E and Debt Payments. Assumed an \$[REDACTED] cash distribution [REDACTED] Sprint during this time period and is reflected as a [REDACTED] in shareholders equity.
 - Net Other Assets [REDACTED] by \$[REDACTED] and retained earnings by \$[REDACTED].
 - ◆ 12/31/05 – 6/1/06:
 - Changes in Net PP&E and Debt Payments. The \$[REDACTED] Sprint is [REDACTED] with an associated [REDACTED] to cash.
 - Net \$[REDACTED] in other current liabilities.
 - Assumed cash is used to settle net obligations to Sprint. Company [REDACTED] cash balance of \$[REDACTED] with remaining \$[REDACTED] to Sprint.
- ❖ The following adjustments were made to the balance sheet at 6/1/06 to give effect to the Transaction:
 - The Company expects to [REDACTED] in bank debt, reflected as an [REDACTED] in cash and debt. The Company also expects to [REDACTED] in [REDACTED] notes, with an associated [REDACTED] in retained earnings.
 - ◆ The Company expects to [REDACTED] note to Sprint, with an associated [REDACTED] in cash.
 - ◆ The Company expects to [REDACTED] Sprint, a cash [REDACTED] to retained earnings.
- ❖ As of 6/1/06, after giving effect to the Transaction, the Company is projected to have \$[REDACTED] cash and \$7.25bn in total debt.

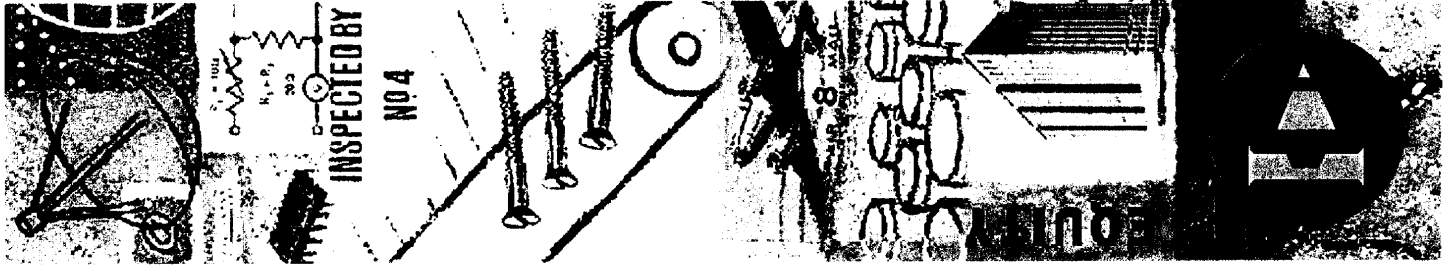
Transaction Overview

FINANCIAL RESULTS (CONTINUED)

The following table shows the adjustments made to the Company's 12/31/04 actual balance sheet to arrive at a Pro Forma opening balance sheet, reflecting the impact of the Transaction.

| Pro Forma Opening Balance Sheet 6/1/06 | | | | | | | | | |
|---|------------------|-------------|------------------|-------------|----------------|-------------|------------------------------|---------------|-------------------------------------|
| (\$ millions) | | | | | | | | | |
| | <u>12/31/04A</u> | <u>Adi.</u> | <u>12/31/05E</u> | <u>Adi.</u> | <u>6/1/06E</u> | <u>Debt</u> | <u>Parent</u> <u>Debt</u> | <u>Distr.</u> | <u>Pro Forma</u> <u>6/1/2006</u> |
| Current Assets | | | | | | | | | |
| Cash & Equivalents | | | | | | | | | |
| Advance Receivables from Sprint Corporation | | | | | | | | | |
| Other | | | | | | | | | |
| Total current assets | | | | | | | | | |
| Gross PP&E | | | | | | | | | |
| Accumulated Depreciation | | | | | | | | | |
| PP&E, Net | | | | | | | | | |
| Other Assets | | | | | | | | | |
| Total Assets | | | | | | | | | |
| Current Liabilities | | | | | | | | | |
| Other | | | | | | | | | |
| Total current liabilities | | | | | | | | | |
| Bank Debt (New) | | | | | | | | | |
| New Debt - Notes | | | | | | | | | |
| Existing Debt - Note to Sprint Parent | | | | | | | | | |
| Existing Debt - External | | | | | | | | | |
| Existing Debt - Centel | | | | | | | | | |
| Total Debt | | | | | | | | | |
| Deferred income taxes | | | | | | | | | |
| Postretirement and other benefit obligations | | | | | | | | | |
| Other | | | | | | | | | |
| Total Non-current liabilities | | | | | | | | | |
| Total shareholders' equity | | | | | | | | | |
| Total Liabilities & Shareholders' Equity | | | | | | | | | |

REDACTED



Telecommunications Industry Analysis



Telecommunications Industry Analysis

Comparable Companies Analysis

Comparable Companies Analysis

COMPARABLE COMPANY SELECTION

- ❖ As an incumbent local exchange carrier, LTD Holding Company has the following universe of potential comparable companies that are publicly traded

| Rural Local Exchange Carriers (RLECs) | | Regional Bell Operating Carriers (RBOCs) |
|---------------------------------------|-------------------------------|--|
| Alaska Communications | Hickory Technology | BellSouth |
| ALLTEL | Iowa Telecom | Qwest Communications |
| Atlantic Tele-Network | Lynch Interactive | SBC |
| CenturyTel | New Ulm Telecom | Verizon |
| Cincinnati Bell Telephone Co. | North Pittsburgh Systems | |
| Citizens Communications | Otelco | |
| Commonwealth Telephone Enter. | Shenandoah Telecommunications | |
| CT Communications | Surewest Communications | |
| D&E Communications | Telephone and Data Systems | |
| Fairpoint Communications | Valor Communications Group | |
| Hector Communications | Warwick Valley Telephone Co. | |

Comparable Companies Analysis

COMPARABLE COMPANY SELECTION (CONTINUED)

- ❖ Our analysis to identify the most relevant comparable companies to LTD Holding Company is primarily based on the following criteria:
 - (1) Size – We believe that Large Cap service providers have a different risk profile than Small to Mid Cap service providers
 - Liquidity – Trading volume is more limited for Small to Mid Cap
 - Business Risk – The advantages/disadvantages of Economies of Scale
 - Investor Base – Different profiles for Large Cap funds versus Small-Mid Cap funds
 - (2) Rural Market Exposure – Rural market differ from Urban markets due to the following:
 - Lower level of competition/ Higher barriers to enter
 - Regulatory framework
 - (3) Non-Core Assets – The existence of significant non-core (non-ILEC) assets affects valuation statistics
 - Verizon owns 55% of Verizon Wireless and recently announced the acquisition of MCI
 - SBC owns 60% of Cingular Wireless and recently announced the acquisition of AT&T
 - BellSouth owns 40% of Cingular Wireless
 - Qwest owns a nationwide long haul network
 - Various RLECs own various wireless assets/ partnerships

Comparable Companies Analysis

COMPARABLE COMPANY SELECTION – LARGE CAP RLECS

❖ The following table summarizes wireline/wireless mix and non-core assets for large cap RLECs with an EV greater than \$1 billion.

| Company Name | EV | Lines Ownership | | % of Total Lines | | Non-Core Assets ⁽¹⁾ | | Minority Interests | |
|-------------------------------|----------|-----------------|-----------|------------------|----------|--------------------------------|------------------|---|--------------------|
| | | Wireline | Wireless | Wireline | Wireless | \$ | % ⁽²⁾ | | Comments |
| Large Cap | | | | | | | | | |
| ALLTEL | \$22,991 | 2,983,250 | 8,801,285 | 25% | 75% | \$318 | 1% | Unconsolidated partnerships and equity securities | \$0 |
| Citizens Communications | 8,490 | 2,298,510 | 0 | 100% | 0% | 20 | 0% | Marketable equity securities and investments | 0 |
| CenturyTel | 7,390 | 2,298,491 | 0 | 100% | 0% | 42 | 1% | Estimated value of unconsolidated cellular partnership | 8 |
| Telephone and Data Systems | 3,522 | 1,087,300 | 5,127,000 | 17% | 83% | 221 | 6% | Unconsolidated partnerships | 512 ⁽³⁾ |
| Cincinnati Bell Telephone Co. | 3,220 | 959,900 | 479,000 | 67% | 33% | 0 | 0% | None | 35 |
| Valor Communications Group | 2,126 | 537,002 | 0 | 100% | 0% | 18 | 1% | Unconsolidated cellular partnership and RTFC certificates | 0 |
| Fairpoint Communications | 1,150 | 239,250 | 0 | 100% | 0% | 0 | 0% | Wireless partnership and non-marketable securities | 0 |
| Commonwealth Telephone Enter. | 1,166 | 471,133 | 0 | 100% | 0% | 10 | 1% | Rural Telephone Bank Stock and Yellow Book partnership | 0 |
| Iowa Telecommunications | 1,086 | 266,400 | 0 | 100% | 0% | 14 | 1% | Investment in RTFC | 0 |

Source: Company filings and press releases.
 Note: Enterprise Values are as of 7/1/2005. Lines ownership as of 3/31/05.
 (1) Non-core assets based on book value unless stated otherwise.
 (2) Non-core assets as a percent of EV plus non-core assets.
 (3) Primarily the 18% minority interest in US Cellular, which is not owned by TDS.

➤ Given their significant wireless assets, Alltel, TDS, and Cincinnati Bell will be excluded from our selected comparable companies.

Comparable Companies Analysis

COMPARABLE COMPANY SELECTION – SMALL – MID CAP RLECs

❖ The following table summarizes wireline/wireless mix and non-core assets for small – mid cap RLECs with an EV lower than \$1 billion.

Small – Mid Cap RLECs Wireless Mix and Non-Core Assets
(\$ in millions)

| Company Name | EV | Lines Ownership | | % of Total Lines | | Non-Core Assets ⁽¹⁾ | | Comments | Minority Interests |
|-------------------------------|-------|-----------------|----------|------------------|----------|--------------------------------|------------------|--|--------------------|
| | | Wireline | Wireless | Wireline | Wireless | \$ | % ⁽²⁾ | | |
| Small - Mid Cap | | | | | | | | | |
| Alaska Communications | \$807 | 289,169 | 102,279 | 74% | 26% | \$0 | 0% | None | \$0 |
| Surewest Communications | 471 | 131,133 | 52,887 | 71% | 29% | 0 | 0% | None | 0 |
| D&E Communications | 357 | 178,008 | 0 | 100% | 0% | 0 | 0% | None | 0 |
| Otelco | 242 | 33,624 | 0 | 100% | 0% | 1 | 1% | Not Disclosed | 0 |
| Shenandoah Telecommunications | 328 | 24,802 | 106,924 | 19% | 81% | 7 | 2% | Investments in start-up companies | 0 |
| North Pittsburgh Systems | 262 | 109,508 | 0 | 100% | 0% | 15 | 5% | Investments in PA wireless partnerships | 0 |
| CT Communications | 281 | 158,133 | 0 | 100% | 0% | 17 | 6% | 22% ownership in Palmetto MobileNet (wireless) | 0 |
| Lynch Interactive | 199 | 53,963 | 0 | 100% | 0% | 11 | 5% | Equity investments in broadcasting and telecom companies, and 2 cellular partnerships. | 11 |
| Hickory Technology | 202 | 73,635 | 0 | 100% | 0% | 3 | 1% | RTFC certificates | 0 |
| Hector Communications | 110 | 29,369 | 0 | 100% | 0% | 19 | 15% | 8% ownership in Midwest Holdings at book value and investment in 3 fiber optic transport companies | 0 |
| Atlantic Tele-Network | 118 | 106,000 | 0 | 100% | 0% | 10 | 8% | Note disclosed | 21 |
| Warwick Valley Telephone Co. | 118 | 29,602 | 0 | 100% | 0% | 5 | 4% | Wireless partnership | 0 |
| New Ulm Telecom | 45 | 17,000 | 0 | 100% | 0% | 18 | 29% | 10% ownership in Midwest Holdings and Local Multipoint Distribution Services | 0 |

Source: Company filings and press releases.

Note: Enterprise Values are as of 7/1/2005. Lines ownership as of 3/31/05.

(1) Non-core assets based on book value unless stated otherwise.

(2) Non-core assets as a percent of EV plus non-core assets.

- ❖ Size is the primary reason for excluding the above companies from selected comparable companies.
 - Alaska Communications with an EV of \$807 million is closest in size to our size threshold. However, given its wireless ownership and unique region, it would not be a good comparable company.
 - All other public RLECs trade at an EV that is lower than \$500 million.

Comparable Companies Analysis

COMPARABLE COMPANY SELECTION – RBOCs

❖ The following table summarizes wireline/wireless mix and non-core assets for RBOCs.

RBOCs Wireless Mix and Non-Core Assets
(\$ in millions)

| Company Name | EV | EV Comments | Lines Ownership | | % of Total Lines | | Non-Core Assets ⁽¹⁾ | | Minority Interests | |
|--------------|----------|-----------------------------------|-----------------|---------------------------|------------------|----------|--------------------------------|------------------|--|-----------------------|
| | | | Wireline | Wireless | Wireline | Wireless | \$ | % ⁽²⁾ | | Comments |
| RBOC | | | | | | | | | | |
| BellSouth | \$44,984 | Excludes Cingular Wireless | 15,075,000 | 20,160,000 ⁽³⁾ | 43% | 57% | \$22,265 | 33% | Investment in and advances to Cingular | \$0 |
| Qwest | 21,609 | - | 9,131,000 | 0 | 100% | 0% | 0 | 0% | None | 0 |
| SBC | 70,886 | Excludes Cingular Wireless | 27,440,000 | 30,240,000 ⁽³⁾ | 48% | 52% | 34,816 | 33% | Investment in and advances to Cingular | 0 |
| Verizon | 145,261 | Includes 100% of Verizon Wireless | 33,644,000 | 24,998,600 ⁽⁴⁾ | 57% | 43% | 5,817 | 4% | Value of ownership of Verizon Wireless and marketable securities | 24,754 ⁽⁵⁾ |

Source: Company filings and press releases.

Note: Enterprise Values are as of 7/1/2005. Lines ownership as of 3/31/05.

(1) Non-core assets based on book value unless stated otherwise.

(2) Non-core assets as a percent of EV plus non-core assets.

(3) Represents proportionate Cingular subscribers based on 60% and 40% ownership by SBC and BellSouth, respectively.

(4) Represents proportionate Verizon Wireless subscribers based on 55% ownership.

(5) Represents Vodaphone's 45% ownership in Verizon Wireless.

- ❖ BellSouth, SBC, and Verizon all have significant wireless assets.
 - Both Cingular and Verizon Wireless are private companies, which makes it difficult to extract public market value for ILEC assets.
 - In addition, pending SBC/ AT&T and Verizon/ MCI combinations will further differentiate these companies from LTD Holding Company.
- ❖ Qwest owns a nationwide long haul network as part of its core assets that is not comparable with LTD Holding Company.
- ❖ We have excluded the RBOCs from selected comparable companies due to:
 - (1) Lack of market value for pure wireline ILEC assets; and
 - (2) RBOCs operate in highly competitive environment as a result of their high metro/urban exposure
- ❖ Approximately a third of LTD Holding Company lines are in metro/urban areas (primarily in Las Vegas and Orlando)

Comparable Companies Analysis

COMPARABLE COMPANY SELECTION RESULTS

- ❖ Our comparable company selection process resulted with the following six RLECs:

| Selected Comparable Public RLECs (<i>\$ in millions</i>) | | | |
|---|----------------------|---------------------|------------------------------|
| <u>Company</u> | <u>Ticker Symbol</u> | <u>2004 Revenue</u> | <u>12/31/04 Access Lines</u> |
| Citizens Communications | CZN | \$2,193 | 2,320,772 |
| CenturyTel | CTL | 2,407 | 2,313,626 |
| Valor Communications Group | VCG | 505 | 540,337 |
| Fairpoint Communications | FRP | 253 | 239,274 |
| Iowa Telecommunications | IWA | 221 | 267,000 |
| Commonwealth Telephone Enter. | CTCO | 336 | 471,842 |
| LTD Holding Company | | \$6,020 | 7,667,988 |

Source: Company filings

- ❖ Please see the “Selected Comparable Companies” for a description of selected comparable companies.

Comparable Companies Analysis

COMPARABLE COMPANY CREDIT RATIOS AND RATINGS

- ❖ The following table illustrates credit ratios based on Moody's Rating Methodology for Comparable Public RLECs with their respective credit ratings
 - ♦ Owing to LTD Holding Company's size (approximately 3 times that of the largest comparable company) and diversity of wireline assets across 18 states, the company should enjoy enhanced access to capital as compared to the selected comparable companies.
- ❖ We understand that Sprint has obtained indicative ratings for LTD Holding Company from major ratings agencies.

The following credit ratios are based on specific Moody's methodologies and will differ from other figures in the presentation. In particular, financial metrics were adjusted for operating lease commitments

| 2004 Credit Metrics | Leverage | | | | Return on Assets | Coverage | | | Credit Rating | | |
|---|-------------------|--------------------|--------------------|--------------------|--------------------|-----------------------------|-----------------------|---------------------|-------------------|-------------------|--|
| | Debt / EBITDA | RCF / Debt | FCF / Debt | Debt / Cap | EBITA / Avg Assets | After Tax Interest Coverage | Fixed Charge Coverage | Moody's | Fitch | S & P | |
| Citizens Communications | 3.7x | 12.4% | 6.0% | 48.6% | 10.5% | 3.0x | 2.4x | Ba3 ⁽¹⁾ | BB | BB+ | |
| CenturyTel | 2.4x | 26.3% | 13.5% | 39.5% | 9.5% | 4.9x | 4.1x | Baa2 ⁽⁴⁾ | BBB+ | BBB+ | |
| Valor Communications Group | 5.9x | 9.9% | 5.9% | 62.2% | 9.3% | 2.4x | 1.9x | NR ⁽⁵⁾ | NR | BB- | |
| Fairpoint Communications | 4.3x | 5.8% | (0.2%) | 51.7% | 10.9% | 1.3x | 1.0x | B1 ⁽⁶⁾ | NR | BB- | |
| Iowa Telecommunications | 4.1x | 13.8% | 7.1% | 46.8% | 9.6% | 2.3x | 1.7x | Ba3 ⁽⁷⁾ | NR | BB- | |
| Commonwealth Telephone Enter. | 1.9x | 13.8% | 23.4% | 28.0% | 13.3% | 8.4x | 8.1x | NR | NR | NR | |
| Median | 3.9x | 13.1% | 6.6% | 47.7% | 10.0% | 2.7x | 2.1x | NA | NA | NA | |
| Mean | 3.7x | 13.7% | 9.3% | 46.1% | 10.5% | 3.7x | 3.2x | NA | NA | NA | |
| LTD Holding Company ⁽⁸⁾ | [REDACTED] | [REDACTED]% | [REDACTED]% | [REDACTED]% | [REDACTED]% | [REDACTED]x | [REDACTED]x | [REDACTED] | [REDACTED] | [REDACTED] | |

Definitions:
 Debt: Short-term debt + Long-term debt + Capitalized Leases (on balance sheet) + Capitalized Operating Leases
 FFO: EBITDA - Interest Expense - Taxes
 FCF: EBITDA - Interest Expense - Taxes - CapEx - Preferred Dividends - Common Dividends
 RCF: EBITDA - Interest Expense - Taxes - Preferred Dividends - Common Dividends
 Average Assets: Average total assets + PV of operating leases
 After Tax Interest Coverage: (EBITDA - Taxes) divided by (Interest Expense + Capitalized Interest)
 Fixed Charge Coverage: (EBITDA - Taxes - CapEx) divided by (Interest Expense + Capitalized Interest)

Source: Moody's Rating Methodology, February 2005, Company Filings, Bloomberg, and Wall Street research.
 (1) CenturyTel, Valor, Fairpoint, and Commonwealth do not disclose the breakdown between Depreciation and Amortization. EBITA is represented by EBIT.
 (2) Adjusted for capitalized leases. (EBITDA + Capitalized Interest - CapEx) divided by (Interest Expense + Capitalized Interest).
 (3) Ba3 rating reflects Moody's rating for Senior Implied Issuer, Bank Loan Debt, and Senior Unsecured Debt. On July 7, 2005, Moody's had withdrawn rating for Issuer.
 (4) Baa2 rating reflects Moody's rating for Senior Unsecured Debt. Moody's does not have an Issuer rating.
 (5) On October 8, 2004, Moody's had withdrawn all ratings.
 (6) B1 rating reflects Moody's rating for Senior Implied Issuer and Bank Loan Debt. On July 7, 2005, Moody's had withdrawn rating for Issuer.
 (7) Ba3 rating reflects Moody's rating for Senior Implied Issuer and Bank Loan Debt. On July 7, 2005, Moody's had withdrawn rating for Issuer.
 (8) Based on LTD Holding Company 2006 estimates; LTD Holding Company total capital based on the midpoint of Houlihan Lokey's range; LTD Holding Company total debt based on pro forma 6/1/2006 total debt of \$7.25 billion before adjustment for leases; Interest expense before adjustment for leases of \$(REDACTED) million based on 7 months ending 12/31/2006 annualized. Taxes of \$(REDACTED) million based on 7 months ending 12/31/2006 annualized.

Comparable Companies Analysis

COMPARABLE COMPANY LINE LOSSES ANALYSIS

- ❖ LTD Holding Company's access line loss in 2003 and 2004 are at approximately the median level for the comparable companies.
- ❖ LTD Holding Company's forecast for 2005 and 2006 assumes access line losses [REDACTED] of the median of the estimate by research analysts for the comparable companies.

RLECs Access Line Analysis

| Company | Ending Access Lines | | | | | Access Line Losses (% change, year over year) | | | |
|-------------------------------|---------------------|------------------|------------------|----------------------|----------------------|---|-----------------------|-----------------------|-----------------------|
| | 2002 | 2003 | 2004 | 2005E ⁽¹⁾ | 2006E ⁽¹⁾ | 2003 | 2004 | 2005E ⁽¹⁾ | 2006E ⁽¹⁾ |
| Citizens Communications | 2,444,400 | 2,386,500 | 2,320,772 | 2,226,000 | 2,126,000 | (1.9%) ⁽²⁾ | (2.8%) | (4.1%) | (4.5%) |
| CenturyTel | 2,414,564 | 2,376,118 | 2,313,626 | 2,242,944 | 2,159,000 | (1.6%) | (2.6%) | (3.1%) | (3.7%) |
| Valor Communications Group | 571,308 | 556,745 | 540,337 | 522,043 | 498,078 | (2.5%) | (2.9%) | (3.4%) | (4.6%) |
| Fairpoint Communications | 241,613 | 246,371 | 239,274 | 239,984 | 232,894 | (3.5%) ⁽³⁾ | (2.9%) | (5.3%) ⁽⁴⁾ | (3.0%) |
| Iowa Telecommunications | 271,900 | 266,000 | 267,000 | 263,800 | 262,600 | (3.3%) ⁽⁵⁾ | (3.9%) ⁽⁵⁾ | (4.6%) ⁽⁵⁾ | (3.8%) ⁽⁵⁾ |
| Commonwealth Telephone Enter. | 464,498 | 477,129 | 471,842 | 462,900 | 452,300 | 0.2% ⁽⁶⁾ | (1.6%) ⁽⁶⁾ | (2.1%) ⁽⁶⁾ | (2.5%) ⁽⁶⁾ |
| Mean | | | | | | (2.1%) | (2.8%) | (3.7%) | (3.7%) |
| Median | | | | | | (2.2%) | (2.8%) | (3.7%) | (3.8%) |
| High | | | | | | 0.2% | (1.6%) | (2.1%) | (2.5%) |
| Low | | | | | | (3.5%) | (3.9%) | (5.3%) | (4.6%) |
| LTD Holding Company | 8,076,875 | 7,897,451 | 7,667,988 | [REDACTED] | [REDACTED] | (2.2%) | (2.9%) | [REDACTED]% | [REDACTED]% |

Source: Company filings and press releases.

(1) Based on Wall Street Research.

(2) Adjusted to exclude divestiture of 11,000 lines in 2003.

(3) Adjusted to exclude the acquisition of 13,280 lines in 2003.

(4) Adjusted to exclude the acquisition of 7,260 lines in 2005.

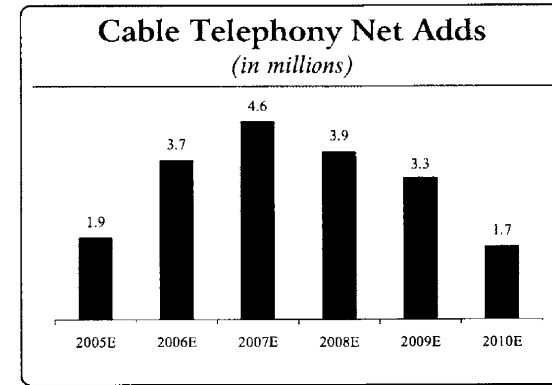
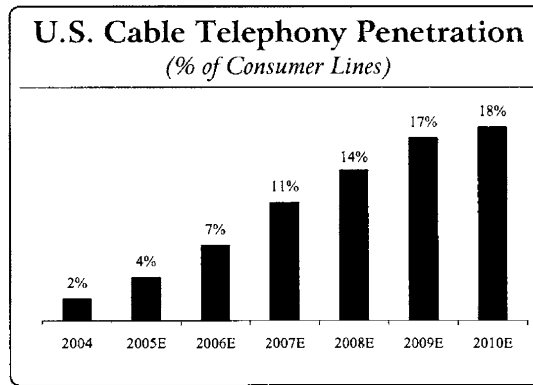
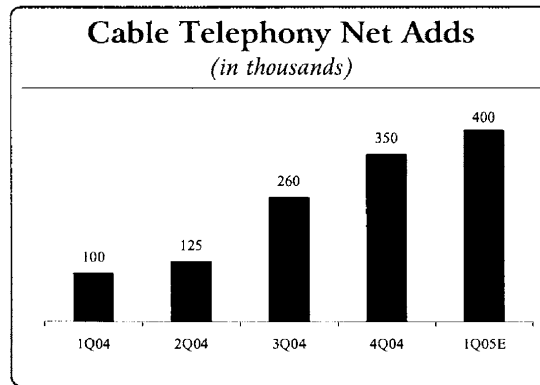
(5) Adjusted to exclude reported CLEC lines of 1,000, 4,100, and 15,200 for years ended 2002, 2003, and 2004, respectively. Also excludes expected CLEC lines of 23,500 and 31,400 for years ended 2005 and 2006, respectively.

(6) Adjusted to exclude reported CLEC lines of 126,700, 138,667, and 138,820 for years ended 2002, 2003, and 2004, respectively. Also excludes expected CLEC lines of 136,900 and 134,400 for years ended 2005 and 2006, respectively.

Comparable Companies Analysis

EXPOSURE TO CABLE VOICE COMPETITION

- ❖ Recent trends suggest an accelerated roll-out of cable telephony over the next 3 years
 - It is estimated that cable operators added almost 400k telephony customers during 1Q05 versus approximately 100k during 1Q04.
- ❖ By 2010, Cable operators are expected to gain approximately 18% of consumer access lines

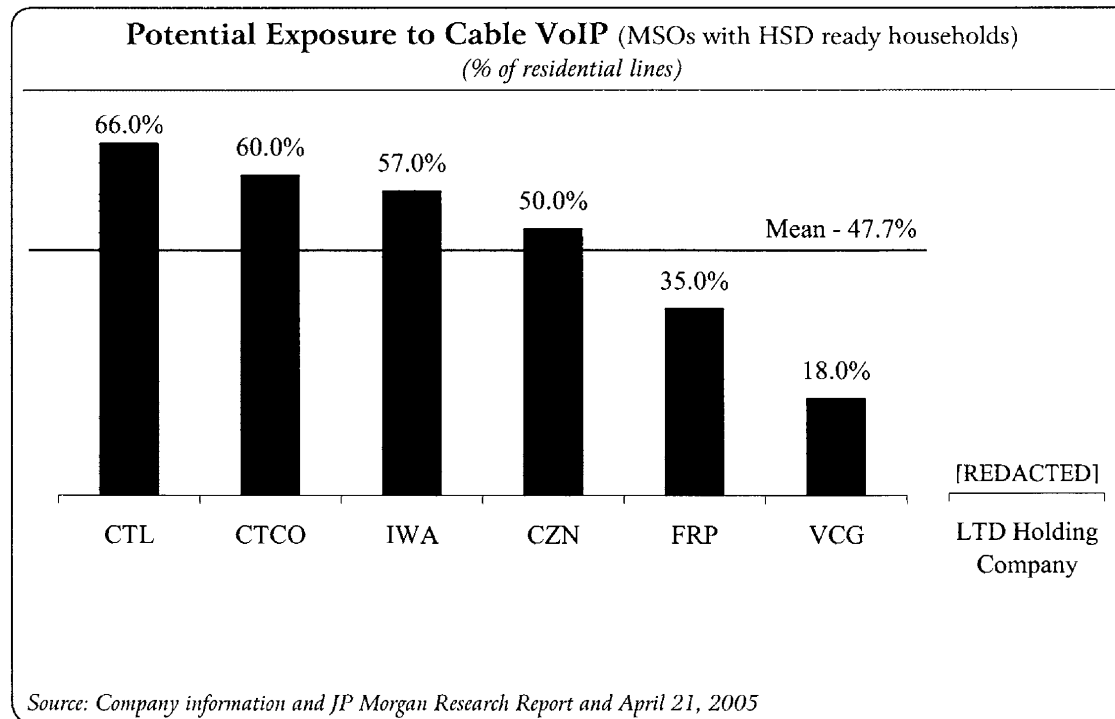


Source: Deutsche Bank research report, May 19, 2005.

Comparable Companies Analysis

EXPOSURE TO CABLE VOICE COMPETITION (CONTINUED)

- ❖ As a result of the recent launch of VoIP services by cable providers, current consumers will benefit from:
 - (1) Increase of alternative service providers
 - (2) Lower pricing due to increased competition
- ❖ As of year-end 2004, cable providers were offering voice services in areas covering 15% of LTD Holding Company's residential lines
- ❖ The following chart illustrates potential exposure to cable voice services by tier-1 cable MSOs⁽¹⁾



⁽¹⁾ Tier-1 cable MSO's includes: Comcast, Time Warner, Cox, Charter, Adelphia, Cablevision, Insight, and Mediacom.

Comparable Companies Analysis

EXPOSURE TO WIRELESS SUBSTITUTION

- ❖ Recent trends suggest that wireless substitution, as a replacement to landline, is the driver for the majority of primary residential access line losses
 - It is currently estimated that 6-7% of households have already “cut the cord”
 - Given that ILECs are still reporting significant line losses although they are (1) winning back UNE-P lines, (2) adding coverage due to new housing starts, and (3) cable telephony is still in its infancy, wireless substitution can be the only explanation for most of the primary residential access line losses

| Wireless Substitution of Primary Consumer Access Lines | | | | | |
|--|------------|--------------|------------|--------------|--------------|
| <i>(Access Lines in thousands)</i> | | | | | |
| | 1Q04 | 2Q04 | 3Q04 | 4Q04 | 1Q05 |
| Total ILEC - Primary Line Losses | (913) | (1,382) | (465) | (681) | (630) |
| Add New Housing Starts | (425) | (540) | (550) | (500) | (450) |
| Opportunity Loss | (1,338) | (1,922) | (1,015) | (1,181) | (1,080) |
| Less UNE-P | 475 | 455 | (190) | (585) | (788) |
| Opportunity loss including UNE-P effect | (863) | (1,467) | (1,205) | (1,766) | (1,868) |
| Less Cable Telephony | 121 | 126 | 217 | 335 | 388 |
| Less VoIP | 102 | 120 | 165 | 200 | 250 |
| Cable/ VoIP | 223 | 246 | 382 | 535 | 638 |
| Wireless Substitution | 640 | 1,221 | 823 | 1,231 | 1,230 |
| Wireless Substitution as % of Opportunity loss including UNE-P effect | 74% | 83% | 68% | 70% | 66% |

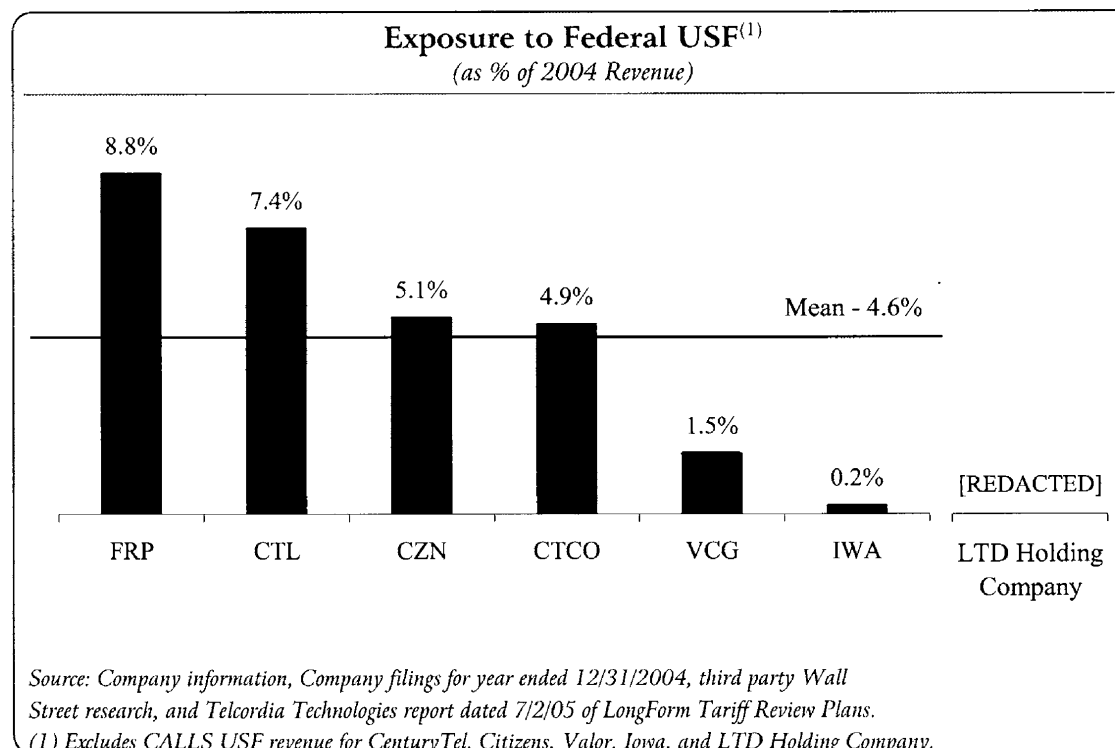
Source: Deutsche Bank report dated 5/19/2005.

- ❖ In urban markets, RBOCs are expected to lose 20-25% of primary residential lines to wireless substitution by 2010
- ❖ In rural areas that are less exposed to wireless substitution because of partial and inconsistent wireless coverage, RLECs are expected to lose 15-20% of primary residential lines to wireless substitution by 2010
- ❖ As approximately a third of its lines are in urban areas, LTD Holding Company is more exposed to wireless substitution than its RLEC peers

Comparable Companies Analysis

EXPOSURE TO FEDERAL USF

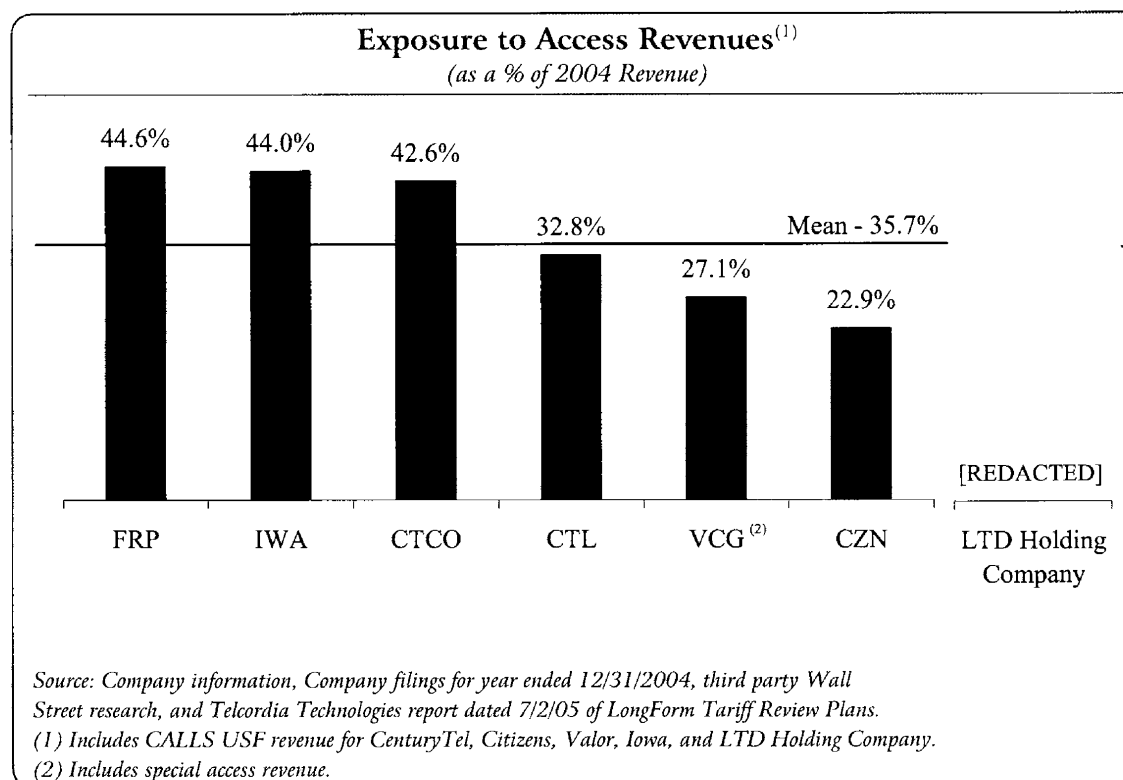
- ❖ Federal USF system is currently under pressure due to the imbalance between sources of funding and funding requirements
- ❖ Federal USF contributes approximately [REDACTED]% of LTD Holding Company's revenue, compared with a peer mean of 4.6%
- ❖ As such, LTD Holding Company is [REDACTED] exposed to Federal subsidies and should be [REDACTED] impacted by the overhang from regulatory risk
- ❖ The following table illustrates exposure to Federal USF revenue



Comparable Companies Analysis

EXPOSURE TO ACCESS REVENUES

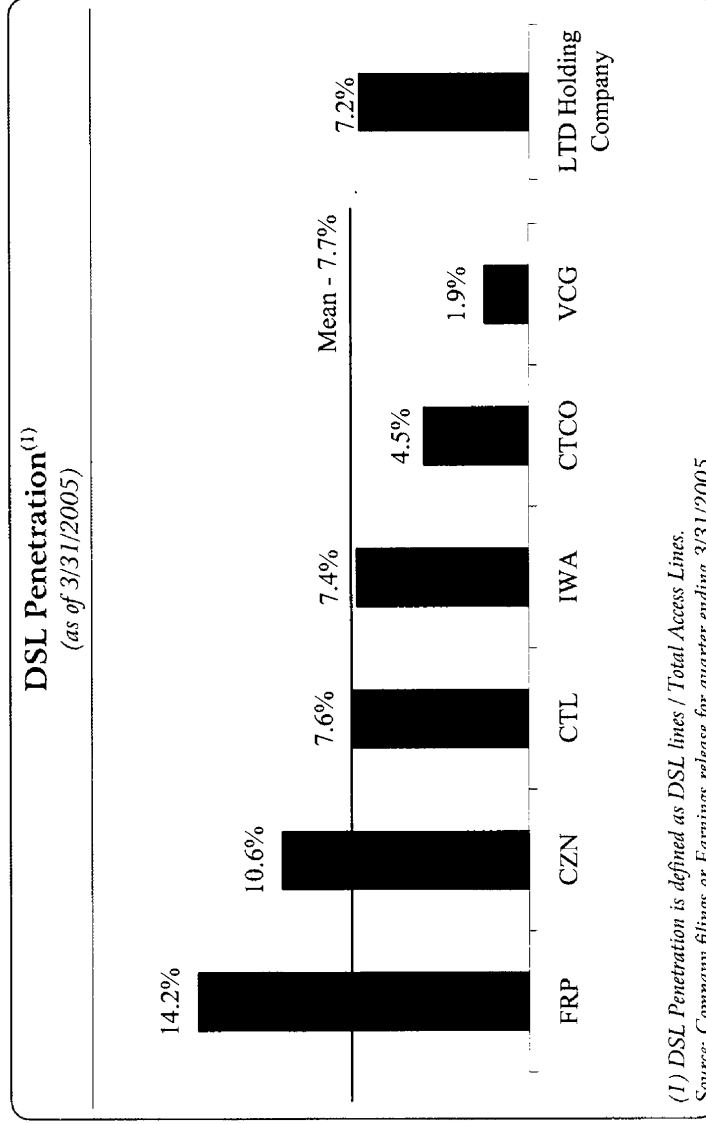
- ❖ Access revenues are exposed to regulatory risk as access regime reform proposals are being considered by the FCC
- ❖ Access revenue contributes approximately [REDACTED]% of LTD Holding Company's revenue, compared with a peer mean of 35.7%, making LTD Holding Company [REDACTED] exposed to regulatory risk due to access revenue



Comparable Companies Analysis

DSL PENETRATION

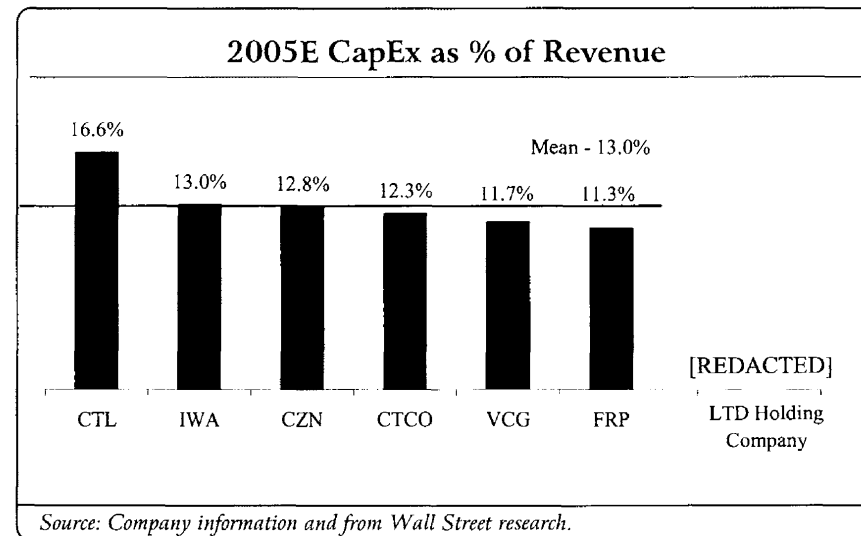
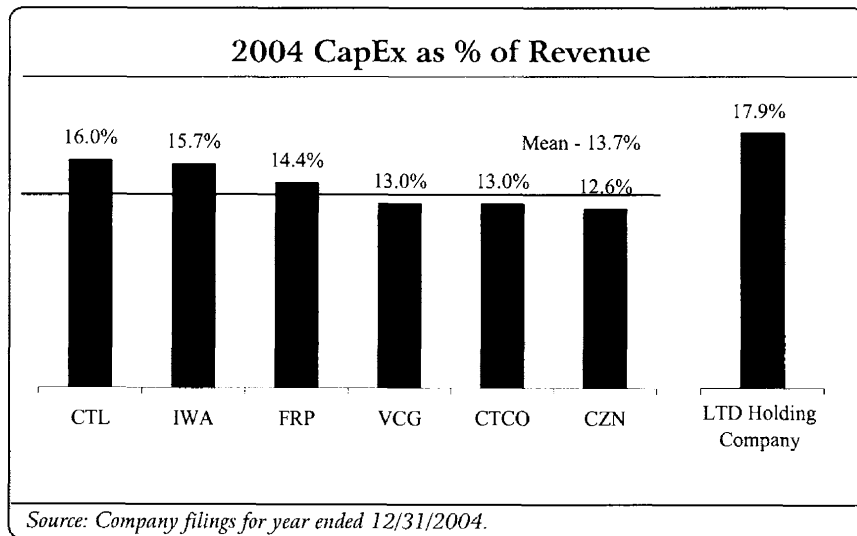
- ❖ DSL presents an opportunity for local carriers to tap a new revenue stream and significantly improve churn
- ❖ As the industry mean for DSL penetration is approximately 7.7%, LTD Holding Company's penetration is in line with its peers



Comparable Companies Analysis

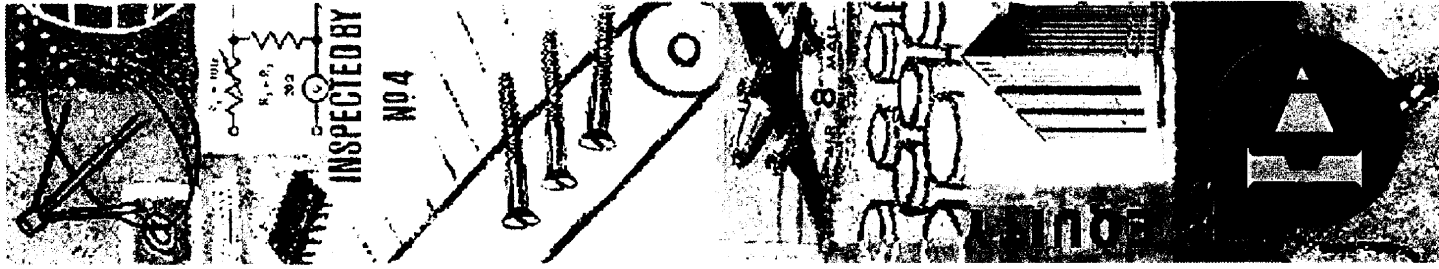
COMPARABLE COMPANY CAPITAL INTENSITY

- ❖ While historically LTD Holding Company's capital intensity was [REDACTED] its peer group, going forward it is expected to be [REDACTED]
- ❖ In 2005, LTD Holding Company expects to [REDACTED] the capital expenditure to revenue ratio to approach the levels forecasted for the comparable companies. [REDACTED]





Methodology



Methodology

Valuation Methodology
Capital Tests Methodology



Valuation Methodology

VALUATION METHODOLOGY

Houlihan Lokey's analysis included an independent analysis of the fair value of the aggregate assets of the Company using three widely accepted methodologies. The three methodologies included an income approach and two market approaches. The methodologies employed are outlined in further detail on the following pages.

1. Market Multiple Methodology
2. Comparable Transaction Methodology
3. Discounted Cash Flow Methodology

The valuation methodologies described in this section provide a calculation of the enterprise value from operations of the Company. This resulting value is the fair value of the assets for purposes of the Capital Tests. The Capital Tests are described after the Valuation Methodology discussion in this chapter.

Valuation Methodology

VALUATION METHODOLOGY (CONTINUED)

MARKET MULTIPLE METHODOLOGY

The market multiple methodology involved the multiplication of earnings before interest, taxes, depreciation and amortization (EBITDA) and access lines by appropriate risk-adjusted multiples.

- ❖ Multiples were determined through an analysis of certain publicly traded companies, which were selected on the basis of operational and economic similarity with the principal business operations of the Company.
- ❖ EBITDA and per Access Line multiples were calculated for the comparable companies based upon daily trading prices. A comparative risk analysis between the Company and the public companies formed the basis for the selection of appropriate risk adjusted multiples for the Company. The risk analysis incorporates both quantitative and qualitative risk factors which relate to, among other things, the nature of the industry in which the Company and other comparable companies are engaged.
- ❖ Multiples were calculated for the comparative companies based upon trading prices as of July 1, 2005.

Valuation Methodology

VALUATION METHODOLOGY (CONTINUED)

MARKET MULTIPLE METHODOLOGY (CONTINUED)

- ❖ The risk analysis incorporates both quantitative and qualitative risk factors, which relate to, among other things, the nature of the industry in which LTD Holding Company and the other comparative companies are engaged, relative size, profitability and growth rates.
- ❖ For purposes of this analysis, we selected six (6) companies as comparable to LTD Holding Company, including:
 - ◆ Citizens Communications
 - CenturyTel
 - Valor Communications Group
 - ◆ Fairpoint Communications
 - ◆ Iowa Telecommunications
 - ◆ Commonwealth Telephone Enterprises.
- ❖ Further discussion of our comparable company selection can be found in the Telecommunications Industry Overview section.

Valuation Methodology

VALUATION METHODOLOGY (CONTINUED)

COMPARABLE TRANSACTION METHODOLOGY

The comparable transaction methodology also involved multiples of access lines. Multiples used in this approach were determined through an analysis of transactions involving controlling interests in companies with operations similar to the Company's principal business operations.

Description of these transactions and multiples selected can be found in our Valuation Analysis section.

Valuation Methodology

VALUATION METHODOLOGY (CONTINUED)

DISCOUNTED CASH FLOW METHODOLOGY

The Discounted Cash Flow Methodology (“DCF”) involved estimating the present value of the projected cash flows to be generated from the business and theoretically available to the capital providers of the Company. A discount rate was applied to the projected future cash flows to reflect all risks of ownership and the associated risks of realizing the stream of projected cash flows. Since the cash flows are projected over a limited number of years, a terminal value was computed as of the end of the last period of projected cash flows. We estimated the Company’s terminal value by using a multiple of EBITDA in the final year of the projections. The terminal value is an estimate of the value of the enterprise on a going concern basis as of that future point in time. Discounting each of the projected future cash flows and the terminal value back to the present and summing the results yields an indication of value for the enterprise.

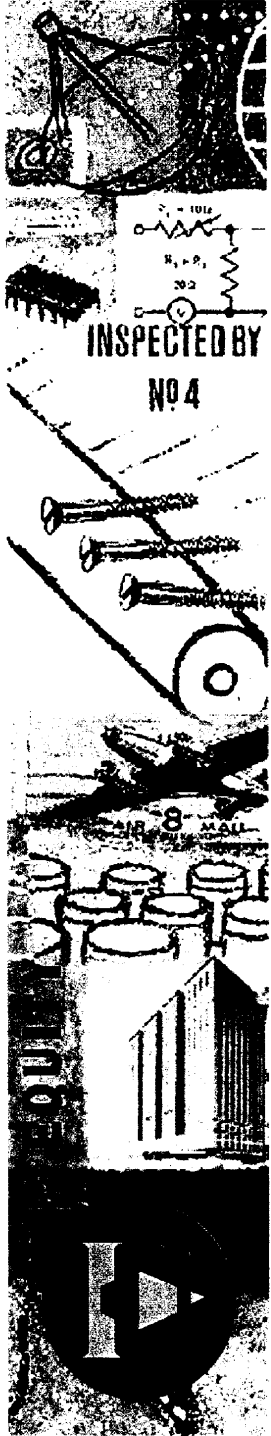
- ❖ The Company’s financial projections as extended by Houlihan Lokey were utilized in employing the Discounted Cash Flow Approach.
- ❖ In the DCF Approach, a discount rate is applied to the projected future cash flows to arrive at the present value.
 - The discount rate is intended to reflect all risks of ownership and the associated risks of realizing the stream of projected future cash flows.

Valuation Methodology

VALUATION METHODOLOGY (CONTINUED)

DISCOUNTED CASH FLOW METHODOLOGY (CONTINUED)

- ❖ In contrast to the “cash flow” figures used in the Market Multiple Approach, the figure used in the DCF Approach more accurately represents the true cash flow being generated by the operations of the business.
 - The cash flows are typically projected over a limited number of years, and as a result, it is necessary to compute a terminal value as of the end of the last period for which cash flows are projected.
 - This terminal value is essentially an estimate of value of the enterprise as of that future point in time, and it incorporates the assumptions of perpetual operations and implicit growth found in the Market Multiple Approach.
- ❖ Discounting each of the projected future cash flows and the terminal value back to the present, and summing the results, yields an indication of value for the enterprise as a whole.



Methodology

Valuation Methodology
Capital Tests Methodology

Capital Tests Methodology

CAPITAL TESTS METHODOLOGY (CONTINUED)

BALANCE SHEET TEST

The Balance Sheet Test determines whether or not the *fair value* of the company's assets exceeds its stated liabilities and identified contingent liabilities after giving effect to the transaction. This test requires an analysis of the fair market value of the company as a *going concern*. As part of this analysis, we would consider, among other things, these factors:

- ❖ Historical and projected financial performance of the Company;
- ❖ The business environment in which the Company competes;
- ❖ Performance of certain publicly traded companies deemed by Houlihan Lokey to be comparable to the company, in terms of, among other things, size, profitability, financial leverage and growth;
- ❖ Capitalization rates ("multiples") for certain publicly traded companies deemed by Houlihan Lokey to be comparable to the Company, such as:
 - ◆ EV / EBITDA;
 - ◆ EV / Access Lines
- ❖ Multiples derived from acquisitions of companies deemed by Houlihan Lokey to be comparable to the Company;
- ❖ Discounted cash flow ("DCF") approach;
- ❖ The capital structure and debt obligations of the company; and
- ❖ Non-operating assets and identified contingent liabilities of the Company.

Capital Tests Methodology

CASH FLOW TEST

The Cash Flow Test focuses on whether or not the company *should be able to repay its debts as they become absolute and mature* (including the debts incurred in the transaction). This test involves a two-step analysis of the company's financial projections:

- ❖ Examine the consistency of the projections with historical performance, current marketing strategies and operating cost structure; and
- ❖ Test the sensitivity of the projections to changes in key variables including revenue drivers, operating margins and capital expenditures

In testing cash flows, we perform sensitivity analyses to determine the “safety margin” available to deal with reasonable downturns in the company's ability to generate operating cash flow.

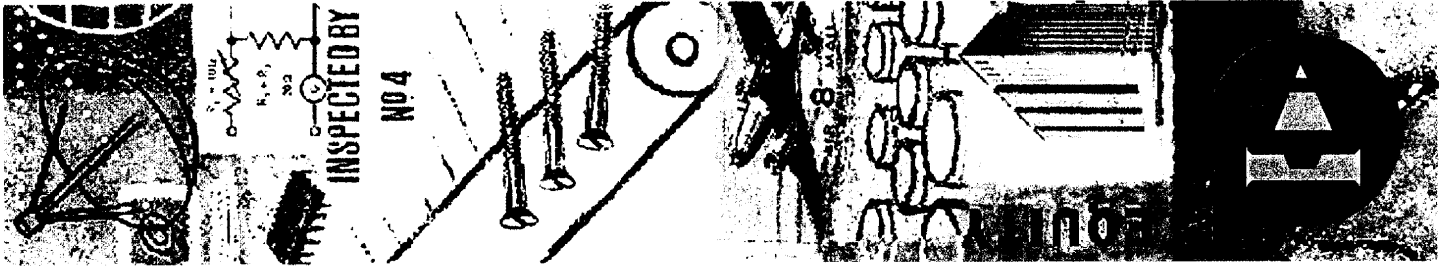


Capital Tests Methodology

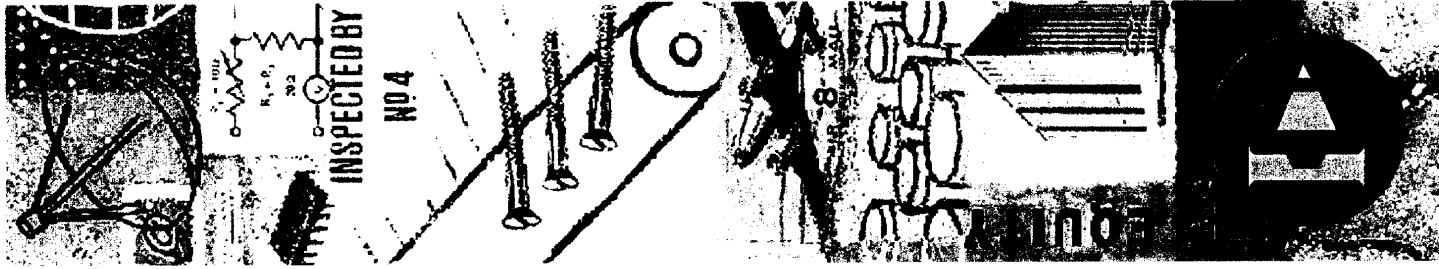
REASONABLE CAPITAL TEST

The Reasonable Capital Test follows from the Balance Sheet and Cash Flow Tests. The company may have assets that exceed liabilities, but if the amount is too small to provide some downside protection, the capital amount may not be deemed to be adequate and, in such a situation, the company would fail the Reasonable Capital Test. The determination as to whether *the net assets remaining with the company constitute unreasonably small capital* involves an analysis of various factors, including:

- ❖ The degree of sensitivity demonstrated in the cash flow test;
- ❖ Historical and expected volatility in revenues, cash flow and capital expenditures;
- ❖ The adequacy of working capital;
- ❖ The maturity structure and the ability to refinance the company's obligations;
- ❖ The magnitude, timing and nature of identified contingent liabilities; and
- ❖ The nature of the business and the impact of financial leverage on its operations.



Valuation Analysis



Valuation Analysis

Valuation Summary
Market Multiple Valuation Indication
Transaction Multiple Valuation Indication
Discounted Cash Flow Indication

Valuation Summary

VALUATION SUMMARY

| Valuation Summary | | |
|---|-------------------|-------------|
| <i>(figures in millions)</i> | | |
| Enterprise Value Indication from Operations | | |
| <u>Market Approach</u> | <u>Low</u> | <u>High</u> |
| Market Multiple Methodology | | |
| Comparable Transaction Methodology | | |
| <u>Income Approach</u> | | |
| Discounted Cash Flow Methodology (Terminal Multiple) | | |
| Results Summary | | |
| Selected Enterprise Value from Operations | | |
| Nonoperating Assets/Liabilities: | | |
| Plus: Pro Forma Cash and Cash Equivalents Balance as of 6/1/06 | | |
| Less: Identified Contingent Liabilities ⁽¹⁾ | | |
| Less: Postretirement and Other Benefit Obligations ⁽²⁾ | | |
| Enterprise Value | | |
| Less: Pro Forma Total Debt as of 6/1/06 | \$7,250 | \$7,250 |
| Equity Value | [REDACTED] | |

[REDACTED]

(1) [REDACTED].
 (2) [REDACTED] based on December 31, 2004 Pro Forma LTD Holding Company Balance Sheet.

Valuation Summary

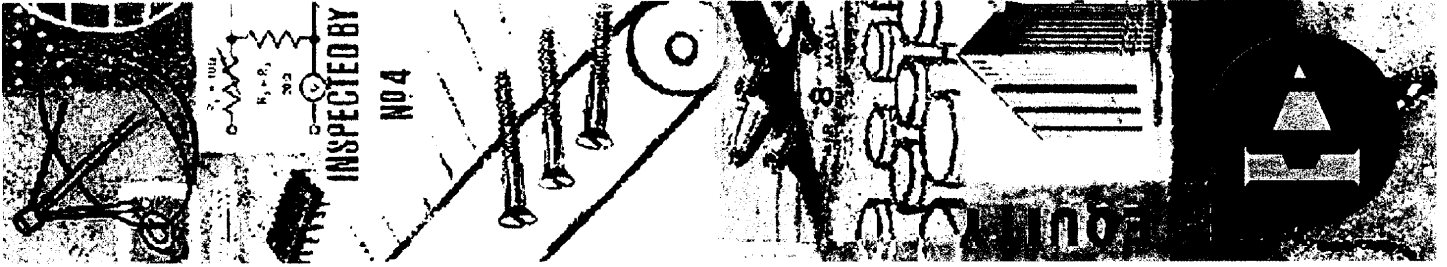
VALUATION SUMMARY (CONTINUED)

COMPARABLE COMPANY SELECTION

The broadest comparable company segmentation includes all incumbent local voice telecommunications service providers, consisting principally of RLECs (Rural Local Exchange Carriers) and RBOCs (Regional Bell Operating Companies). As a result of different competitive dynamics in urban versus rural areas (over two-thirds of LTD Holding Company lines are outside the top 100 MSAs), the RBOCs' significant non-local voice assets (principally wireless or Qwest's IXC asset), and a significant directly comparable data set (i.e. RLECs), the RBOCs were excluded for valuation purposes. The RLEC universe was further refined to Large Cap service providers having an Enterprise Value ("EV") in excess of \$1 billion and not owning significant wireless assets.

COMPARABLE COMPANY ANALYSIS

The comparable trading company valuation is based on the 6 public RLECs exceeding \$1 billion in EV. These comparable trading companies have a general valuation between 6.0x to 8.5x 2005E EBITDA and \$2,500 to \$4,500/access line. While we have reviewed various risk ranking metrics to further narrow the multiple ranges, we have focused our relative analysis on key metrics, including average revenue per line (ARPL), EBITDA margins, expected revenue growth and expected recurring dividend yield. LTD Holding Company's ARPL for 1Q05 of \$59 is ranked 6th out of 7 companies (CenturyTel is ranked 1st with \$77 and Commonwealth has the lowest ARPL of \$53). For 2004, LTD Holding Company had the lowest EBITDA margin of 48%, while its comparable trading companies operated at EBITDA margins of 52% to 58%. LTD Holding Company has the [REDACTED] expected revenue growth, a projected [REDACTED] between 2004 and 2005E, [REDACTED] of Citizens, which has a 2.3% expected decline. In addition, expected dividend yield for LTD Holding Company of approximately [REDACTED]% is [REDACTED] the 7% mean for its peer group. LTD Holding Company is also significantly larger than the comparable companies and generally has a more geographically diverse set of assets.



Valuation Analysis

Valuation Summary

Market Multiple Valuation Indication

Transaction Multiple Valuation Indication

Discounted Cash Flow Indication

Market Multiple Valuation Indication

MARKET MULTIPLE VALUATION INDICATION

| Market Multiple Approach | | | |
|---------------------------------|--|----------------------------|-------------------------------------|
| <i>(figures in millions)</i> | | | |
| | LTD Holding Company Representative Level | Selected Multiple Range | Indicated Enterprise Value Range |
| <u>FY 2004PF</u> | | | |
| EBITDA | | | |
| <u>FY 2005PF</u> | | | |
| EBITDA | | | |
| <u>FY 2006PF</u> | | | |
| EBITDA | | | |
| <u>Industry Metrics 3/31/05</u> | | | |
| Access Lines | | | |
| [REDACTED] | | | |
| Median | | | |
| Mean | | | |
| Selected Enterprise Value Range | | | |

Market Multiple Valuation Indication

REPRESENTATIVE LEVELS

| LTD Holding Company - Representative Levels | | | | | | | | |
|---|--------|--------|-------|-------|-------|-------|-------|-------|
| Dollars and Access Lines in Millions | | | | | | | | |
| FYE December 31, | 2003PF | 2004PF | 2005E | 2006E | 2007E | 2008E | 2009E | 2010E |
| EOY Access Lines | | | | | | | | |
| Average access lines | | | | | | | | |
| <hr/> | | | | | | | | |
| Total Revenue | | | | | | | | |
| <i>% growth</i> | | | | | | | | |
| <hr/> | | | | | | | | |
| EXPENSES | | | | | | | | |
| Cost of Revenue | | | | | | | | |
| Total operating expenses | | | | | | | | |
| <i>% of revenue</i> | | | | | | | | |
| Telco EBITDA | | | | | | | | |
| Plus: North EBITDA | | | | | | | | |
| <hr/> | | | | | | | | |
| Total Unadjusted EBITDA | | | | | | | | |
| Adjustments (1) | | | | | | | | |
| <hr/> | | | | | | | | |
| Total Adjusted EBITDA | | | | | | | | |
| <i>% margin</i> | | | | | | | | |
| Total Depreciation | | | | | | | | |
| <i>% of revenue</i> | | | | | | | | |
| EBIT | | | | | | | | |
| <i>% margin</i> | | | | | | | | |
| Dividends | | | | | | | | |
| Capital Expenditures | | | | | | | | |
| <hr/> | | | | | | | | |
| (1) Adjustments | | | | | | | | |
| Cost Normalization | | | | | | | | |
| Business LD | | | | | | | | |
| Total | | | | | | | | |

REDACTED

Market Multiple Valuation Indication

COMPARABLE COMPANIES VALUATION SUMMARY

Comparable Companies Operating Summary

(\$ in millions, except per share amounts)

| Company | Revenue | | | EBITDA | | | Access Lines | | CapEx | | FCF before Dividends ⁽¹⁾ | |
|-------------------------------|---------|----------------------|----------------------|---------|----------------------|----------------------|--------------|-----------|-------|----------------------|-------------------------------------|----------------------|
| | 2004 | 2005E ⁽¹⁾ | 2006E ⁽²⁾ | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | 2004 | LQA | 2004 | 2005E ⁽²⁾ | 2004 | 2005E ⁽²⁾ |
| Citizens Communications | \$2,193 | \$2,143 | \$2,098 | \$1,181 | \$1,129 | \$1,106 | 2,320,772 | 2,298,510 | \$276 | \$275 | \$535 | \$527 |
| CenturyTel | 2,407 | 2,405 | 2,410 | 1,245 | 1,232 | 1,219 | 2,313,626 | 2,298,491 | 385 | 408 | 724 | 431 |
| Valor Communications Group | 505 | 503 | 500 | 272 | 270 | 269 | 540,337 | 537,002 | 66 | 59 | 92 | 127 |
| Fairpoint Communications | 253 | 254 | 257 | 140 | 135 | 136 | 239,274 | 239,250 | 36 | 29 | 23 | 64 |
| Iowa Telecommunications | 221 | 230 | 229 | 127 | 127 | 129 | 267,000 | 266,400 | 35 | 30 | 42 | 66 |
| Commonwealth Telephone Enter. | 336 | 332 | 326 | 180 | 169 | 166 | 471,842 | 471,133 | 44 | 41 | 95 | 74 |

Source: Company filings.

Note: Financial results and Access Lines presented are as of March 31, 2005.

(1) Free Cash Flow is defined as EBITDA less CapEx less cash interest expense less taxes.

(2) Projections per Wall Street Research.

Comparable Companies Valuation Summary

(\$ in millions, except per share and Access Line amounts)

| Company | Share | | Enterprise Value to: | | | | | | | | | | Implied Dividend Yield | |
|-------------------------------|----------------------|--------------------------------|----------------------|-------|-----------|-------------|----------------------|----------------------|-------------|----------------------|----------------------|----------------|------------------------|--------------|
| | Price as of 7/1/2005 | Total MV Equity ⁽¹⁾ | MV Debt | Cash | Market EV | Revenue | | | EBITDA | | | Access Lines | | |
| | | | | | | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | 2004 | | LQA |
| Citizens Communications | \$13.45 | \$4,617 | \$4,177 | \$284 | \$8,490 | 3.9x | 4.0x | 4.0x | 7.2x | 7.5x | 7.7x | \$3,658 | \$3,694 | 7.4% |
| CenturyTel | 34.76 | 4,612 | 2,839 | 27 | 7,390 | 3.1x | 3.1x | 3.1x | 5.9x | 6.0x | 6.1x | 3,194 | 3,215 | 0.7% |
| Valor Communications Group | 13.80 | 982 | 1,191 | 29 | 2,126 | 4.2x | 4.2x | 4.3x | 7.8x | 7.9x | 7.9x | 3,935 | 3,960 | 10.4% |
| Fairpoint Communications | 16.02 | 566 | 590 | 6 | 1,150 | 4.6x | 4.5x | 4.5x | 8.2x | 8.5x | 8.4x | 4,806 | 4,807 | 9.9% |
| Iowa Telecommunications | 18.75 | 592 | 512 | 4 | 1,086 | 4.9x | 4.7x | 4.7x | 8.5x | 8.6x | 8.4x | 4,066 | 4,076 | 8.6% |
| Commonwealth Telephone Enter. | 42.22 | 900 | 336 | 60 | 1,166 | 3.5x | 3.5x | 3.6x | 6.5x | 6.9x | 7.0x | 2,471 | 2,475 | 4.7% |
| Mean | | | | | | 4.0x | 4.0x | 4.0x | 7.4x | 7.6x | 7.6x | \$3,689 | \$3,704 | 7.0% |
| Median | | | | | | 4.0x | 4.1x | 4.1x | 7.5x | 7.7x | 7.8x | 3,797 | 3,827 | 8.0% |
| High | | | | | | 4.9x | 4.7x | 4.7x | 8.5x | 8.6x | 8.4x | \$4,806 | \$4,807 | 10.4% |
| Low | | | | | | 3.1x | 3.1x | 3.1x | 5.9x | 6.0x | 6.1x | 2,471 | 2,475 | 0.7% |

Source: Company filings as of March 31, 2005.

Note: Financial results and Access Lines presented are as of March 31, 2005.

(1) Market Value of Equity based on fully diluted shares outstanding using the treasury method.

(2) Projections per Wall Street Research.

Comparable Companies Analysis

RISK RANKINGS OF COMPARABLE PUBLIC RLECS

| Size (2004 Revenue, \$ in millions) | Size (2004 EBITDA \$ in millions) | Industry Metrics Access Lines (3/31/05) | Line Losses Access Line Losses (2003-2004) | Leverage Market Value of Debt / LQA EBITDA |
|---|--|---|---|---|
| LTD Holding Company \$6,020 | LTD Holding Company \$2,890 | LTD Holding Company 7,638,647 | Commonwealth Telephone Enter. (1.6%) | Valor Communications 4.4x |
| CenturyTel 2,407 | CenturyTel 1,245 | Citizens Communications 2,298,510 | CenturyTel (2.6%) | FairPoint Communications 4.2x |
| Citizens Communications 2,193 | Citizens Communications 1,181 | CenturyTel 2,298,491 | Citizens Communications (2.8%) | Iowa Telecommunications 4.0x |
| Valor Communications 505 | Valor Communications 272 | Valor Communications 537,002 | FairPoint Communications (2.9%) | Citizens Communications 3.5x |
| Commonwealth Telephone Enter. 336 | Commonwealth Telephone Enter. 180 | Commonwealth Telephone Enter. 471,133 | LTD Holding Company (2.9%) | LTD Holding Company ⁽¹⁾ 2.5x |
| FairPoint Communications 253 | FairPoint Communications 140 | Iowa Telecommunications 266,400 | Valor Communications (2.9%) | CenturyTel 2.3x |
| Iowa Telecommunications 221 | Iowa Telecommunications 127 | FairPoint Communications 239,250 | Iowa Telecommunications (3.9%) | Commonwealth Telephone Enter. 1.9x |
| Historical Revenue Growth (2003 to 2004) | Historical EBITDA Growth (2003 to 2004) | Projected Revenue Growth (2004 to 2005E) | Projected EBITDA Growth (2004 to 2005E) | Projected Line Losses Access Line Losses (2004-2005E) |
| Iowa Telecommunications 7.5% | FairPoint Communications 10.6% | [REDACTED] | [REDACTED] | [REDACTED] |
| FairPoint Communications ⁽²⁾ 5.9% | Valor Communications 4.9% | | | |
| Valor Communications 1.8% | Iowa Telecommunications 4.3% | | | |
| CenturyTel 1.7% | Commonwealth Telephone Enter. 2.6% | | | |
| Commonwealth Telephone Enter. 0.0% | Citizens Communications 0.1% | | | |
| Citizens Communications Co. ⁽³⁾ (1.0%) | CenturyTel (0.7%) | | | |
| LTD Holding Company (1.8%) | LTD Holding Company (1.7%) | | | |
| Profitability (1Q05 Average Revenue per Line) | Profitability (2004 EBIT Margin %) | Profitability (2004 EBITDA Margin %) | Profitability (2004 Net Income Margin %) | Profitability (2004 FCF margin %) |
| CenturyTel \$77.44 | Valor Communications 36.7% | Iowa Telecommunications 57.7% | Commonwealth Telephone Enter. 18.5% | CenturyTel 30.1% |
| Fairpoint Communications \$77.32 | Iowa Telecommunications 36.0% | FairPoint Communications 55.4% | LTD Holding Company 17.3% | LTD Holding Company 28.6% |
| Valor Communications Group \$70.13 | FairPoint Communications 35.5% | Citizens Communications 53.9% | CenturyTel 14.0% | Commonwealth Telephone Enter. 28.3% |
| Citizens Communications \$69.78 | Commonwealth Telephone Enter. 32.4% | Valor Communications 53.8% | Iowa Telecommunications 6.4% | Citizens Communications 24.4% |
| Iowa Telecommunications \$64.68 | CenturyTel 30.9% | Commonwealth Telephone Enter. 53.5% | Citizens Communications 4.8% | Iowa Telecommunications 18.9% |
| LTD Holding Company \$58.72 | LTD Holding Company 28.7% | CenturyTel 51.7% | FairPoint Communications (3.4%) | Valor Communications 18.3% |
| Commonwealth Telephone Enter. \$53.15 | Citizens Communications 27.7% | LTD Holding Company 48.0% | Valor Communications (5.5%) | FairPoint Communications 9.2% |
| Exposure to Cable VoIP (as of December 31, 2004) | Exposure to Federal USF ⁽⁴⁾ (as % of 2004 Revenue) | Exposure to Access Revenue ⁽⁵⁾ (as % of 2004 Revenue) | DSL Penetration (as of 3/31/2005) | Net Pension Benefit/Obligation (as of 12/31/2004, % of EV) |
| [REDACTED] | [REDACTED] | [REDACTED] | FairPoint Communications 14.2% | [REDACTED] |
| | | | Citizens Communications 10.6% | |
| | | | CenturyTel 7.6% | |
| | | | Commonwealth Telephone Enter. 7.4% | |
| | | | LTD Holding Company 7.2% | |
| | | | Commonwealth Telephone Enter. 4.5% | |
| | | | Valor Communications 1.9% | |

Source: Company filings and Wall Street research.

Note: Sprint values based on Telco financials.

(1) Pro Forma Debt to 2004 EBITDA.

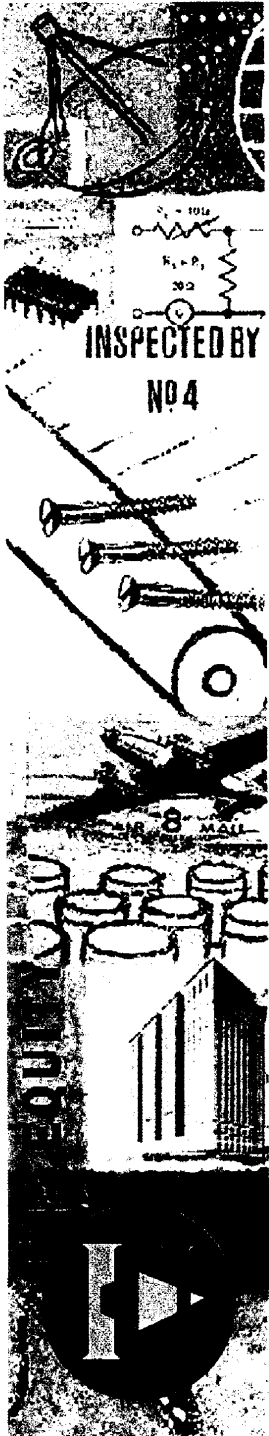
(2) Includes adjustment for acquisition of 13,280 lines.

(3) Includes the adjustment for the sale of electric and gas business units.

(4) Excludes CALLS USF revenue for CenturyTel, Citizens, Valor, Iowa, and LTD Holding Company.

(5) Includes CALLS USF revenue for CenturyTel, Citizens, Valor, Iowa, and LTD Holding Company.

(6) Includes special access revenue.



Valuation Analysis

Valuation Summary

Market Multiple Valuation Indication

Transaction Multiple Valuation Indication

Discounted Cash Flow Indication

Comparable Transactions Valuation Indication

TRANSACTION MULTIPLE VALUATION INDICATION

| Transaction Multiple Approach | | |
|--|-------------------------|----------------------------------|
| LTD Holding Company Representative Level | Selected Multiple Range | Indicated Enterprise Value Range |
| 3/31/05 Access Lines | | [REDACTED] |
| Selected Enterprise Value Range | | |

Comparable Transactions Valuation Indication

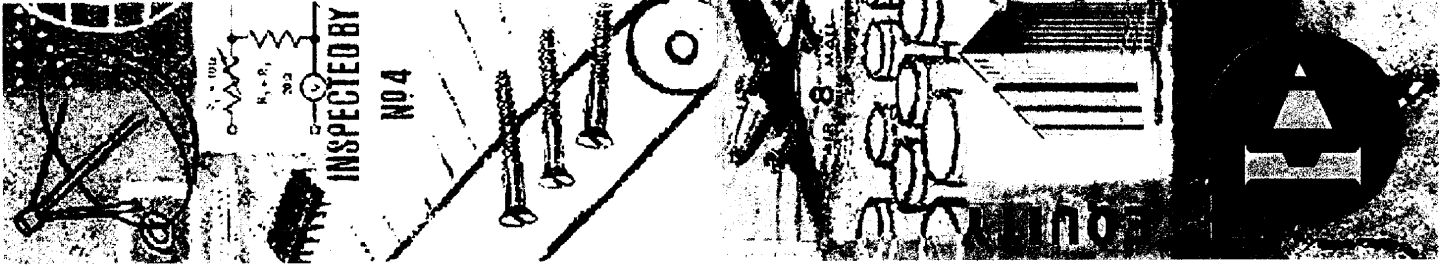
PRECEDENT TRANSACTIONS

RLEC Precedent Transactions
 (\$ in millions, except per Access Line amounts)

| Announced Date | Acquirer | Target Company | Number of Lines | Location of Lines | Transaction Amount | \$/ Access Line |
|----------------|---------------------------------------|-------------------------------------|-----------------|----------------------------------|--------------------|-----------------|
| 5/21/04 | Carlyle Group | Verizon Hawaii | 707,000 | Hawaii | \$1,650 | \$2,334 |
| 1/16/04 | Illinois Consolidated Telephone Co. | TXU Communications | 171,642 | Texas | 527 | 3,070 |
| 4/21/03 | Fairpoint Communications | Community Service Telephone | 13,280 | Maine | 31 | 2,346 |
| 4/1/03 | Reservation and Missouri Valley Comm. | Citizens Lines | 11,000 | North Dakota | 26 | 2,336 |
| 7/16/02 | Homebase Acquisition | Illinois Consolidated Telephone Co. | 90,000 | Illinois | 271 | 3,013 |
| 10/31/01 | Alltel | Verizon Kentucky | 589,000 | Kentucky | 1,930 | 3,277 |
| 10/22/01 | CenturyTel | Verizon Missouri | 369,000 | Missouri | 1,179 | 3,195 |
| 10/22/01 | CenturyTel | Verizon Alabama | 306,000 | Alabama | 1,022 | 3,340 |
| 7/12/00 | Citizens | Global Crossing | 1,100,000 | Various Locations ⁽¹⁾ | 3,373 | 3,066 |
| 12/16/99 | Citizens | GTE Corp Lines | 106,850 | Illinois | 303 | 2,836 |
| 10/26/99 | Valor Telecommunications | GTE Corp Lines | 520,000 | Various Locations ⁽²⁾ | 1,700 | 3,269 |
| 9/21/99 | Citizens | GTE Corp Lines | 60,000 | Nebraska | 204 | 3,400 |
| 8/20/99 | CenturyTel | GTE Corp Lines | 70,500 | Wisconsin | 197 | 2,794 |
| 7/8/99 | Spectra Communication | Verizon Lines | 125,000 | Missouri | 290 | 2,320 |
| 6/29/99 | CenturyTel | GTE Corp Lines | 231,000 | Arkansas | 846 | 3,661 |
| 6/16/99 | Citizens | GTE Corp Lines | 530,000 | Various Locations ⁽³⁾ | 1,650 | 3,113 |
| 6/1/99 | Citizens | Qwest Lines | 17,000 | North Dakota | 38 | 2,235 |
| 5/27/99 | Citizens | GTE Corp Lines | 200,000 | AZ, CA, MN | 664 | 3,320 |
| 1/19/99 | Telephone USA | GTE Corp Lines | 62,650 | Wisconsin | 172 | 2,745 |

| | |
|--------|---------|
| Mean | \$2,930 |
| Median | 3,066 |
| High | \$3,070 |
| Low | 2,334 |

(1) Various locations include AL, FL, GA, IL, IN, IA, MI, MN, MS, NY, PA, WI.
 (2) Locations included OK, TX, NM.
 (3) Locations included AZ, CO, ID, IA, MN, MT, NB, ND, WI.



Valuation Analysis

- Valuation Summary
- Market Multiple Valuation Indication
- Transaction Multiple Valuation Indication
- Discounted Cash Flow Indication

Discounted Cash Flow Indication

DISCOUNTED CASH FLOW VALUATION SUMMARY

Discounted Cash Flow

(figures in millions)

| Projected Fiscal Year Ending December 31, | | | | |
|---|------|------|------|------|
| 2006 (1) | 2007 | 2008 | 2009 | 2010 |

EBIT
 Less: Taxes
Debt-Free Earnings
 Less: Capital Expenditures
 Less: Working Capital Requirements
 Add: Depreciation and Amortization
Total Net Investment
Net Debt-Free Cash Flows:
 Discount Period
 Discount Factor @ 0.0%
Present Value of Net Debt-Free Cash Flows:

| DCF Assumptions | |
|-----------------|-------|
| Discount Rate | 0.0% |
| Tax Rate | 38.8% |

[REDACTED]

| Terminal Value Assumptions | |
|-----------------------------|------------|
| Terminal EBITDA (2010) | [REDACTED] |
| Terminal Multiple | [REDACTED] |
| Terminal Value | [REDACTED] |
| Discount Period | [REDACTED] |
| Discount Factor @ 0.0% | [REDACTED] |
| PV of Terminal Value | [REDACTED] |

Sensitivity Analysis: Enterprise Value

Terminal Multiple

Discount Rate

[REDACTED]

Range of Selected Enterprise Values

| Distribution of Value | |
|-----------------------|------------|
| Period Cash Flow | [REDACTED] |
| Terminal Cash Flow | [REDACTED] |
| Total | [REDACTED] |

| Implied Analyses | |
|----------------------------|------------|
| 2004 EBITDA Multiple | [REDACTED] |
| 2005 EBITDA Multiple | [REDACTED] |
| Implied Gordon Growth Rate | [REDACTED] |

(1) Represents 7-month stub period.

Discounted Cash Flow Indication

WEIGHTED AVERAGE COST OF CAPITAL ANALYSIS

Weighted Average Cost of Capital

(figures in millions)

| | Debt | Preferred Stock | Market Value of Equity | Total Capitalization | Debt to Equity | Debt to Total Capitalization | Preferred to Total Capitalization | Equity to Total Capitalization |
|------------------------------------|------------------|-----------------|------------------------|----------------------|----------------|------------------------------|-----------------------------------|--------------------------------|
| Citizens Communications | \$4,362 | \$0 | \$4,617 | \$8,979 | 94.5% | 48.6% | 0.0% | 51.4% |
| CenturyTel Inc. | 3,012 | 0 | 4,612 | 7,623 | 65.3% | 39.5% | 0.0% | 60.5% |
| Valor Communications Group | 1,617 | 0 | 982 | 2,599 | 164.7% | 62.2% | 0.0% | 37.8% |
| Fairpoint Communications | 606 | 0 | 566 | 1,172 | 106.9% | 51.7% | 0.0% | 48.3% |
| Iowa Telecommunications | 520 | 0 | 592 | 1,112 | 87.8% | 46.8% | 0.0% | 53.2% |
| Commonwealth Telephone Enterprises | 350 | 0 | 900 | 1,250 | 38.9% | 28.0% | 0.0% | 72.0% |
| Median | \$1,111.5 | \$0.0 | \$941.1 | \$1,924.7 | 91.2% | 47.7% | 0.0% | 52.3% |
| Mean | \$1,744.4 | \$0.0 | \$2,045.0 | \$3,789.4 | 93.0% | 46.1% | 0.0% | 53.9% |

| | Levered Beta | Unlevered Beta | Decile Based Beta | Adjusted Unlevered Beta | Equity Risk Premium (1) | Size Risk Premium (1) | Cost of Equity | Cost of Debt | Cost of Preferred | WACC |
|-------------------------------|--------------|----------------|-------------------|-------------------------|-------------------------|-----------------------|----------------|--------------|-------------------|-------------|
| Citizens Communications | 0.48 | 0.30 | 1.10 | 0.30 | 7.2% | 0.67% | 8.6% | 8.0% | 0.0% | 6.8% |
| CenturyTel Inc. | 0.64 | 0.46 | 1.10 | 0.46 | 7.2% | 0.67% | 9.7% | 6.5% | 0.0% | 7.4% |
| Valor Communications Group | 0.65 | 0.32 | 1.18 | 0.30 | 7.2% | 1.59% | 10.7% | 7.8% | 0.0% | 7.0% |
| Fairpoint Communications | NMF | NMF | 1.23 | NMF | 7.2% | 1.57% | NMF | 12.1% | 0.0% | NMF |
| Iowa Telecommunications | 0.54 | 0.35 | 1.23 | 0.31 | 7.2% | 1.57% | 9.9% | 4.9% | 0.0% | 6.7% |
| Commonwealth Telephone Enterp | 0.88 | 0.71 | 1.18 | 0.66 | 7.2% | 1.59% | 12.4% | 3.3% | 0.0% | 9.5% |
| Median | 0.64 | 0.35 | 1.18 | 0.31 | | | 9.9% | 7.1% | 0.0% | 7.0% |
| Mean | 0.64 | 0.43 | 1.17 | 0.41 | | | 10.2% | 7.1% | 0.0% | 7.5% |

Footnotes:

Source: Compustat.

Weighted Average Cost of Capital (WACC) = (Cost of Debt * (1-Tax Rate) * Debt to Enterprise Value) + (Cost of Equity * Equity to Enterprise Value) + (Cost of Preferred * Preferred to Enterprise Value).

Cost of Equity = Risk Free Rate + (Levered Beta * Equity Risk Premium) + Size Risk Premium.

Risk-free rate as of 7/1/05.

(1) Ibbotson Associates, Stocks Bonds Bills and Inflation 2004 Yearbook, pp. 138, 140, and 175.

Discounted Cash Flow Indication

WEIGHTED AVERAGE COST OF CAPITAL ANALYSIS (CONTINUED)

Weighted Average Cost of Capital

| Market Assumptions | | Beta Assumptions | | Capital Structure Assumptions (Industry) | |
|-------------------------------|-------|----------------------------------|------|--|-------|
| 20-Year Treasury Bond Yield | 4.4% | Company Specific Decile Beta | 1.10 | Preferred to Enterprise Value | 0.0% |
| Equity Risk Premium (1) | 7.20% | Selected Adjusted Unlevered Beta | 0.31 | Debt to Enterprise Value | 47.7% |
| Size Risk Premium (1) | 0.67% | Levered Beta | 0.49 | Equity to Enterprise Value | 52.3% |
| Company Specific Risk Premium | 0.00% | | | Cost of Debt | 7.1% |
| Tax Rate | 38.8% | | | Cost of Preferred | 0.0% |
| | | | | Cost of Equity | 8.6% |

Concluded Weighted Average Cost of Capital

6.6%

Rounded Weighted Average Cost of Capital

7.0%

Footnotes:

Source: Compustat.

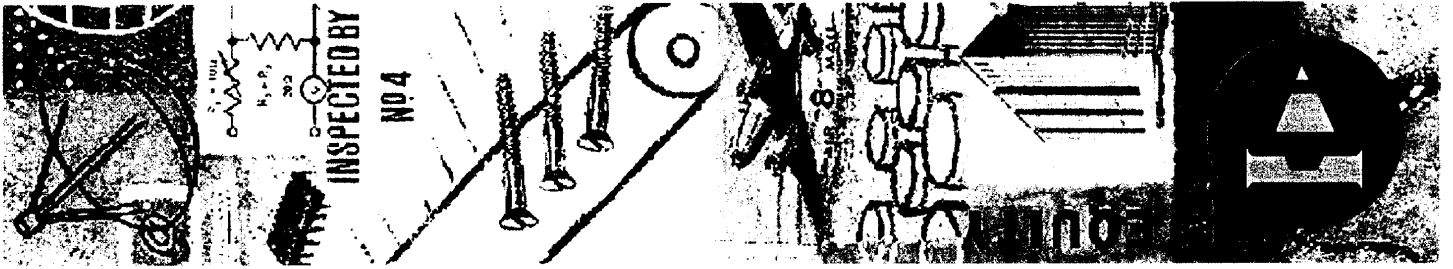
Weighted Average Cost of Capital (WACC) = (Cost of Debt * (1-Tax Rate) * Debt to Enterprise Value) + (Cost of Equity * Equity to Enterprise Value) + (Cost of Preferred * Preferred to Enterprise Value).

Cost of Equity = Risk Free Rate + (Levered Beta * Equity Risk Premium) + Size Risk Premium + Company Specific Risk Premium.

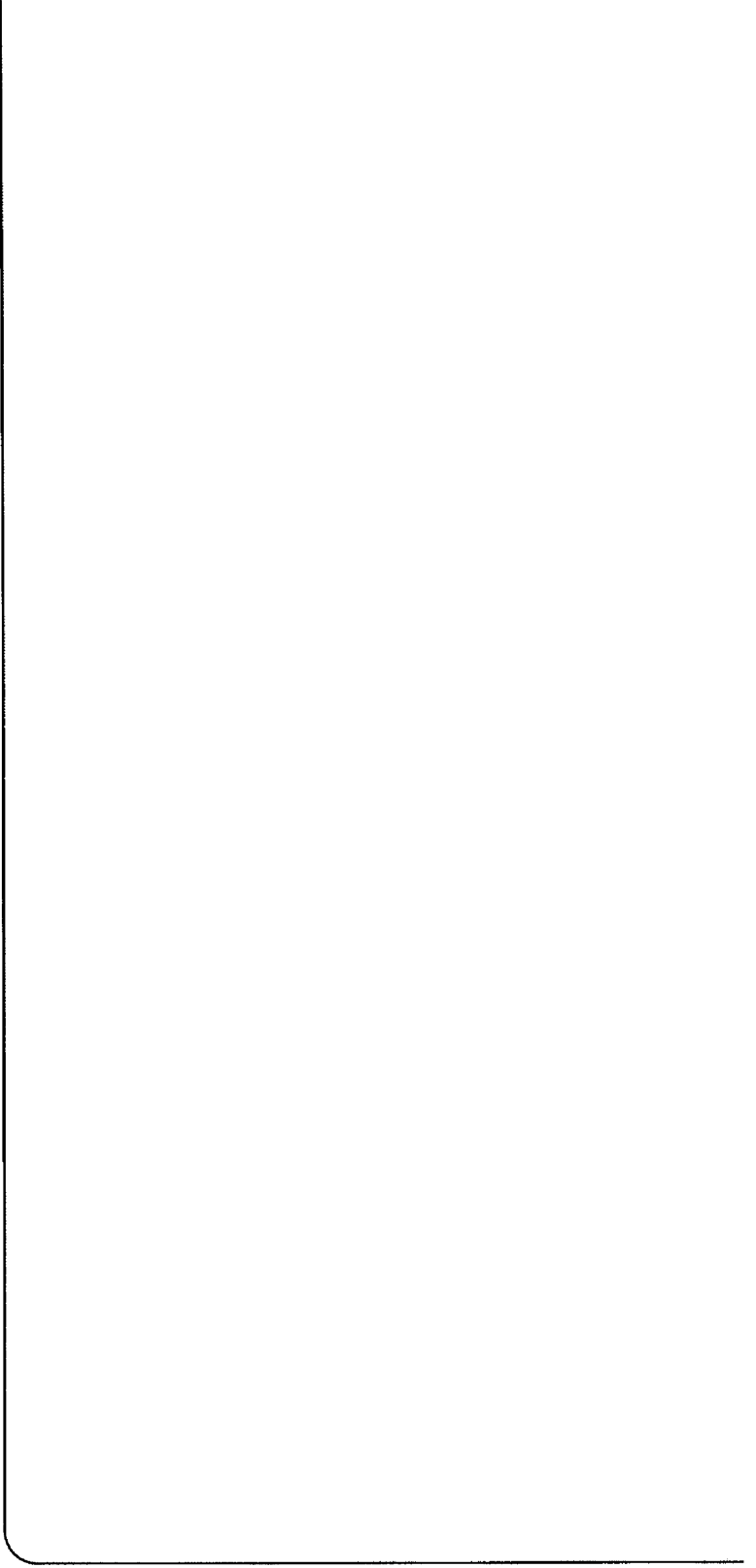
Company Specific Risk Premium is used to adjust for issues such as key man risk, supplier or key customer risk, etc.

Risk-free rate as of 7/1/05.

(1) Ibbotson Associates, Stocks Bonds Bills and Inflation 2004 Yearbook, pp. 138, 140, and 175.



Capital Tests



Capital Tests

CAPITAL TESTS

BALANCE SHEET TEST

- ❖ The balance sheet test examines whether the fair market value of the Company's assets exceeds the Company's liabilities. For this test, the Enterprise Value from Operations as calculated previously in the Valuation Analysis section is compared to the full amount of debt plus contingent liabilities that the Company is expected to have immediately after and giving effect to the Transaction.
- ❖ The value of the Company's assets exceeds the Company's projected debt by approximately \$[REDACTED] to \$[REDACTED] based on these calculations.

| Balance Sheet Test | | |
|--|------------|-------------------|
| (\$ in millions) | | |
| <u>Balance Sheet Test</u> | <u>Low</u> | <u>High</u> |
| EV LTD Holding Company | | |
| Plus: Pro Forma Cash and Cash Equivalents Balance as of 6/1/06 | | |
| Less: Identified Contingent Liabilities (1) | | |
| Less: Postretirement and Other Benefit Obligations (2) | | |
| Value of Assets | | |
| Less: Pro Forma Total Debt as of 6/1/06 | \$7,250 | \$7,250 |
| Equity (Excess of Assets over Liabilities) | | [REDACTED] |

(1) [REDACTED]

(2) [REDACTED] based on December 31, 2004 Pro Forma LTD Holding Company Balance Sheet.

Capital Tests

CAPITAL TESTS (CONTINUED)

CASH FLOW TEST

- ❖ To perform the Cash Flow test, we examine the cash available to the Company at the end of each year of the projection period. We calculated the net availability under the bank debt plus the cash on hand at the end of each year to determine the cash cushion that the Company has available in that year.
- ❖ We calculated the Company's cash cushion to be greater than zero in all years of the projection period, ranging from \$[REDACTED] to \$[REDACTED]. Additionally, total debt as well as leverage is projected to [REDACTED] over the projection period.

| Cash Flow Test | | | | | |
|---|---------------------|------|------|------|------|
| (\$ in millions) | | | | | |
| Cash Flow Test ⁽¹⁾ | 2006 ⁽²⁾ | 2007 | 2008 | 2009 | 2010 |
| Maximum Bank Debt Availability | | | | | |
| Less: Projected Bank Debt Balance | | | | | |
| Projected Bank Debt Availability | | | | | |
| Projected Available Cash - Ending Balance | | | | | |
| Projected Cash Cushion | | | | | |
| Total Debt | | | | | |
| EBITDA | | | | | |
| Leverage: Total Debt/ EBITDA | | | | | |

[REDACTED]

(1) Based on Management Projections and Houlihan Lokey Base Case Analysis.
(2) 2006 Results are 7 months annualized results.

Capital Tests

CAPITAL TESTS (CONTINUED)

REASONABLE CAPITAL TEST

- ❖ The reasonable capital test evaluates whether the Company’s equity as a percent of its value of assets is adequate. We calculate the Company’s equity as a percent of the value of its assets and then compare this to comparable companies.
- ❖ For this test, we use the equity and value of assets amounts calculated in the balance sheet test. The equity value is calculated to be \$[REDACTED] to \$[REDACTED], divided by the value of assets of \$[REDACTED] yields an equity [REDACTED].

| Reasonable Capital Test | | |
|--------------------------------|-------------------|-------------|
| <i>(\$ in millions)</i> | | |
| <u>Reasonable Capital Test</u> | <u>Low</u> | <u>High</u> |
| Equity | [REDACTED] | |
| Value of Assets | | |
| <u>Equity Cushion</u> | | |

- ❖ The table on the following page compares this equity cushion to that of the Company’s peer group, which indicates that LTD Holding Company’s equity cushion is [REDACTED] that of the comparable companies.
- ❖ We also observed the following, which are indications of reasonable capital;
 - even in a downside scenario, the Company would still have adequate cash cushion;
 - the Company’s historical and expected volatility in revenues, cash flow and capital expenditures has been low;
 - the Company has adequate working capital;
 - the Company’s debt maturities are [REDACTED] and the indicated debt rating suggests that the Company will have the ability to refinance the company’s obligations; and
 - [REDACTED].

Capital Tests

CAPITAL TESTS (CONTINUED)

REASONABLE CAPITAL TEST (CONTINUED)

Comparison of LTD Holding Company's Equity Cushion to Peer Group

(figures in millions)

| | Equity/ Total Capital |
|------------------------------------|----------------------------------|
| Citizens Communications | 51.4% |
| CenturyTel Inc. | 60.5% |
| Valor Communications Group | 37.8% |
| Fairpoint Communications | 48.3% |
| Iowa Telecommunications | 53.2% |
| Commonwealth Telephone Enterprises | 72.0% |
| LTD Holding Company | [REDACTED]% |
| Comps Median | 52.3% |
| Comps Mean | 53.9% |

(1) Based on LTD Holding Company projected 2006 results; LTD Holding Company total capital based on the midpoint of Houlihan Lokey's range.

Capital Tests

KEY FORECAST DRIVERS

Certain key drivers of the Company's future financial performance include:

- ❖ **Access Line Change:** forecasted annual [REDACTED] in the range of [REDACTED]% to [REDACTED]% per year
- ❖ **Voice Revenue per Access Line:** forecasted annual [REDACTED] of [REDACTED]% in 2006 and to [REDACTED]% per year thereafter
- ❖ **DSL Change:** forecasted net additions of approximately [REDACTED] in 2006 and [REDACTED] lines per year thereafter
- ❖ **Average Revenue per DSL Line:** forecasted annual [REDACTED] of [REDACTED]% in 2006 and [REDACTED]% to [REDACTED]% per year thereafter
- ❖ **Access Revenues:** forecasted annual [REDACTED] of [REDACTED]% to [REDACTED]% per year
- ❖ **Operating Expenses:** a mix of variable and fixed expense based upon management estimates
- ❖ **Capital Expenditures:** approximately \$[REDACTED] per year

Capital Tests

SENSITIVITY ANALYSIS

- The following table demonstrates the impact of changing certain projection assumptions from the levels discussed on the prior page. The effects of the changes in assumptions shown below are the cumulative impact in the final year of the projection period on EBITDA, leverage, debt, and interest coverage.

| Sensitivity Analysis | | | | | |
|--|-------------------|---|--------------------------------|-------------------------|----------------------------------|
| <i>Dollars and Access Lines in Millions</i> | | | | | |
| | <u>Adjustment</u> | % [REDACTED] in [REDACTED] [REDACTED] | 12/31/10 Ending Leverage | 12/31/10 Ending Debt | 12/31/10 Interest Coverage |
| Base Case | | | | | |
| Decrease in Access Lines versus Base Case ⁽¹⁾ Voice ARPU (<i>% annual decrease versus base case</i>) | | | | | |
| Decrease in DSL Lines of Services versus Base Case ⁽²⁾ DSL ARPU (<i>% annual decrease</i>) | | | | | |
| Capital Expenditure (<i>annual increase versus base case, as a % of revenue</i>) | | | | | |
| Interest Rates on Floating Rate Notes (<i>increase in LIBOR in basis points</i>) | | | | | |
| [REDACTED] | | | | | |
| <small>(1) [REDACTED] in Access Lines of [REDACTED] reflects the [REDACTED] in ending number of lines in 2010 versus the base case. (2010 ending lines of [REDACTED] versus [REDACTED], or an [REDACTED] in ending number of lines). (2) [REDACTED] in DSL Lines of Service of [REDACTED] reflects the [REDACTED] in ending number of lines in 2010 versus the base case. (2010 ending lines of [REDACTED] versus [REDACTED], or a [REDACTED] in ending number of lines).</small> | | | | | |

- This analysis indicates that over the range of the respective adjustments, the various measures of the Company's cash flows and credit ratios remain in reasonable ranges as compared to the unadjusted case.

Capital Tests

SENSITIVITY ANALYSIS (CONTINUED)

- ❖ In addition to testing the sensitivity of individual projection assumptions, we have tested the impact of a simultaneous change to multiple projection assumptions (the "downside case"). All of the adjustments shown on the prior page were used for the downside case. The downside case presented herein is not intended to be either a likely or a worst case but is intended to be illustrative of the impact of simultaneous changes to the projection assumptions.
- ❖ We examined the financial metrics resulting from the downside case analysis over the projection period including, among other things:
 - ◆ Revenues and EBITDA
 - ◆ Debt paydown and debt levels
 - ◆ Credit statistics
 - ◆ Dividend payout ratio
- ❖ Our findings from the downside case analysis include:
 - ❖ This downside case results in EBITDA which is \$[REDACTED] in 2010 than the base case
 - The resulting debt level of \$[REDACTED] in 2010 is lower than at the transaction date
 - ◆ The resulting leverage (Total debt / EBITDA) in 2010 would be [REDACTED]x
 - ◆ The above figures assume that the Company had continued to pay dividends at the anticipated rates. However, had the Company chosen to modify dividend payments, the leverage statistics would be more favorable.
- ❖ The tables on the following pages detail certain financial statistics and credit ratios that result from the downside case

Capital Tests

SUMMARY OF ANALYSES – CASH FLOW STATEMENT AND CREDIT STATISTICS

The tables below demonstrate the impact of the downside case.

| Revenue and Expense Statistics | | | | | | | | | | | | | | | |
|--|---------------------|------|------|------|------|---------------------|------|------|------|------|---------------------|------|------|------|------|
| <i>(figures in millions)</i> | Base Case | | | | | Downside | | | | | Difference | | | | |
| | 2006 ⁽¹⁾ | 2007 | 2008 | 2009 | 2010 | 2006 ⁽¹⁾ | 2007 | 2008 | 2009 | 2010 | 2006 ⁽¹⁾ | 2007 | 2008 | 2009 | 2010 |
| Total Access Lines (EOY) | | | | | | | | | | | | | | | |
| DSL Lines in Service (EOY) | | | | | | | | | | | | | | | |
| Monthly voice revenue per access line | | | | | | | | | | | | | | | |
| Monthly revenue per DSL line | | | | | | | | | | | | | | | |
| Telco Revenues | | | | | | | | | | | | | | | |
| Total EBITDA | | | | | | | | | | | | | | | |
| Net Interest Expense | | | | | | | | | | | | | | | |
| Capital Expenditures | | | | | | | | | | | | | | | |
| Total Dividends | | | | | | | | | | | | | | | |
| Additional Debt Paydown | | | | | | | | | | | | | | | |
| Growth / Margins: | | | | | | | | | | | | | | | |
| Total Revenue Change | | | | | | | | | | | | | | | |
| <i>Voice Revenue Growth</i> | | | | | | | | | | | | | | | |
| <i>Data Revenue Growth</i> | | | | | | | | | | | | | | | |
| Total Access Lines Change | | | | | | | | | | | | | | | |
| Decline in Monthly voice revenue per access line | | | | | | | | | | | | | | | |
| Change in DSL Lines in Service | | | | | | | | | | | | | | | |
| Decline in Monthly revenue per DSL line | | | | | | | | | | | | | | | |
| Decline in Access Revenues | | | | | | | | | | | | | | | |
| Total EBITDA Margin ⁽²⁾ | | | | | | | | | | | | | | | |
| Capex / Total Revenues | | | | | | | | | | | | | | | |
| Dividend Payout Ratio | | | | | | | | | | | | | | | |

[REDACTED]

(1) 2006 Results are 7 months annualized results

(2) EBITDA Margin is based on Telco EBITDA, but excludes North Supply

Capital Tests

SUMMARY OF ANALYSES – CASH FLOW STATEMENT AND CREDIT STATISTICS

The following tables summarize values and metrics for a range of assumptions.

Balance Sheet and Credit Statistics

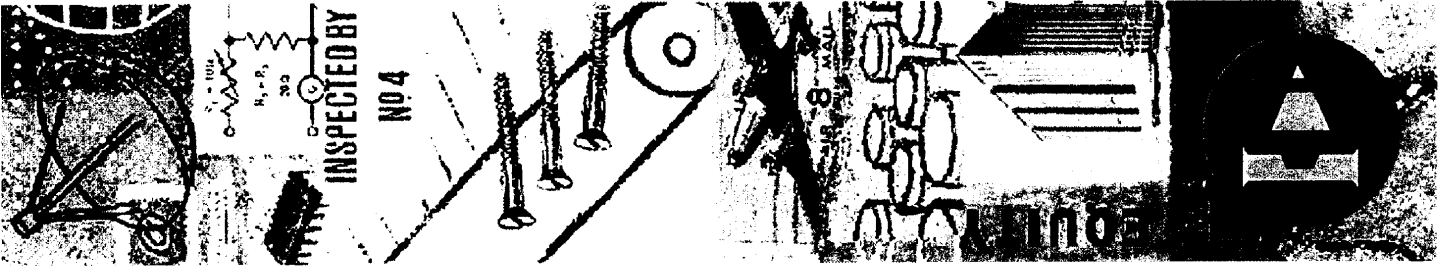
(figures in millions)

| | Base Case | | | | | Downside | | | | | Difference | | | | |
|--|---------------------|------|------|------|------|---------------------|------|------|------|------|---------------------|------|------|------|------|
| | 2006 ⁽¹⁾ | 2007 | 2008 | 2009 | 2010 | 2006 ⁽¹⁾ | 2007 | 2008 | 2009 | 2010 | 2006 ⁽¹⁾ | 2007 | 2008 | 2009 | 2010 |
| Balance Sheet Items: | | | | | | | | | | | | | | | |
| Total Cash | | | | | | | | | | | | | | | |
| Total Debt | | | | | | | | | | | | | | | |
| Net Debt | | | | | | | | | | | | | | | |
| Total Net PP&E | | | | | | | | | | | | | | | |
| Shareholders' Equity | | | | | | | | | | | | | | | |
| Credit Statistics | | | | | | | | | | | | | | | |
| Interest Coverage Ratio | | | | | | | | | | | | | | | |
| Fixed Charge Coverage Ratio ⁽²⁾ | | | | | | | | | | | | | | | |
| Net Debt / EBITDA | | | | | | | | | | | | | | | |
| Total Debt / EBITDA | | | | | | | | | | | | | | | |
| Dividends (% of Available FCF) | | | | | | | | | | | | | | | |

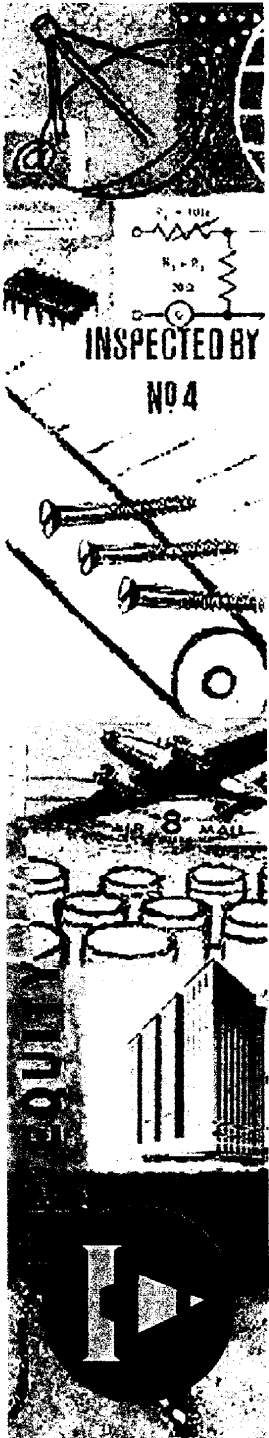
[REDACTED]

(1) 2006 Results are 7 months annualized results

(2) Fixed Charge Coverage Ratio (Unadjusted for capitalized leases). (EBITDA - Capex) divided by Interest Expense.



Appendix



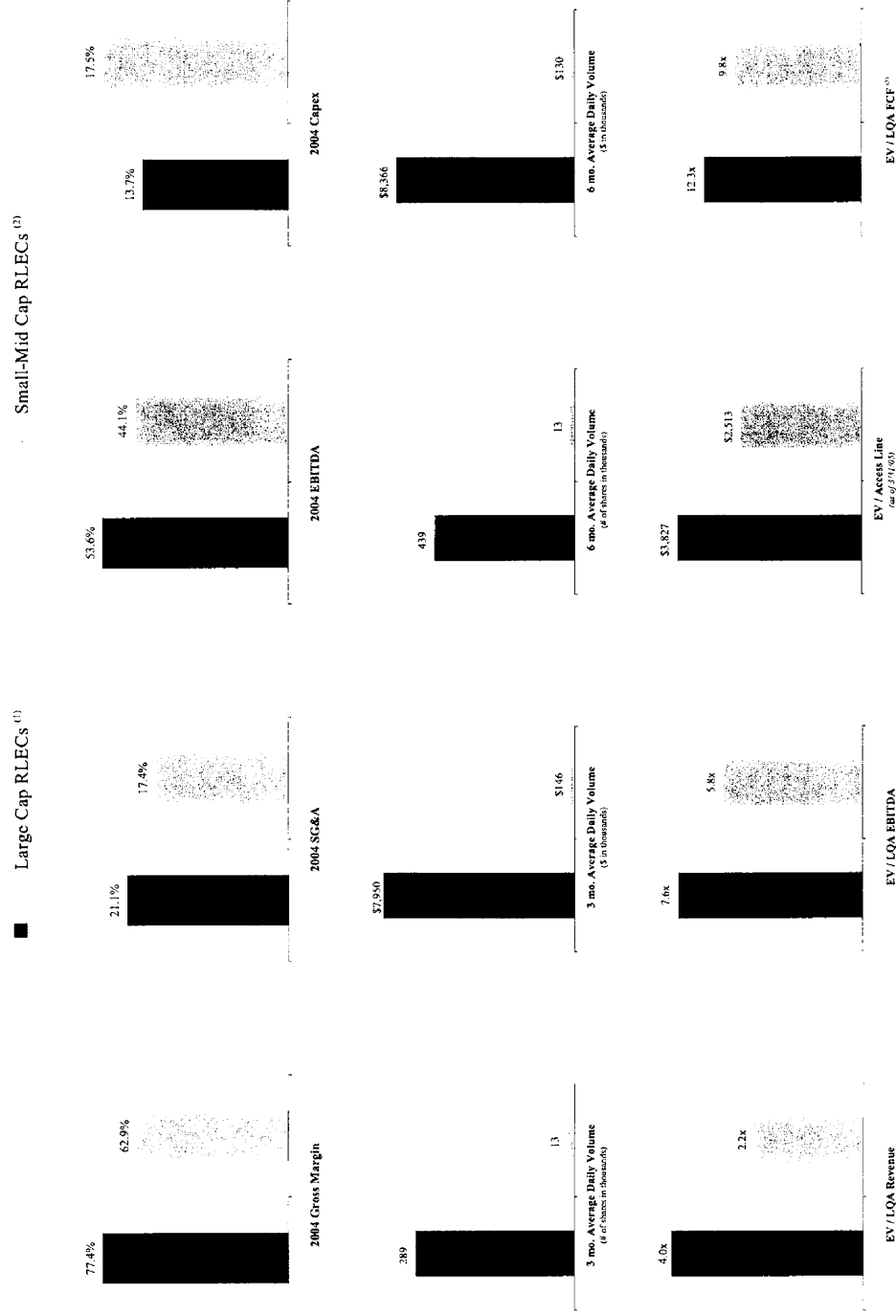
Appendix

Large Cap vs. Small - Mid Cap RLECs
Case Study: Verizon Hawaii
Public RLEC Universe
Comparable Company Descriptions

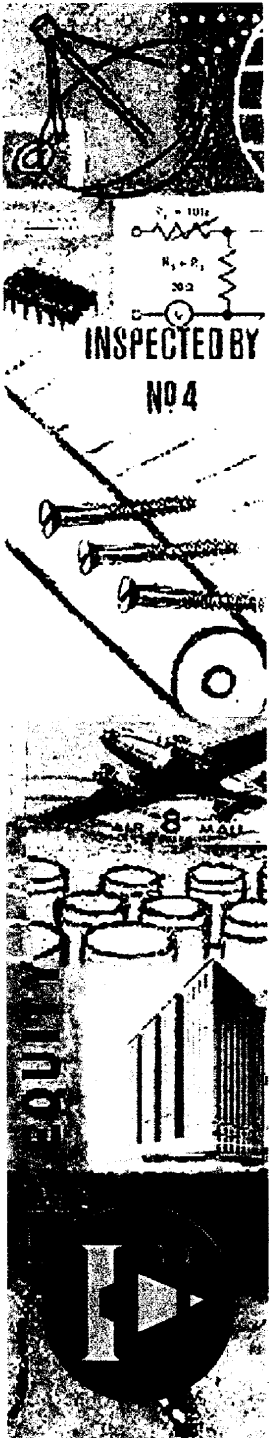
Large Cap vs. Small - Mid Cap RLECs

LARGE CAP VS. SMALL - MID CAP RLECS: STATISTICAL COMPARISON

Statistical Comparison



(1) Represents the median value for Citizens, CenturyTel, Valor Comm., Fairpoint Comm., Iowa Telecom, and Commonwealth Telephone
 (2) Represents the median value for Small to Mid cap RLECs as listed on the "Large Cap and Small to Mid Cap RLECs: Operating Statistics" in the Appendix.
 (3) Free Cash Flow is defined as EBITDA less CapEx less cash interest expense less taxes.



Appendix

Large Cap vs. Small - Mid Cap RLECs
Case Study: Verizon Hawaii
Public RLEC Universe
Comparable Company Descriptions

Case Study: Verizon Hawaii

CASE STUDY: VERIZON HAWAII

❖ On May 21, 2004, The Carlyle Group announced the acquisition of Verizon Hawaii for \$1.65 billion, including \$1.35 billion in cash and \$300 million in assumed debt. Upon closing, May 3, 2005, the purchase price was reduced to \$1.6 billion

Transaction Description

Private equity firm, The Carlyle Group purchased Verizon Hawaii from Verizon Communications for \$1.6 billion. The transaction includes Verizon's Hawaii-based local telephone operations, print directory, long distance, and Internet service provider operations. The purchase includes 707,000 switched wireline access lines and The Carlyle Group expects to retain the, approximately, 1,700 Verizon Hawaii company employees. The new entity was renamed to Hawaiian Telcom and began operations on May 3, 2005

Summary Financials (\$ in millions)

| | Year Ended 12/31/2004 PF |
|--------------------|-----------------------------|
| Revenue | \$609.9 |
| Operating Expenses | (348.2) |
| EBITDA | \$261.7 |

Capital Structure (\$ in millions)

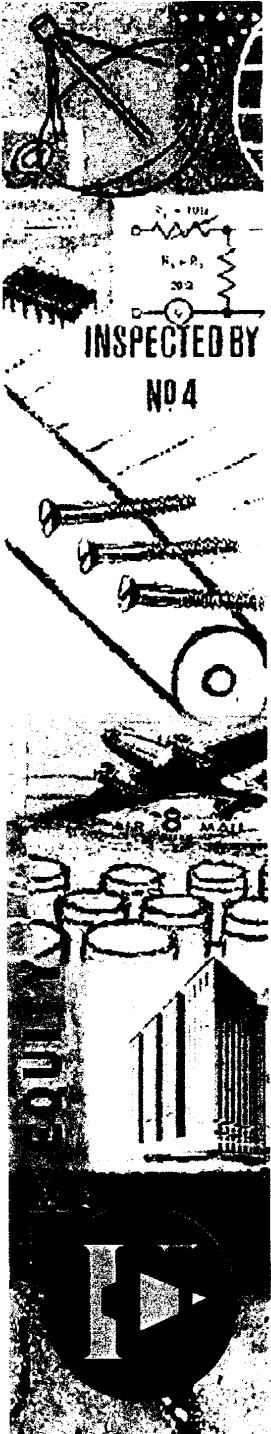
| | Pre-Transaction ⁽¹⁾ | Post-Transaction ⁽²⁾ |
|--|--------------------------------|---------------------------------|
| Cash and Short Term Investments | \$45.5 | \$100.0 |
| Debt | | |
| Credit Facility (Outstanding) | - | \$150.0 |
| 7% Debentures, Series A, due 2/1/06 | \$150.0 | 150.0 |
| 7.375% Debentures, Series B, due 9/1/06 | 125.0 | - |
| First Mtg Bonds, series BB, 6.75%, due 2/15/05 | - | 300.0 |
| Term Loan A | - | 400.0 |
| Term Loan B | - | 325.0 |
| Senior Unsecured Notes | - | 375.0 |
| Senior Subordinated Notes | - | - |
| Total Debt | \$425.0 | \$1,550.0 |
| Credit Statistics: | | |
| Total Debt / EBITDA (2004) | 2.3x | 5.9x |
| <i>Memo: 2004 Pro Forma EBITDA</i> | <i>\$261.7</i> | |

Source: Carlyle projection filings with Hawaii PUC.

(1) Under Verizon Hawaii as of 3/31/2004

(2) Based on Carlyle Group capital structure post acquisition as of 5/12/2005

Source: Verizon Hawaii Financial filings for Capital Structure and Financial results pre-transaction. Post-transaction Capital Structure based on S&P website and latest Verizon Hawaii financials.



Appendix

Large Cap vs. Small - Mid Cap RLECs
Case Study: Verizon Hawaii
Public RLEC Universe
Comparable Company Descriptions

Public RLEC Universe

ALL COMPARABLE PUBLIC RLECS: OPERATING STATISTICS

RLEC Comparable Companies – Operating Statistics

(\$ in millions, except per share amounts)

| Company | Share | Total MV Equity ⁽¹⁾ | MV Debt | Cash | Market EV | Revenue | | | EBITDA | | | Access Lines |
|---|-------------------------|-----------------------------------|---------|------------------------|--------------|---------|----------------------|----------------------|---------|----------------------|----------------------|-----------------|
| | Price as of 7/1/2005 | | | | | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | |
| Wireline Only | | | | | | | | | | | | |
| Citizens Communications | \$13.45 | \$4,617 | \$4,177 | \$284 | \$8,490 | \$2,193 | \$2,143 | \$2,097.7 | \$1,181 | \$1,129 | \$1,106 | 2,298,510 |
| CenturyTel | 34.76 | 4,612 | 2,839 | 27 | 7,390 | 2,407 | 2,405 | 2,410 | 1,245 | 1,232 | 1,219 | 2,298,491 |
| Valor Communications Group | 13.80 | 982 | 1,191 | 29 | 2,126 | 505 | 503 | 500 | 272 | 270 | 269 | 537,002 |
| Commonwealth Telephone Enter. | 42.22 | 900 | 336 | 60 | 1,166 | 336 | 332 | 326 | 180 | 169 | 166 | 471,133 |
| Iowa Telecommunications | 18.75 | 592 | 512 | 4 | 1,086 | 221 | 230 | 229 | 127 | 127 | 129 | 266,400 |
| Fairpoint Communications | 16.02 | 566 | 590 | 6 | 1,150 | 253 | 254 | 257 | 140 | 135 | 136 | 239,250 |
| D&E Communications | 9.79 | 140 | 223 | 6 | 357 | 176 | NA | NA | 60 | NA | NA | 178,008 |
| Otelco | 15.31 | 84 | 164 | 5 | 242 | 37 | 49 | 49 | 24 | 29 | 29 | 33,624 |
| North Pittsburgh Systems | 19.45 | 292 | 29 | 44 | 262 | 108 | 114 | NA | 46 | 51 | NA | 109,508 |
| CT Communications | 13.10 | 250 | 64 | 16 | 281 | 164 | 167 | 171 | 55 | 53 | 53 | 158,133 |
| Lynch Interactive | 22.10 | 61 | 168 | 30 | 199 | 88 | NA | NA | 41 | NA | NA | NA |
| Hickory Technology | 8.11 | 106 | 99 | 1 | 202 | 91 | 92 | NA | 34 | 36 | NA | 73,635 |
| Atlantic Tele-Network | 28.75 | 143 | 12 | 49 | 118 | 89 | NA | NA | 50 | NA | NA | 106,000 |
| Hector Communications | 22.78 | 90 | 60 | 22 | 110 | 32 | NA | NA | 15 | NA | NA | 29,369 |
| New Ulm Telecom | 9.75 | 50 | 17 | 4 | 45 | 15 | NA | NA | 7 | NA | NA | 17,000 |
| Wireline with Wireless Assets | | | | | | | | | | | | |
| Alltel Corp | \$62.18 | \$18,950 | \$5,598 | \$1,238 ⁽⁴⁾ | \$22,991 | \$8,246 | \$8,692 | \$9,182 | \$3,272 | \$3,542 | \$3,798 | 2,983,250 |
| Telephone and Data Systems | 41.47 | 2,384 | 2,002 | 1,155 | 3,522 | 3,720 | 3,929 | 4,120 | 995 | 1,059 | 1,162 | 1,087,300 |
| Cincinnati Bell Telephone Co. | 4.45 | 1,105 | 2,105 | 25 | 3,220 | 1,207 | 1,176 | 1,155 | 509 | 489 | 483 | 959,900 |
| Alaska Communications | 9.99 | 417 | 458 | 68 | 807 | 303 | 312 | 315 | 98 | 110 | 111 | 289,169 |
| Surewest Communications | 25.89 | 378 | 103 | 9 | 471 | 212 | 225 | 223 | 60 | 58 | 51 | 131,133 |
| Shenandoah Telecommunications | 39.58 | 307 | 51 | 24 | 328 | 121 | NA | NA | 40 | NA | NA | 24,802 |
| Warwick Valley Telephone Co. ⁽³⁾ | 24.53 | 133 | 12 | 23 | 118 | 29 | NA | NA | 8 | NA | NA | 29,602 |

Source: Company filings as of March 31, 2005.

Note: Financial results and Access Lines presented are as of March 31, 2005.

(1) Free Cash Flow (FCF) is defined as EBITDA minus CapEx.

(1) Market Value of Equity based on fully diluted shares outstanding using the treasury method.

(2) Projections per Wall Street Research.

(3) Financial results and Access Lines presented are as of September 30, 2004.

(4) Pro forma for the sale of investment of Fidelity National Services on 4/6/2005, valued at approximately \$350 million.

Public RLEC Universe

ALL COMPARABLE PUBLIC RLECs: VALUATION STATISTICS

RLEC Comparable Companies – Valuation Statistics

(\$ in millions, except per share amounts)

| Company | Share | | | | Market EV | Enterprise Value to: | | | | | | Access Lines |
|--|-------------------------|-----------------------------------|---------|------------------------|--------------|----------------------|----------------------|----------------------|-------------|----------------------|----------------------|-------------------------|
| | Price as of 7/1/2005 | Total MV Equity ⁽¹⁾ | MV Debt | Cash | | Revenue | | | EBITDA | | | |
| | | | | | | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | 2004 | 2005E ⁽²⁾ | 2006E ⁽²⁾ | |
| Wireline Only | | | | | | | | | | | | |
| Citizens Communications | \$13.45 | \$4,617 | \$4,177 | \$284 | \$8,490 | 3.9x | 4.0x | 4.0x | 7.2x | 7.5x | 7.7x | \$3,694 |
| CenturyTel | 34.76 | 4,612 | 2,839 | 27 | 7,390 | 3.1x | 3.1x | 3.1x | 5.9x | 6.0x | 6.1x | 3,215 |
| Valor Communications Group | 13.80 | 982 | 1,191 | 29 | 2,126 | 4.2x | 4.2x | 4.3x | 7.8x | 7.9x | 7.9x | 3,960 |
| Commonwealth Telephone Enter. | 42.22 | 900 | 336 | 60 | 1,166 | 3.5x | 3.5x | 3.6x | 6.5x | 6.9x | 7.0x | 2,475 |
| Iowa Telecommunications | 18.75 | 592 | 512 | 4 | 1,086 | 4.9x | 4.7x | 4.7x | 8.5x | 8.6x | 8.4x | 4,076 |
| Fairpoint Communications | 16.02 | 566 | 590 | 6 | 1,150 | 4.6x | 4.5x | 4.5x | 8.2x | 8.5x | 8.4x | 4,807 |
| D&E Communications | 9.79 | 140 | 223 | 6 | 357 | 2.0x | NA | NA | 5.9x | NA | NA | 2,004 |
| Otelco | 15.31 | 84 | 164 | 5 | 242 | 6.5x | 5.0x | 5.0x | 10.1x * | 8.3x * | 8.2x * | 7,206 * |
| North Pittsburgh Systems | 19.45 | 292 | 29 | 44 | 262 | 2.4x | 2.3x | NA | 5.7x | 5.1x | NA | 2,394 |
| CT Communications | 13.10 | 250 | 64 | 16 | 281 | 1.7x | 1.7x | 1.6x | 5.1x | 5.3x | 5.3x | 1,777 |
| Lynch Interactive | 22.10 | 61 | 168 | 30 | 199 | 2.3x | NA | NA | 4.8x | NA | NA | NA |
| Hickory Technology | 8.11 | 106 | 99 | 1 | 202 | 2.2x | 2.2x | NA | 5.9x | 5.6x | NA | 2,738 |
| Atlantic Tele-Network | 28.75 | 143 | 12 | 49 | 118 | 1.3x | NA | NA | 2.4x | NA | NA | 1,109 * |
| Hector Communications | 22.78 | 90 | 60 | 22 | 110 | 3.5x | NA | NA | 7.3x | NA | NA | 3,733 |
| New Ulm Telecom | 9.75 | 50 | 17 | 4 | 45 | 3.0x | NA | NA | 6.5x | NA | NA | 2,632 |
| Mean | | | | | | 3.3x | 3.5x | 3.8x | 6.3x | 6.8x | 7.3x | \$3,125 |
| Median | | | | | | 3.1x | 3.7x | 4.1x | 6.2x | 6.9x | 7.7x | 2,976 |
| High | | | | | | 6.5x | 5.0x | 5.0x | 8.5x | 8.6x | 8.4x | \$4,807 |
| Low | | | | | | 1.3x | 1.7x | 1.6x | 2.4x | 5.1x | 5.3x | 1,777 |
| Wireline with Wireless Assets | | | | | | | | | | | | |
| Alitel Corp | \$62.18 | \$18,950 | \$5,598 | \$1,238 ⁽⁹⁾ | \$22,991 | 2.8x | 2.6x | 2.5x | 7.0x | 6.5x | 6.1x | \$1,806 ⁽¹⁰⁾ |
| Telephone and Data Systems | 41.47 | 2,384 | 2,002 | 1,155 | 3,522 | 0.9x * | 0.9x * | 0.9x * | 3.5x | 3.3x | 3.0x | 3,239 ⁽¹⁰⁾ |
| Cincinnati Bell Telephone Co. | 4.45 | 1,105 | 2,105 | 25 | 3,220 | 2.7x | 2.7x | 2.8x | 6.3x | 6.6x | 6.7x | 3,354 ⁽¹⁰⁾ |
| Alaska Communications | 9.99 | 417 | 458 | 68 | 807 | 2.7x | 2.6x | 2.6x | 8.2x | 7.3x | 7.3x | 2,082 ⁽¹⁰⁾ |
| Surewest Communications | 25.89 | 378 | 103 | 9 | 471 | 2.2x | 2.1x | 2.1x | 7.8x | 8.1x | 9.2x | 2,787 ⁽¹⁰⁾ |
| Shenandoah Telecommunications | 39.58 | 307 | 51 | 24 | 328 | 2.7x | NA | NA | 8.2x | NA | NA | 4,596 ⁽¹⁰⁾ |
| Warwick Valley Telephone Co. ⁽¹⁰⁾ | 24.53 | 133 | 12 | 23 | 118 | 4.1x * | NA | NA | 14.2x * | NA | NA | 3,974 * |
| Mean | | | | | | 2.6x | 2.5x | 2.5x | 6.9x | 6.4x | 6.5x | \$3,120 |
| Median | | | | | | 2.7x | 2.6x | 2.5x | 7.4x | 6.6x | 6.7x | 3,239 |
| High | | | | | | 2.8x | 2.7x | 2.8x | 8.2x | 8.1x | 9.2x | \$4,807 |
| Low | | | | | | 2.2x | 2.1x | 2.1x | 3.5x | 3.3x | 3.0x | 1,777 |

Source: Company filings as of March 31, 2005.

* - Excluded from the range.

(1) Market Value of Equity based on fully diluted shares outstanding using the treasury method.

(2) Projections per Wall Street Research.

(3) Financial results and Access Lines presented are as of September 30, 2004.

(4) Pro forma for the sale of investment of Fidelity National Services on 4/6/2005, valued at approximately \$350 million.

(5) Assumes EV of \$3,000 (current average wireless EV/sub as of 1Q05) per wireless subscriber, using a total number of wireless subscribers of 8,801,285.

(6) Assumes EV of \$1,041 (implied EV/sub for U.S. Cellular) per wireless subscriber, using a total number of wireless subscribers of 5,122,077,000, as of 1Q05, and adjusted for 82% ownership.

(7) Assumes EV of \$2,000 (current average wireless EV/sub as of 1Q05) per wireless subscriber, using a total number of wireless subscribers of 479,000.

(8) Assumes EV of \$2,000 (current average wireless EV/sub as of 1Q05) per wireless subscriber, using a total number of wireless subscribers of 102,279, as of 1Q05.

(9) Assumes EV of \$2,000 (current average wireless EV/sub as of 1Q05) per wireless subscriber, using a total number of wireless subscribers of 52,855, as of 1Q05.

(10) Assumes EV of \$2,000 (current average wireless EV/sub as of 4Q04) per wireless subscriber, using a total number of wireless subscribers of 102,600, as of 4Q04.

Public RLEC Universe

LARGE CAP AND SMALL TO MID CAP RLECS: OPERATING STATISTICS

RLEC Comparable Companies – Operating Statistics (\$ in millions, except per share amounts)

| Company | Share | | MV Debt | Cash | Market EV | Revenue | | | EBITDA | | | Access Lines | FCF ⁽¹⁾ | | Average Share Price | | Volume (shares in 000's) | |
|-------------------------------|-------------|-----------------------|---------|-------|-----------|---------|----------------------|----------------------|---------|----------------------|----------------------|--------------|--------------------|-------|---------------------|----------|--------------------------|----------|
| | Price as of | Total MV | | | | 2004 | 2005E ⁽²⁾ | 2006E ⁽³⁾ | 2004 | 2005E ⁽²⁾ | 2006E ⁽³⁾ | LQA | 2004 | LQA | 3 Months | 6 Months | 3 Months | 6 Months |
| | 7/1/2005 | Equity ⁽²⁾ | | | | | | | | | | | | | | | | |
| Large Cap | | | | | | | | | | | | | | | | | | |
| Citizens Communications | \$13.45 | \$4,617 | \$4,177 | \$284 | \$8,490 | \$2,193 | \$2,143 | \$2,098 | \$1,181 | \$1,129 | \$1,106 | 2,298,510 | \$658 | \$535 | \$13 | \$13 | 1,565 | 1,935 |
| CenturyTel | 34.76 | 4,612 | 2,839 | 27 | 7,390 | 2,407 | 2,405 | 2,410 | 1,245 | 1,232 | 1,219 | 2,298,491 | 572 | 724 | 32 | 32 | 1,134 | 1,073 |
| Valor Communications Group | 13.80 | 982 | 1,191 | 29 | 2,126 | 505 | 503 | 500 | 272 | 270 | 269 | 537,002 | 96 | 92 | 14 | 14 | 339 | 489 |
| Fairpoint Communications | 16.02 | 566 | 590 | 6 | 1,150 | 253 | 254 | 257 | 140 | 135 | 136 | 239,250 | 50 | 23 | 15 | 15 | 193 | 389 |
| Iowa Telecommunications | 18.75 | 592 | 512 | 4 | 1,086 | 221 | 230 | 229 | 127 | 127 | 129 | 266,400 | 69 | 42 | 19 | 19 | 205 | 201 |
| Commonwealth Telephone Enter. | 42.22 | 900 | 336 | 60 | 1,166 | 336 | 332 | 326 | 180 | 169 | 166 | 471,133 | 114 | 95 | 47 | 47 | 239 | 205 |
| Mid-Small Cap | | | | | | | | | | | | | | | | | | |
| Atlantic Tele-Network | \$28.75 | \$143 | \$12 | \$49 | \$118 | \$89 | NA | NA | \$50 | NA | NA | 106,000 | \$18 | \$43 | \$30 | \$31 | 2 | 2 |
| CT Communications | 13.10 | 250 | 64 | 16 | 281 | 164 | 167 | 171 | 55 | 53 | 53 | 158,133 | 13 | 32 | 12 | 12 | 54 | 53 |
| D&E Communications | 9.79 | 140 | 223 | 6 | 357 | 176 | NA | NA | 60 | NA | NA | 178,008 | 21 | 36 | 8 | 8 | 55 | 38 |
| Hector Communications | 22.78 | 90 | 60 | 22 | 110 | 32 | NA | NA | 15 | NA | NA | 29,369 | 6 | 11 | 23 | 23 | 3 | 3 |
| Hickory Technology Corp. | 8.11 | 106 | 99 | 1 | 202 | 91 | 92 | NA | 34 | 36 | NA | 73,635 | 24 | 18 | 9 | 9 | 16 | 13 |
| Lynch Interactive Corp. | 22.10 | 61 | 168 | 30 | 199 | 88 | NA | NA | 41 | NA | NA | NA | 17 | 17 | 26 | 26 | 4 | 3 |
| New Ulm Telecom | 9.75 | 50 | 17 | 4 | 45 | 15 | NA | NA | 7 | NA | NA | 17,000 | 1 | 6 | 9 | 9 | 3 | 3 |
| North Pittsburgh Systems | 19.45 | 292 | 29 | 44 | 262 | 108 | 114 | NA | 46 | 51 | NA | 109,508 | 23 | 31 | 19 | 19 | 23 | 29 |
| Otelco | 15.31 | 84 | 164 | 5 | 242 | 37 | 49 | 48 | 24 | 29 | 29 | 33,624 | 6 | 12 | 15 | 15 | 38 | 60 |

Source: Company filings as of March 31, 2005.

Note: Financial results and Access Lines presented are as of March 31, 2005.

(1) Free Cash Flow is defined as EBITDA less CapEx less cash interest expense less taxes.

(2) Market Value of Equity based on fully diluted shares outstanding using the treasury method.

(3) Projections per Wall Street Research.

Public RLEC Universe

LARGE CAP AND SMALL TO MID CAP RLECs: VALUATION STATISTICS

RLEC Comparable Companies – Valuation Statistics (\$ in millions, except per share amounts)

| Company | Share | | | Cash | Market EV | Enterprise Value to: | | | | | | | Trading Volume | | | | | |
|-------------------------------|----------------------|--------------------------------|---------|-------|-----------|----------------------|----------------------|----------------------|--------------|----------------------|----------------------|------------------|--------------------|--------------|-------------------------------|-----------------|-------------------|--------------|
| | Price as of 7/1/2005 | Total MV Equity ⁽¹⁾ | MV Debt | | | Revenue | | | EBITDA | | | Access Lines LQA | FCF ⁽¹⁾ | | Share Price Volume (in 000's) | | Volume (in 000's) | |
| | | | | | | 2004 | 2005E ⁽²⁾ | 2006E ⁽³⁾ | 2004 | 2005E ⁽²⁾ | 2006E ⁽³⁾ | | 2004 | LQA | 3 Months | 6 Months | 3 Months | 6 Months |
| Large Cap | | | | | | | | | | | | | | | | | | |
| Citizens Communications | \$13.45 | \$4,617 | \$4,177 | \$284 | \$8,490 | 3.9x | 4.0x | 4.0x | 7.2x | 7.5x | 7.7x | \$3,694 | 12.9x | 15.9x | \$20,318 | \$25,340 | 1,565 | 1,935 |
| CenturyTel | 34.76 | 4,612 | 2,839 | 27 | 7,390 | 3.1x | 3.1x | 3.1x | 5.9x | 6.0x | 6.1x | 3,215 | 12.9x | 10.2x | 36,752 | 35,336 | 1,134 | 1,073 |
| Valor Communications Group | 13.80 | 982 | 1,191 | 29 | 2,126 | 4.2x | 4.2x | 4.3x | 7.8x | 7.9x | 7.9x | 3,960 | 22.0x | 23.0x | 4,695 | 7,017 | 339 | 489 |
| Fairpoint Communications | 16.02 | 566 | 590 | 6 | 1,150 | 4.6x | 4.5x | 4.5x | 8.2x | 8.5x | 8.4x | 4,807 | 22.9x | 49.6x | 2,962 | 6,195 | 193 | 389 |
| Iowa Telecommunications | 18.75 | 592 | 512 | 4 | 1,086 | 4.9x | 4.7x | 4.7x | 8.5x | 8.6x | 8.4x | 4,076 | 15.8x | 26.0x | 3,887 | 3,907 | 205 | 201 |
| Commonwealth Telephone Enter. | 42.22 | 900 | 336 | 60 | 1,166 | 3.5x | 3.5x | 3.6x | 6.5x | 6.9x | 7.0x | 2,475 | 10.2x | 12.3x | 11,336 | 9,762 | 239 | 205 |
| Mean | | | | | | 4.0x | 4.0x | 4.0x | 7.4x | 7.6x | 7.6x | \$3,704 | 13.0x | 12.8x | \$13,325 | \$14,593 | 613 | 715 |
| Median | | | | | | 4.0x | 4.1x | 4.1x | 7.5x | 7.7x | 7.8x | \$3,827 | 12.9x | 12.3x | \$8,016 | \$8,389 | 289 | 439 |
| High | | | | | | 4.9x | 4.7x | 4.7x | 8.5x | 8.6x | 8.4x | \$4,807 | 15.8x | 15.9x | \$36,752 | \$35,336 | 1,565 | 1,935 |
| Low | | | | | | 3.1x | 3.1x | 3.1x | 5.9x | 6.0x | 6.1x | 2,475 | 10.2x | 10.2x | 2,962 | 3,907 | 193 | 201 |
| Mid-Small Cap | | | | | | | | | | | | | | | | | | |
| Atlantic Tele-Network | \$28.75 | 143 | 12 | 49 | 118 | 1.3x | NA | NA | 2.4x | NA | NA | 1,109 * | 6.4x * | 2.7x | 61 | 54 | 2 | 2 |
| CT Communications | 13.10 | 250 | 64 | 16 | 281 | 1.7x | 1.7x | 1.6x | 5.1x | 5.3x | 5.3x | 1,777 | 21.3x | 8.7x | 633 | 605 | 54 | 53 |
| D&E Communications | 9.79 | 140 | 223 | 6 | 357 | 2.0x | NA | NA | 5.9x | NA | NA | 2,004 | 17.3x | 9.8x | 463 | 367 | 55 | 38 |
| Hector Communications | 22.78 | 90 | 60 | 22 | 110 | 3.5x | NA | NA | 7.3x | NA | NA | 3,733 | 17.3x * | 10.1x | 71 | 60 | 3 | 3 |
| Hickory Technology Corp. | 8.11 | 106 | 99 | 1 | 202 | 2.2x | 2.2x | NA | 5.9x | 5.6x | NA | 2,738 | 8.5x | 11.3x | 149 | 127 | 16 | 13 |
| Lynch Interactive Corp. | 22.10 | 61 | 168 | 30 | 199 | 2.3x | NA | NA | 4.8x | NA | NA | NA | 11.8x | 12.0x | 101 | 91 | 4 | 3 |
| New Ujm Telecom | 9.75 | 50 | 17 | 4 | 45 | 3.0x | NA | NA | 6.5x | NA | NA | 2,632 | 67.6x | 7.2x | 29 | 22 | 3 | 3 |
| North Pittsburgh Systems | 19.45 | 292 | 29 | 44 | 262 | 2.4x | 2.3x | NA | 5.7x | 5.1x | NA | 2,394 | 11.5x | 8.5x | 440 | 614 | 23 | 29 |
| Otelco | 15.31 | 84 | 164 | 5 | 242 | 6.5x | 5.0x | 5.0x | 10.1x | 8.3x | 8.4x | 7,206 * | 37.4x * | 20.0x | 576 | 918 | 38 | 60 |
| Mean | | | | | | 2.8x | 2.8x | 3.3x | 6.0x | 6.1x | 6.8x | \$2,546 | 23.0x | 10.0x | \$280 | \$318 | 22 | 23 |
| Median | | | | | | 2.3x | 2.2x | 3.3x | 5.9x | 5.4x | 6.8x | 2,513 | 14.6x | 9.8x | 149 | 127 | 16 | 13 |
| High | | | | | | 6.5x | 5.0x | 5.0x | 10.1x | 8.3x | 8.4x | \$3,733 | 67.6x | 20.0x | \$633 | \$918 | 55 | 60 |
| Low | | | | | | 1.3x | 1.7x | 1.6x | 2.4x | 5.1x | 5.3x | 1,777 | 8.5x | 2.7x | 29 | 22 | 2 | 2 |

Source: Company filings as of March 31, 2005.

Note: Financial results and Access Lines presented are as of March 31, 2005.

(1) Free Cash Flow is defined as EBITDA less CapEx less cash interest expense less taxes.

(2) Market Value of Equity based on fully diluted shares outstanding using the treasury method.

(3) Projections per Wall Street Research.

Public RLEC Universe

LARGE CAP AND SMALL TO MID CAP RLECS: OPERATING METRICS

RLEC Comparable Companies – Operating Metrics

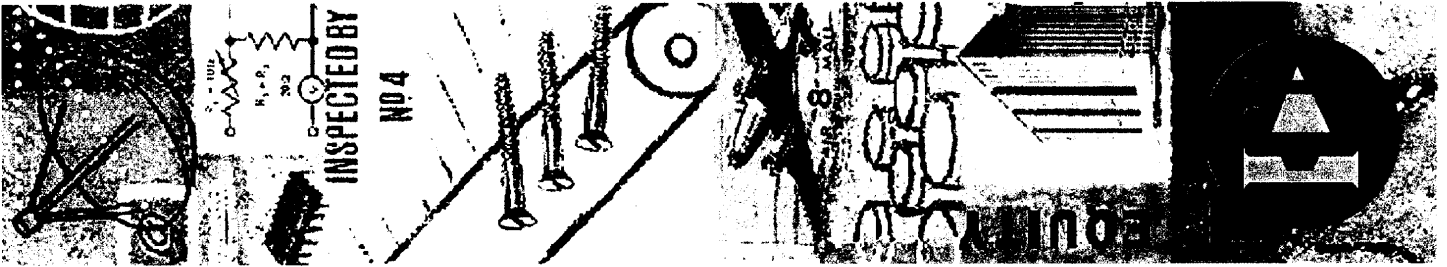
(\$ in millions, except per share amounts)

| Company | Revenue | | Gross Margin | | SG&A | | EBITDA | | CapEx | | As a % of Revenue | | | | | | | | | |
|-------------------------------|---------|---------|--------------|---------|-------|-------|---------|---------|-------|-------|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|--|
| | | | | | | | | | | | Gross Margin | | SG&A | | EBITDA | | CapEx | | CapEx per | |
| | 2004 | LQA | 2004 | LQA | 2004 | LQA | 2004 | LQA | 2004 | LQA | 2004 | LQA | 2004 | LQA | 2004 | LQA | 2004 | LQA | Access Line | |
| Large Cap | | | | | | | | | | | | | | | | | | | | |
| Citizens Communications | \$2,193 | \$2,149 | \$1,988 | \$1,945 | \$807 | \$800 | \$1,181 | \$1,145 | \$276 | \$209 | 90.6% | 90.5% | 36.8% | 37.2% | 53.9% | 53.3% | 12.6% | 9.7% | \$90.81 | |
| CenturyTel Inc. | 2,407 | 2,381 | 1,649 | 1,613 | 404 | 377 | 1,245 | 1,236 | 385 | 300 | 68.5% | 67.7% | 16.8% | 15.8% | 51.7% | 51.9% | 16.0% | 12.6% | 130.35 | |
| Valor Communications Group | 505 | 504 | 400 | 399 | 128 | 128 | 272 | 272 | 66 | 70 | 79.2% | 79.3% | 25.4% | 25.3% | 53.8% | 54.0% | 13.0% | 13.8% | 129.45 | |
| Fairpoint Communications | 253 | 247 | NA | NA | NA | NA | 140 | 127 | 36 | 19 | NA | NA | NA | NA | 55.4% | 51.7% | 14.4% | 7.6% | 77.91 | |
| Iowa Telecommunications | 221 | 230 | 165 | 168 | 38 | 39 | 127 | 129 | 35 | 23 | 74.8% | 73.0% | 17.1% | 17.0% | 57.7% | 56.0% | 15.7% | 9.8% | 84.53 | |
| Commonwealth Telephone Enter. | 336 | 334 | NA | NA | NA | NA | 180 | 178 | 44 | 31 | NA | NA | NA | NA | 53.5% | 53.4% | 13.0% | 9.4% | 66.63 | |
| Mean | | | | | | | | | | | 78.3% | 77.6% | 24.0% | 23.8% | 54.3% | 53.4% | 14.1% | 10.5% | \$96.62 | |
| Median | | | | | | | | | | | 77.0% | 76.1% | 21.3% | 21.2% | 53.8% | 53.3% | 13.7% | 9.8% | 87.67 | |
| High | | | | | | | | | | | 90.6% | 90.5% | 36.8% | 37.2% | 57.7% | 56.0% | 16.0% | 13.8% | \$130.35 | |
| Low | | | | | | | | | | | 68.5% | 67.7% | 16.8% | 15.8% | 51.7% | 51.7% | 12.6% | 7.6% | 66.63 | |
| Mid-Small Cap | | | | | | | | | | | | | | | | | | | | |
| Atlantic Tele-Network | \$89 | \$91 | \$56 | \$59 | \$7 | \$11 | \$50 | \$48 | \$25 | \$10 | 62.9% | 65.1% | 7.4% | 11.8% | 55.5% | 53.3% | 28.4% | 11.0% | \$94.45 | |
| CT Communications | 164 | 166 | 110 | NA | 55 | NA | 55 | 52 | 27 | 31 | 67.2% | NA | 33.5% | NA | 33.7% | 31.3% | 16.6% | 18.7% | 196.24 | |
| D&E Communications Inc. | 176 | 171 | 101 | 99 | 41 | 42 | 60 | 57 | 25 | 31 | 57.4% | 57.8% | 23.3% | 24.5% | 34.1% | 33.4% | 14.3% | 18.4% | 176.76 | |
| Hector Communications | 32 | 31 | 20 | NA | 5 | NA | 15 | 15 | 4 | 2 | 64.8% | NA | 17.4% | NA | 47.4% | 48.8% | 13.2% | 5.5% | 57.48 | |
| Hickory Technology Corp. | 91 | 92 | 49 | 51 | 15 | 16 | 34 | 35 | 17 | 5 | 53.8% | 55.3% | 16.3% | 17.4% | 37.4% | 37.9% | 18.4% | 5.9% | 74.53 | |
| Lynch Interactive Corp. | 88 | 86 | 58 | 56 | 17 | 17 | 41 | 39 | 16 | 8 | 65.8% | 64.6% | 19.0% | 20.0% | 46.8% | 44.7% | 18.8% | 8.9% | 141.95 | |
| New Ulm Telecom, Inc. | 15 | 16 | 9 | 10 | 2 | 4 | 7 | 7 | 3 | 2 | 59.9% | 65.2% | 14.2% | 22.8% | 45.7% | 42.4% | 19.9% | 13.3% | 122.01 | |
| North Pittsburgh Systems | 108 | 111 | NA | NA | NA | NA | 46 | 47 | 13 | 9 | NA | NA | NA | NA | 42.4% | 42.3% | 12.3% | 8.3% | 83.94 | |
| Otelco Inc. | 37 | 48 | 30 | NA | 6 | NA | 24 | 29 | 3 | 5 | 80.8% | NA | 16.6% | NA | 64.2% | 59.5% | 8.8% | 9.4% | 134.90 | |
| Shenandoah Telecommunications | 121 | 138 | 69 | 76 | 29 | 38 | 40 | 39 | 34 | 17 | 57.0% | 55.6% | 24.2% | 27.5% | 32.9% | 28.1% | 28.2% | 12.2% | 676.56 | |
| Mean | | | | | | | | | | | 63.3% | 60.6% | 19.1% | 20.6% | 44.0% | 42.2% | 17.9% | 11.2% | \$117.5 | |
| Median | | | | | | | | | | | 62.9% | 61.2% | 17.4% | 21.4% | 44.1% | 42.4% | 17.5% | 10.2% | 108.2 | |
| High | | | | | | | | | | | 80.8% | 65.2% | 33.5% | 27.5% | 64.2% | 59.5% | 28.4% | 18.7% | \$196.24 | |
| Low | | | | | | | | | | | 53.8% | 55.3% | 7.4% | 11.8% | 32.9% | 28.1% | 8.8% | 5.5% | 57.48 | |

Source: Company filings as of March 31, 2005.

Note: Financial results presented are as of March 31, 2005.

* - Excluded from the range.



Appendix

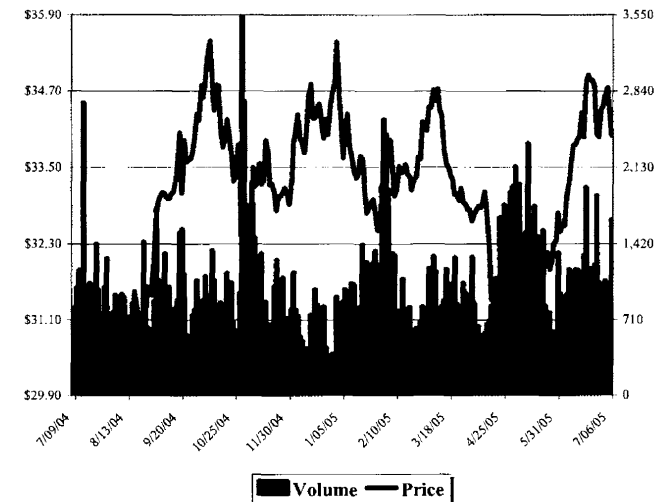
Large Cap vs. Small - Mid Cap RLECs
Case Study: Verizon Hawaii
Public RLEC Universe
Comparable Company Descriptions

Comparable Company Descriptions

CENTURYTEL INC.

CenturyTel, Inc. is an integrated communications company engaged primarily in providing local exchange, long distance, Internet access and broadband services. The company strives to maintain its customer relationships by, among other things, bundling its service offerings to provide its customers with a complete offering of integrated communications services. All of the company's operations are conducted within the continental U.S. At Dec. 31, 2004, the company's local exchange telephone subsidiaries operated approximately 2.3 million telephone access lines, primarily in rural areas and small to mid-size cities in 22 states, with over 70% of these lines located in Wisconsin, Missouri, Alabama, Arkansas and Washington. According to published sources, the company is the eighth largest local exchange telephone company in the U.S. based on the number of access lines served.

DAILY STOCK PRICE AND VOLUME

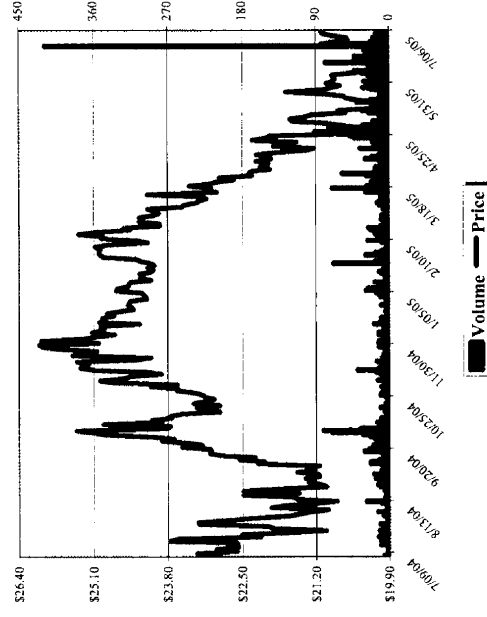


Comparable Company Descriptions

CITIZENS COMMUNICATIONS CO.

Citizens Communications Co. (Citizens) is a communications company providing services to rural areas and small and medium-sized towns and cities, including the Rochester, NY, metropolitan area, as an incumbent local exchange carrier (ILEC). In addition, it provides competitive local exchange carrier (CLEC) services to business customers and to other communications carriers in the Western United States through Electric Lightwave (ELI). Citizens ended 2004 with about 2.5 million telephone access lines in 23 states, including Arizona, California, Minnesota, New York and Illinois.

DAILY STOCK PRICE AND VOLUME

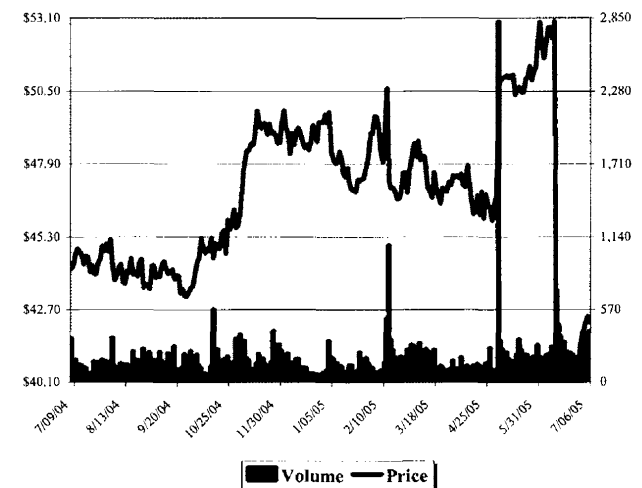


Comparable Company Descriptions

COMMONWEALTH TELEPHONE ENTERPRISES INC.

Commonwealth Telephone Enterprises, Inc. is a telecommunications company providing telephony and related services in Pennsylvania markets as a rural local exchange carrier (RLEC) Commonwealth also operates as a competitive local exchange carrier (CLEC) in three regional Pennsylvania markets that border its RLEC's markets, which the company refers to as its "edge-out" markets. The company's RLEC is the nation's seventh largest non-Bell incumbent local exchange carrier, serving over 333,000 switched access lines as of Dec. 31, 2004. The company's CLEC served over 138,800 competitive switched access lines in its 'edge-out' markets as of Dec. 31, 2004.

DAILY STOCK PRICE AND VOLUME

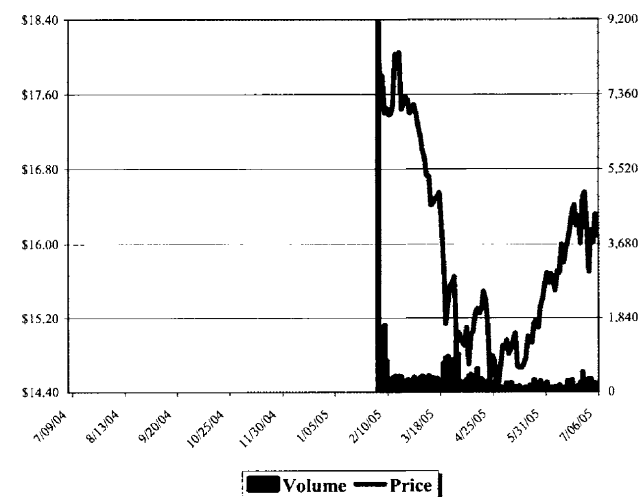


Comparable Company Descriptions

FAIRPOINT COMMUNICATIONS INC.

FairPoint Communications, Inc. is a leading provider of communications services to rural communities, featuring local and long distance voice, data, Internet and broadband product offerings. FairPoint is one of the largest telephone companies in the U.S. focused on serving rural communities, and is the 17th largest local telephone company, in each case based on number of access lines. The company operates 26 rural local exchange carriers in 17 states with approximately 272,691 access line equivalents (including voice access lines and digital subscriber lines) in service as of Sept. 30, 2004.

DAILY STOCK PRICE AND VOLUME

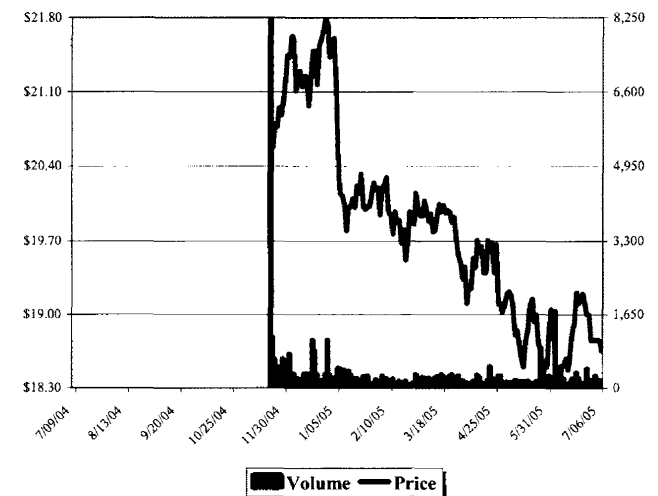


Comparable Company Descriptions

IOWA TELECOMMUNICATIONS SERVICES INC.

Iowa Telecommunications Services, Inc. (Iowa Telecom) provides wireline local exchange telecommunications services to residential and business customers in rural Iowa, serving over 440 communities across the state. Iowa Telecom believes it is the second largest local exchange carrier in Iowa. The company operates 294 telephone exchanges as the incumbent or historical local exchange carrier and, as of March 2005, was the sole telecommunications company providing wireline services in approximately 86% of the communities it serves. Together with its competitive local exchange carrier subsidiary, Iowa Telecom provides services to approximately 267,000 access lines in Iowa.

DAILY STOCK PRICE AND VOLUME



Comparable Company Descriptions

VALOR COMMUNICATIONS GROUP INC.

Valor Communications Group, Inc. provides telecommunications services in rural communities in the southwestern U.S. Based on the number of telephone lines the company has in service, the company ranks as the seventh largest independent (non-Bell) local telephone company in the country. As of Sept. 30, 2004, Valor operated apx. 548,000 telephone access lines in primarily rural areas of Texas, Oklahoma, New Mexico and Arkansas.

DAILY STOCK PRICE AND VOLUME

