BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Application of Sprint Nextel Corporation	)	Case No. ____________________
for Approval of the Transfer of Control of	)	
Sprint Missouri, Inc., Sprint Long	)	
Distance, Inc. and Sprint Payphone	)	
Services, Inc. From Sprint Nextel	)	
Corporation to LTD Holding Company.	)	

TESTIMONY OF JOHN W. MAYO

ON

BEHALF OF

SPRINT NEXTEL CORPORATION

August 23, 2005

TESTIMONY OF DR. JOHN W. MAYO

I. INTRODUCTION, QUALIFICATIONS AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is John W. Mayo. My business address is Georgetown University, McDonough School of Business, Old North Building, 37th and O Streets, N.W., Washington, D.C. 20057.

Q. WHAT IS YOUR OCCUPATION?

A. I am Professor of Economics, Business and Public Policy at Georgetown University in the McDonough School of Business. I am also the Executive Director of the Center for Business and Public Policy in the McDonough School at Georgetown University.

Q. WOULD YOU PLEASE SUMMARIZE YOUR QUALIFICATIONS?

A. Yes. I hold a Ph.D. in economics from Washington University in St. Louis (1982), with a principal field of concentration in industrial organization, which includes the analysis of antitrust and regulation. I also hold both an M.A. (Washington University, 1979) and a B.A. (Hendrix College, Conway, Arkansas, 1977) in economics.

I have taught economics, business and public policy courses at Georgetown University, Washington University, Webster University, the University of Tennessee and at Virginia Tech (VPI). These courses include both graduate and undergraduate classes in industrial organization, regulation and antitrust.

I also have served in senior administrative positions. Beginning in the fall of 1999 and continuing until July 2001, I served as Senior Associate Dean of the McDonough School of Business and during academic years 2002-2004, I served as Dean. Also, I have served as the Chief Economist, Democratic Staff of the U.S. Senate Small Business Committee.

I have authored a number of articles and research monographs, and have written a comprehensive text entitled Government and Business: The Economics of Antitrust and Regulation (with David L. Kaserman, The Dryden Press, 1995). I have also written a variety of specialized articles on economic issues in the telecommunications industry. These articles include discussions of competition and pricing in, and the industrial organization of, the telecommunications industry. These articles have appeared in academic journals such as the RAND Journal of Economics, the Journal of Law and Economics, the Journal of Regulatory Economics, and the Yale Journal on Regulation. A more detailed accounting of my education, publications and employment history is contained in Exhibit JWM-1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I have been asked by Sprint Nextel Corporation ("Sprint") to evaluate the public policy merits of the proposed separation of its incumbent local exchange carrier (ILEC) operations after its merger with Nextel is completed. For a variety of reasons that I will describe below, I conclude that, indeed, the proposed separation is in the public interest. My testimony, which describes the logic behind my conclusion, is organized as follows. First, in Section II, I provide a brief background discussion to frame the issue. Next, in Section III, I examine specific considerations associated with the proposed separation. Finally, in Section IV, I conclude the testimony.

II. LEGISLATIVE AND POLICY GUIDEPOSTS

Q. CAN YOU PLEASE EXPLAIN WHAT SPRINT IS PROPOSING IN THIS CASE?

A. Yes. It is my understanding that Sprint plans to separate its wireline local service operation into an independent, stand-alone operation. In December of 2004 Sprint and Nextel Communications, Inc. ("Nextel") entered into a merger agreement pursuant to which, upon obtaining the requisite approvals, Nextel would merge with and into a wholly owned subsidiary of Sprint. The required approvals were obtained, and the merger has closed. In that merger agreement, Sprint and Nextel agreed to use their reasonable best efforts to separate the ILEC business of Sprint. As part of that transaction a new holding company has been created, and control of the Sprint operating companies serving local customers will be transferred to that holding company. The application before this Commission asks for approval of that transfer of control.

Q. IS THERE LEGISLATIVE GUIDANCE REGARDING THE CRITERIA TO BE USED WHEN EVALUATING THE MERITS OF SPRINT'S PROPOSAL?

A. Yes. Section 392.300 RSMo of the Missouri statutes and 4 CSR 240-3.520 of the Commission's rules appear to be the source of Commission authority to approve a transfer of control of telecommunications facilities for the purpose of providing service to Missouri customers. In making this determination under Rule 240-3.520, the Commission must determine if the transaction is detrimental to the public interest.

Q. FROM AN ECONOMIC AND HISTORICAL PERSPECTIVE, ARE THERE ADDITIONAL CONSIDERATIONS THAT SHOULD FRAME THIS ISSUE?

A. Yes. Any serious examination of industrial structure and industrial change will find that firms are constantly re-organizing themselves, sometime in small ways and sometimes in larger ways in order to perform more efficiently. The reason, of course, is that in a capitalistic society, firms most generally create value for shareholders by providing better services and products for consumers, bringing new services to the marketplace and by providing these services in the most efficient manner possible. Consequently, as firms strive to provide enhanced services and create customer value for their offerings, they naturally and continually seek to organize themselves in the most efficient manner possible. In this sense, the proposed re-structuring by Sprint reflects the normalcy of industrial re-organization.[1]

Q. IS THE RAPID TECHNOLOGICAL CHANGE THAT THIS INDUSTRY IS UNDERGOING RELEVANT TO UNDERSTANDING SPRINT'S ACTIONS?

A. Yes. In industries undergoing significant technological change such as the modern telecommunications industry, it is both natural and expected that the frequency and significance of industrial re-organizations will be particularly pronounced.[2] Indeed, the press of technological change in the telecommunication industry has created a host of converging technological platforms – wireless, wireline and cable -- that have created an industry in significant flux. This flux, rather predictably, is destroying the uniformity of strategic interests and visions that characterized the industry in the past. The result is that firms today can be expected to adopt quite different strategies depending on their initial position within this broader industry. Indeed, as observed by Harvard University economist Michael Porter, "Strategy is the

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[1] Indeed, similar restructurings in other industries are quite common. See, e.g., Patrick A. Guaghan, Mergers, Acquisitions and Corporate Restructurings, John Wiley and Sons, Third Edition, 2002, pp. 393-429. Notable recent restructurings include spin-offs by American Express of its financial advisors unit and Viacom of the CBS and UPN networks. See also, Michael J. Critella "Back Where we Belong," Harvard Business Review, May 25, 2005, which describes Pitney Bowes organizational changes that have varied from a focus on organic growth, to establishing a diversified firm, to, more recently, engaging in spin-offs to achieve a "renewed focus on the core." (p. 58) For complementary discussion of the ongoing industrial re-organization in the chemical, computer and semiconductor industries, see Jeffrey T. Macher and David C. Mowery "Vertical Specialization and Industrial Structure in High Technology Industries," In Business Strategy over the Industry Lifecycle - Advances in Strategic Management, J.A.C. Baum and A.M. McGahan (Eds.) Volume 21, Elsevier Press, New York , 2004, 317-356.

[2] See, e.g., Debra Aron "Using Capital Markets as a Monitor: Corporate Spin-offs in an Agency Framework," RAND Journal of Economics, Vol. 22, Winter 1991, pp 505-518, who indicates that "Firms that are operating in rapidly changing markets are more likely to engage in spin-offs." (p. 506)

creation of a unique and valuable position, involving a different set of activities… If there were only one ideal position, there would be no need for strategy....The essence of strategic positioning is to choose activities that are different from rivals'."[3]

Consequently, some telecommunications firms may at this juncture choose to consolidate different lines of business while others (like Sprint) may choose to separate lines of business and customer groups. This is entirely appropriate and normal given that different firms may be situated very differently within the industry. The variation in the strategic visions and choices of individual firms may be "messy" but it stems from a healthy quest that enhances the prospect for consumer benefits as firms struggle for more efficient ways to organize themselves to better serve customers. Thus, while some may speculate as to whether "this" or "that" organizational form is "the right one" for the future, the dynamics of this industry are sufficiently strong that it is difficult, if not altogether impossible, to know which of the myriad strategies and organizational forms will be ultimately rewarded by consumers and shareholders.[4] Thus, while it is common to observe, or engage in, "arm-chair" quarterbacking in the corporate structuring arena, the most prudent policy is to provide deference to the nuanced insights of firms that are seeking to establish the most efficient structure possible

[3] See Michael E. Porter "What is Strategy?" Harvard Business Review November-December 1996, p. 61. - 78.

[4] Consider, for instance, that Southwest Airline's operations as a point-to-point, low-frills airline defied accepted industry wisdom when it began operations in 1971. Today, Southwest's business model has emerged as a shining success. Similarly, few anticipated the success of Google when it began in the mid 1990s. Yet today, its market capitalization is roughly equal to that of Time Warner, the largest media company in the world.

within which to satisfy consumers. In sum, the natural quest by firms to position themselves within the market so as to best and most efficiently satisfy customers creates a natural and ongoing propensity for corporate re-organizations. And the presence of rapid technological change very naturally accelerates these generally salubrious effects of corporate reorganizations.

Q. HAVE PREVIOUS STUDIES OF CORPORATE RE-ORGANIZATIONS PROVIDED INSIGHTS REGARDING THE LIKELY CONSEQUENCES OF SPIN-OFFS?

A. Yes. Academicians have studied the motivations for, and consequence of, spin-offs for a number of years. These studies have consistently found that spin-offs are favorably viewed by the market.[5] While the reasons are manifold and may vary from one particular spin-off to the next, the most commonly noted reasons for the favorable evaluation of spin-offs include the alleviation of managerial diseconomies as the number and diversity of decisionmaking requirements is reduced, an improved strategic focus by managers of the spun company, and the ability to create clearer management incentive–contracts. Importantly, these underlying drivers to improved corporate value are also factors that generally inure to the benefit of consumers. The creation of a separate market valuation of spun company's activities and assets is also found to create a transparency that

[5] See, e.g., Miles, J. A. and J.D. Rosenfeld "The Effect of Voluntary Spin-off Announcements on Shareholder Wealth," Journal of Finance, Vol. 38, 1983, pp. 1597-1606. Hite, G.L. and J.E. Owers "Security Price Reactions Around Corporate Spin-off Announcements," Journal of Financial Economic, Vol. 12, 1983, 409-436; J.D. Rosenfeld "Additional Evidence on the Relationship Between Divestiture Announcements and Shareholder Wealth," Journal of Finance, Vol. 39, 1984, pp. 1437-1448; and, Patrick J. Cusatis, James A. Miles and J. Randall Woolridge "Restructuring through Spinoffs: The Stock Market Evidence, Journal of Financial Economics, Vol. 33, June 1993, pp. 293-311.

better enables valuation by shareholders. This improved transparency, in turn, creates additional heightened incentives for managerial efficiencies. Additionally, spin-offs have been shown to improve investment decisions by improving the internal allocation of corporate capital.[6]

III. SPECIFIC CONSIDERATIONS

Q. TURNING TO THE SPECIFICS, DOES THE PROPOSED SEPARATION SERVE THE PUBLIC INTEREST?

A. Yes. A variety of considerations point toward the prospective benefits from the separation. At the outset, it is important to note that the separation provides for a restructuring of organizational form but does so with a virtually seamless transition for consumers. My understanding is that current customers of Sprint Missouri, Inc, ("Sprint Missouri") will, upon completion of the separation, receive uninterrupted service from this familiar and trusted telephone company. Indeed, the company projects that it will offer the full portfolio of its existing services with no degradation of quality.[7] Consumer confusion, always a possibility in corporate re-organizations, is significantly reduced in this instance as customer service interface contacts will remain unchanged.[8] The result is that while there will be minimal, if any, disruption to consumers in the immediate wake of the separation, the re-organization will set the stage for a variety of benefits as the company efficiently re-organizes itself.

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[6] See Gertner, Robert, Eric Powers and David Scharfstein "Learning about Internal Capital Markets from Corporate Spin-offs," Journal of Finance Vol. 57, December 2002, pp. 2479-2506.
[7] Testimony of Richard Lawson, pages 7.
[8] Ibid.

Additionally, it is my understanding that the senior management team of Sprint Missouri, with its extant expertise in providing high quality telecommunications services, will largely remain in place.[9] While this continuity of management expertise should provide additional comfort regarding the public interest merits of the separation, the heightened focus on, and accountability to, the local market will increase senior managers' incentives for providing superior and value-oriented telecommunications services within the local area.

Of particular note, the re-organization will permit the Sprint Missouri to strategically and exclusively focus on its local base of wireline customers. The merger of Sprint and Nextel in the wireless arena will have created a very large and national company whose strategic interests are distinctly "wireless" and "national". In contrast, Sprint Missouri will have the opportunity to focus its competitive energies on providing value for, and securing the business of, consumers within its local geographic footprint. This heightened focus and reliance on its local customers for its financial success means that the company will have maximal incentives to create valued and innovative services for these customers. The re-organization, then, neatly aligns the firm's self-interest and those of consumers. The result is that the re-organization creates the likelihood of both improved efficiencies and improved consumer service.[10]

Additionally, by creating separate companies with distinct strategies, the separation has the very real prospect of enhancing competition in the broad

[9] Testimony of Richard Lawson, page 13.

[10] The "local focus" has proven successful elsewhere in the industry. For instance, Cincinnati Bell, which focuses on serving customers in the greater Cincinnati area, has continually received J.D. Power and Associates' customer satisfaction ratings that are among the highest in the industry. See, e.g., 2003 Annual Report, Cincinnati Bell, p. 10.

telecommunications industry. In particular, once the separation is successfully completed Sprint, with its very large wireless presence, will be free to unambiguously and vigorously pursue wireless-oriented or wireless-cable-oriented strategies that target local wireline company customers. The restructured local exchange company, in contrast, will have every incentive to maintain its local customer base by offering high quality and innovative telecommunications services. The result is that the heightened competition will lead to improved choices and service for telecommunications customers both in and outside of Sprint Missouri's geographic footprint.

Q. ARE YOU AT ALL CONCERNED THAT THE SPRINT SEPARATION IS CONTRARY TO DIRECTION THAT RESTRUCTURING IS TAKING AMONG OTHER ILECS SUCH AS VERIZON AND SBC?

A. No. As I noted earlier, rapid technological change, here augmented by recent federal court and regulatory decisions, is likely to cause specific telecommunications firms to adopt quite different visions and strategies for their companies' futures. These alternative visions stem from a variety of factors but certainly the initial positions of the companies within the broader industry may create completely different strategies for various companies as they individually seek to find positions within the industry from which to best compete. As a result, the fact that Sprint's strategic direction may differ from that of other ILECs is neither surprising nor a cause for concern.

Q. SHOULD THE COMMISSION BE CONCERNED THAT HOUSEHOLDS WILL BE HARMED BY THE SEPARATION?

A. No. As I have described, the separation provides for a continuity of existing services, heightens the focus of managers on the ILEC's local customer base, and creates heightened opportunities and incentives for improved customer service. In addition, *every aspect* of the extant regulatory oversight will remain. In particular, it is my understanding that the regulatory pricing plan under which Sprint Missouri operates will convey to the ILEC under the newly formed parent. That is, the Commission will retain all of its operational, financial and regulatory oversight mechanism that it has today to assure that the company's services are of high quality and are offered at just and reasonable rates.

IV. CONCLUSION

Q. I TAKE IT THEN THAT YOU ARE QUITE COMFORTABLE RECOMMENDING APPROVAL OF THE SEPARATION AS PROPOSED?

A. Yes. My examination of the industry and the specific proposed restructuring lead me to conclude that the separation represents a normal manifestation of the desire by corporate management to seek to re-organize the company in an efficient and strategically focused manner. The separation comes at a time in the history of the telecommunications industry that a host of such re-organizations may be expected. This diversity of strategic designs by firms certainly will create a new landscape for the industry, but there is every expectation that this specific reorganization will serve the public interest.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter	)	**Case No.**
	)	
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AFFIDAVIT OF ________________

WASHINTON, D.C	)
	) ss:
WASHINGTON, D.C.	)

I, John Mayo being of lawful age and duly sworn, state the following:

1. I am currently representing the interests of Sprint Communications Company L.P. in this proceeding.

2. I have participated in the preparation of the attached Testimony in question and answer form to be presented in the above entitled consolidated cases;

3. The answers in the attached Testimony were given by me; and,

4. I have knowledge of the matters set forth in such answers and that such matters are true and correct to the best of my knowledge and belief.

John W Mayo

Subscribed and sworn to before me on this 4 day of Aug, 2005.

Glenda D. Barnes
Notary Public

My Appointment Expires:
12/14/06