Exhibit No.:	
Issues:	Transaction Structure
Witness:	Matthew J. Barnes
Sponsoring Party:	MoPSC Staff
Type of Exhibit:	Rebuttal Testimony
Case No.:	IO-2006-0086
Date Testimony Prepared:	November 15, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

SPRINT NEXTEL CORPORATION

CASE NO. IO-2006-0086

Jefferson City, Missouri
November, 2005

****<u>Denotes Highly Confidential Information</u>****

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MATTHEW J. BARNES

SPRINT NEXTEL CORPORATION

CASE NO. IO-2005-0086

REBUTTAL TESTIMONY

OF

MATTHEW J. BARNES

SPRINT NEXTEL CORPORATION

CASE NO. IO-2006-0086

Q. Please state your name.

A. My name is Matthew J. Barnes.

Q. Please state your business address.

A. My business address is P.O. Box 360, Jefferson City, Missouri, 65102.

Q. What is your present occupation?

A. I am employed as a Utility Regulatory Auditor III for the Missouri Public Service Commission (Commission). I accepted the position of Utility Regulatory Auditor I in June 2003 and have since been promoted.

Q. Were you employed before you joined the Commission's Staff (Staff)?

A. Yes, I was employed by the Missouri Department of Natural Resources (MDNR). Prior to MDNR I was employed by the Missouri Department Conservation and prior to that position I was in the U.S. Navy.

Q. What is your educational background?

A. I earned a Bachelor of Science degree in Business Administration with an emphasis in Accounting from Columbia College in December 2002. I earned a Masters in Business Administration with an emphasis in Accounting from William Woods University in May 2005.

Q. Have you filed testimony in other cases before this Commission?

A. Yes. I filed Supplemental Direct Testimony in BPS Telephone Company Case No. TC-2002-1076.

Q. Have you made recommendations in any other cases before this Commission?

A. Yes, I have made recommendations on finance, merger and acquisition cases before this Commission.

Q. Have you attended any schools, conferences or seminars specific to utility finance and utility regulation?

A. Yes. I attended The Rate Case Process in Missouri presented by the Staff of the Missouri Public Service Commission in March 2005.

Q. What is the purpose of your rebuttal testimony in this case?

A. My rebuttal testimony is presented to the Commission to provide a recommendation to the Commission concerning Sprint Nextel Corporation's Application to spin-off their local telephone exchange operations, Spring Long Distance, Inc., and Sprint Payphone Services, Inc. into a new company referred to in my testimony as LTD Holding Company.

Sprint's Acquisition of Nextel and the Spin-Off of LTD Holding Company

Q. Please describe Sprint's acquisition of Nextel.

A. Sprint Corporation entered into a merger agreement on December 15, 2004 with Nextel Communications after obtaining stockholder approval from both companies. Nextel Communications will be a wholly-owned subsidiary of Sprint with the corporation's new name Sprint Nextel Corporation (Sprint Nextel). The agreement called for Sprint Nextel to use their reasonable best efforts to separate the ILEC business of Sprint by means of a tax-free spin-off to the stockholders of Sprint Nextel.

Business Operations of Sprint and Nextel

Q. Please describe the business operations of Sprint.

A. According to Sprint Nextel's 2005 Joint Proxy Statement/Prospectus Summary Page 3:

> Sprint offers an extensive range of innovative communication products and solutions, including wireless, long distance voice and data transport, global Internet Protocol, or IP, local and multiproduct bundles. A Fortune 100 company, Sprint is widely recognized for developing, engineering and deploying state-of-the-art network technologies, including the United States' first nationwide all-digital, fiber-optic network, an award-winning tier one Internet backbone, and one of the largest all-digital, nationwide wireless networks in the United States. Sprint provides local telecommunications services in its franchise territories in 18 states…

Q. Please explain the business operations of Nextel.

A. According to Sprint Nextel's 2005 Joint Proxy Statement/Prospectus Summary Page 3:

> Nextel is a leading provider of wireless communications services in the United States. Nextel provides a comprehensive suite of advanced wireless services, including digital wireless mobile telephone service, walkie-talkie features, including Nextel Nationwide Direct Connect and Nextel International Direct Connect, and wireless data transmission services. At March 31, 2005, Nextel provided service to about 17.0 million subscribers, which consisted of 15.5 million subscribers of Nextel-branded service and 1.5 million subscribers of Boost Mobile branded pre-paid service. Nextel's all-digital packet data network is based on integrated Digital Enhanced Network, or iDEN technology to serve 297 of the 300 largest United States metropolitan areas where about 262 million people live or work…

Business Operations of LTD Company

Q. Please describe the business operations of LTD Company.

A. According to Paragraph 7 of the Company's Application:

> LTD Holding Company, a Delaware corporation, is a newly formed subsidiary of Sprint. Upon the separation, LTD Holding Company will realize control of Sprint Missouri, Inc., LTD Long Distance and Sprint Payphone Services, Inc., along with Sprint's other ILEC operations. At that time, LTD Holding Company will operate independently from Sprint and will have its own management team and board of directors…Upon separation from Sprint, LTD Holding Company will be the largest independent local telephone company in the United States, with 2004 annual revenues exceeding $6 billion. Its corporate headquarters will be in the Kansas City metropolitan area.

LTD Holding Company's stock will be traded separately from Sprint Nextel on the New York Stock Exchange. According to Paragraph 5 of the Company's Application, "As of December 31, 2004, Sprint's ILEC operations served approximately 7.7 million access lines in 18 states, including approximately 234,000 access lines in Missouri." All of these access lines will be transferred to LTD Holding Company post spin-off.

Q. Please explain the corporate structure of LTD Holding Company.

A. LTD Holding Company will be the parent of LTD Long Distance, Sprint Missouri, Inc., LTD Management Company, other Sprint ILEC's and Sprint Payphone Services, Inc. Please see Schedule 1 for the post spin-off corporate structure.

<u>Indicative Credit ratings by Standard & Poor's (S&P), Fitch, and Moody's</u>

Q. What are S&P, Fitch, and Moody's?

A. S&P, Fitch, and Moody's are credit rating agencies who assign a rating to a company's securities (i.e. Common Stock, Preferred Stock, Short-Term Debt, and Long-Term Debt). The assigned ratings determine whether a company can meet its obligations and the risk of default. The highest credit rating is AAA while the lowest credit rating is C for Moody's and D for S&P. Any rating below Baa3 for Moody's or BBB- for S&P is considered junk or non-investment grade. Any rating above or at Baa3 for Moody's or above or at BBB- for S&P is considered investment grade. The table below summarizes Moody's and S&P's rating symbols. Fitch's rating symbols are equivalent to S&P.

Bond Rating		Grade	Risk
Moody's	**Standard & Poor's**		
Aaa	AAA	Investment	Lowest Risk
Aa	AA	Investment	Low Risk
A	A	Investment	Low Risk
Baa	BBB	Investment	Medium Risk
Ba, B	BB, B	Junk	High Risk
Caa/Ca/C	CCC/CC/C	Junk	Highest Risk
C	D	Junk	In Default

http://www.investopedia.com/articles/03/102203.asp

Q. What is the current credit rating for Sprint Nextel from S&P?

A. The current credit rating for Sprint Nextel is A-, which is above investment grade.

Q. What is the current credit rating for Sprint Nextel from Fitch?

A. The current credit rating for Sprint Nextel from Fitch is BBB+, which is above investment grade.

Q. What is the current credit rating for Sprint Nextel from Moody's?

A. The current credit rating for Sprint Nextel from Moody's is Baa2. This is equivalent to a BBB with S&P and Fitch and is above investment grade.

Q. Please explain the Rating Evaluation Service's (RES) potential credit rating for LTD Holding Company provided by S&P.

A. Sprint Nextel received feedback in a letter dated May 17, 2005 from S&P that describes the scenarios presented and the rating conclusion based on those scenarios. The scenarios presented to S&P from Sprint Nextel are as follows:

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____ **.

Based on the scenarios presented, S&P came to the conclusion that the corporate credit rating may be ** ___ ** with a ** _____________ ** and that the rating agency was ** ___________________________________ ** Staff is of the understanding that even if LTD Holding Company holds only a minor amount of debt that S&P still may not award an ** _____________ **credit rating for LTD Holding Company.

Staff disagrees with S&P's "broad brush" approach to evaluating LTD Holding Company's credit quality. Just because an industry is in a declining phase of its life cycle does not mean that the business still cannot comfortably cover its debt service obligations. For example, I evaluated LTD Holding Company's Pre-Tax Interest coverage ratios, which were based on assumptions of ** __________ ** in debt and ** __________ ** in annual dividend payments provided by the Applicant, and found the following: Pre-Tax Interest Coverage is ** __ ** times for 2004 and pro forma Pre-Tax Interest Coverage is ** ________________________ ** times for 2006, 2007, 2008, 2009, and 2010 respectively. These ratios are consistent with an ** _ ** credit rating according to the Financial Medians: Telecommunications Companies reported by S&P. Please see Schedule 7 for the benchmarks from S&P. Even if LTD Holding Company should continue to experience decreased cash flow with a decline in access lines and LTD Holding Company continues to decrease debt with the decline in access lines, then this should not cause them to default on their debt. Please see Schedule 2 for S&P's complete analysis of LTD Holding Company.

Based on the scenarios presented to S&P, Sprint Nextel concluded that the Company would seek other indicative credit ratings from Fitch Ratings (Fitch) and Moody's Investors Service (Moody's). Sprint Nextel revised the scenarios after reviewing S&P's feedback letter. Sprint Nextel concluded that the new scenario presented to Fitch and Moody's would be ** _____ ** billion debt with annual dividend payments of ** ___________ **. ** ____ ____ **.

Q. Please explain what you meant in you last statement.

A. On August 4, 2005, approximately three months after the RES letter was sent to Sprint, S&P released a research report titled <u>Research Update: Sprint Corp Ratings Remain on Credit Watch Positive, With Those of Nextel, Pending Merger Close.</u> In that report S&P said the following:

> The Credit Watch implications on the debt of Sprint's local telephone division were revised to negative from developing. This action is based on industry-wide business-risk concerns about rising cable telephony and wireless competition that will make it difficult for this unit to obtain an investment grade rating as a standalone entity, regardless of the resulting capitalization. The Credit Watch on debt of the local division had been revised to developing on May 13, 2005, reflecting uncertainty about the potential ratings for the unit following its expected spin off from the merged Sprint-Nextel.

Q. Have you contacted the analyst at S&P to discuss the indicative credit rating?

A. Yes, I contacted the analyst Eric Geil at S&P on October 19, 2005 to discuss the indicative credit rating and asked him if an investment grade credit rating (BBB-) is out of the question. He indicated to me that a BBB- credit rating is not out of the question and that S&P would evaluate the entity's creditworthiness closer to the spin-off. He also indicated that S&P had since released another research report on October 7, 2005. The report indicated the following:

> The ratings on the debt of Sprint's local telephone division are on Credit Watch with negative implications, reflecting the potential that the proposed standalone local company could be rated below investment grade. The spun-off company will have estimated debt to EBITDA of roughly 2.5x, excluding any adjustments for operating leases or unfunded pension and OPEBs, and will pay $300 million in annual dividends. Despite the local company's relatively moderate proposed capital structure and good free cash flow characteristics, we are concerned about industry-wide business risk from rising cable telephony and wireless substitution, which could eventually weaken the financial profile. We expect that any final rating determinations will be made near the time of the spin-off, although we do intend to provide further clarity on the probable outcome as appropriate in the months preceding the spin-off.

Please see Schedule 3 for the complete research report on Sprint Nextel.

Q. What do you conclude about the three reports provided by S&P?

A. After reviewing the RES letter and the August 4, 2005 research report, it appears that S&P's credit rating on LTD Holding Company may be below investment grade. After reviewing the latest October 7, 2005 research report, S&P now appears to be uncertain as to whether it will rate LTD Holding Company below investment grade. Therefore, I cannot give the Commission assurance that S&P would rate LTD Holding Company below investment grade nor can I give the Commission assurance that S&P would rate LTD Holding Company investment grade.

Q. Has Staff traditionally relied on S&P's credit analysis?

A. Yes, Staff has been subscribing to S&P's services for some time. Staff does not subscribe to Fitch or Moody's credit analysis services.

Q. Please explain the indicative credit rating for LTD Holding Company from Fitch.

A. Fitch's indicative credit rating of BBB-, which is investment grade, is based on total debt of ** __________ ** and ** __________ ** annual dividend. Fitch has many of the same concerns as S&P. Specifically, Fitch states:

> ** ____ **

Please see Schedule 4 for Fitch's complete Rating Assessment.

Q. Please explain the indicative credit rating assigned to LTD Holding Company by Moody's.

A. Moody's Investors Service's (Moody's) indicative credit rating of ** ____ ** (The equivalent of Fitch's ** ____ ** rating, which is investment grade) is based on total debt of ** __________ ** and ** __________ ** annual dividend. Moody's concerns are much the same as S&P and Fitch. Specifically, Moody's states:

> ** ____

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Moody's goes on to say:

** ____
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____ **

Please see Schedule 5 for Moody's complete indicative credit rating for LTD Holding Company.

Q. Does it appear to you that all three credit rating agencies have the same concerns about LTD Holding Company?

A. Yes. However, S&P was presented with different scenarios than the other two credit rating agencies and issued LTD Holding Company an indicative credit rating below investment grade.

<u>Pro Forma Capital Structure</u>

Q. Please explain the pro forma capital structure of LTD Holding Company.

A. The pro forma capital structure of LTD Holding Company as of June 1, 2006 is ** _____ ** debt and ** _____ ** equity.

Q. Please explain how these ratios were determined?

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A. Houlihan Lokey Howard & Zukin Financial Advisors (Houlihan) submitted a report to Sprint Nextel entitled an "Analysis of LTD Holding Company". According to Houlihan's website: http://www.hlhz.com:

> Houlihan Lokey Howard & Zukin, an international investment bank, provides a wide range of services, including mergers and acquisitions, financing, financial opinions and advisory services, and financial restructuring. In 2004, Houlihan Lokey ranked as the No. 1 M&A advisor for U.S. transactions under $500 million and the No. 5 advisor for all U.S. announced transactions, according to Thomson Financial. The firm has been the No. 1 provider of M&A fairness opinions for five consecutive years and has one of the largest worldwide financial restructuring practices of any investment bank. Established in 1970, the firm has over 700 employees in 10 offices in the United States and Europe. We annually serve more than 1,000 clients ranging from closely held companies to Global 500 corporations.

Beginning on page 64 of the report, capital tests were performed to determine the reasonableness of the capital structure. The first capital test performed by Houlihan was the Balance Sheet Test. This was used to determine the equity balance. According to Houlihan the enterprise value (EV), or market value of LTD Holding Company's assets would be in the range of ** ____________ ** to ** ____________ **. Of this market value, approximately ** __________ ** will be supported by debt. The rest would be supported by equity of approximately ** ___________ ** to ** ____________ **. It is very important to emphasize that the equity estimation is contingent upon an accurate estimate of the market value. Assuming this, the equity ratio would approximately be ** ___ ** percent to ** ___ ** percent.

Q. You mentioned previously that Sprint Nextel determined LTD Holding Company's long term debt to be ** __________ **. Do you believe that Sprint Nextel is "saddling" LTD Holding Company with unnecessary debt burden?

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A. I do not believe that Sprint Nextel is “saddling” LTD Holding Company with an unnecessary debt burden. I believe Sprint Nextel determined LTD Holding Company’s long-term debt of ** __________ ** to be the most appropriate amount of debt that would optimize the capital structure of LTD Holding Company to balance the interest of shareholders and ratepayers.

Q. Please explain why a company would utilize an optimal capital structure?

A. A company would utilize an optimal capital structure to maximize the value of the company’s stock by issuing a mixture of debt and equity to keep their actual capital structure within a reasonable target. According to the college finance text book Fundamentals of Financial Management[1]:

> …each firm has an optimal capital structure, defined as that mix of debt, preferred, and common equity that causes its stock price to be maximized. Therefore, a value-maximizing firm will establish a target (optimal) capital structure and then raise new capital in a manner that will keep the actual capital structure on target over time.

Another source that describes the use of an optimal capital structure is the book written by Roger A. Morin, Regulatory Finance Utilities’ Cost of Capital[2]:

> At zero debt ratio the cost of capital is coincident with the cost of equity. With each successive substitution of low-cost debt for high-cost equity, the average cost of capital declines as the weight of low-cost debt in the average increases. A low point is reached where the cost advantage of debt is exactly offset by the increased cost of equity. This is the optimal capital structure point. Beyond that point, the cost disadvantage of equity outweighs the cost advantage of debt, and the weighted cost of capital rises accordingly.

[1] Eugene F. Brigham and Joel F. Houston, Fundamentals of Financial Management, (Fort Worth: The Dryden Press, 1998), 362.
[2] Roger A. Morin Regulatory Finance Utilities’ Cost of Capital, (Public Utilities Reports, Inc., 1994), 415.

The Board of Directors of Sprint Nextel has a fiduciary responsibility to shareholders to make sure that the value of LTD Holding Company's stock is maximized. In order to do this, the new management of LTD Holding Company should strive to achieve the lowest cost of capital for its capital needs. This is done by targeting a capital structure that is, at least in the opinion of its management, optimal. Therefore Sprint Nextel believes that a mixture of debt ** _______ ** and equity ** _______ ** would be optimal for LTD Holding Company.

Q. Do you believe that this mixture of debt ** _______ ** and equity ** _______ ** is a reasonable pro forma capital structure for LTD Holding Company?

A. I believe that the pro forma capital structure is reasonable due to the fact that two out of three rating agencies have issued investment grade indicative credit ratings and the pro forma capital structure's ** _____ ** equity ratio is above the average equity ratio of the group of comparable companies in the Houlihan report.

Financial Ratios

Q. Please provide any financial ratios from the Houlihan report that you believe provide insight on LTD Holding Company's potential credit quality.

A. The following three ratios provide insight on LTD Holding Company's credit quality: Total Debt/EBITDA (Earnings Before Interest Taxes Depreciation and Amortization), Dividend Payout ratio, and Pre-Tax Interest Coverage ratio. Total Debt/EBITDA determines a company's ability to pay their debt. If the ratio is high that means there are fewer earnings available to the company to pay their debt obligations. The Dividend Payout ratio determines a company's percentage of earnings paid out in dividends. The higher the ratio the less cash that is available for the company to reinvest. The Pre-Tax

Interest Coverage ratio determines a company's ability to pay the interest on their debt. The higher the ratio the more cash that is available to the company to pay the interest payments on their debt obligations.

The pro forma Total Debt/EBITDA ratio for LTD Holding Company is ** ____________________________ ** times for 2006, 2007, 2008, 2009, and 2010 respectively. The pro forma Dividend Payout ratio for LTD Holding Company is ** ______ _____________________________ ** for 2006, 2007, 2008, 2009, and 2010 respectively. The pro forma Pre-Tax Interest Coverage ratio for LTD Holding Company is ** _________ ________________ ** times for 2006, 2007, 2008, 2009, and 2010 respectively. I attached as Schedule 6 the entire Capital Tests performed by Houlihan that show these and other credit statistics that I have not mentioned.

Q. Do you have any of your own conclusions from the above financial ratios?

A. Yes. I compared the above ratios to the comparable companies that Houlihan compared LTD Holding Company to in the Houlihan report. Those companies are Citizens Communications, CenturyTel Inc., Valor Communications Group, Fairpoint Communications, Iowa Telecommunications, and Commonwealth Telephone Enterprises. These companies are Regional Local Exchange Companies and are considered by Houlihan to be comparable to LTD Holding Company.

The average Total Debt/EBITDA for 2004 for the comparable companies was determined by Houlihan to be ** ___ ** times. LTD Holding Company's Total Debt/EBITDA ratio was determined by Houlihan to be ** ___ ** times for 2004, this is below the average of the comparable companies. The average pro forma Dividend Payout ratio for 2005 for the comparable companies was determined by Houlihan to be

** _____ **. LTD Holding Company's pro forma Dividend Payout ratio for 2005 was determined by Houlihan to be ** _____ ** which is well below the average of the comparable companies. The average Pre-Tax Interest Coverage ratio for 2004 for the comparable companies was determined by Houlihan to be ** ___ ** times. LTD Holding Company's 2004 Pre-Tax Interest Coverage ratio was determined to be ** ___ ** times, this is well above the comparable companies' average.

The last ratio that I believe is important to consider is the Total Debt/Total Capital ratio as this ratio is important to arrive at an appropriate capital structure. The average Total Debt/Total Capital ratio for 2004 for the comparable companies was determined by Houlihan to be ** _____ **. LTD Holding Company's Total Debt/Total Capital ratio was determined by Houlihan to be ** _____ ** for 2004, which is below the comparable companies' average.

Q. Did you compare Houlihan's ratios to any other benchmarks?

A. Yes, I compared Houlihan's ratios to S&P's RatingsDirect Financial Medians: Telecommunications Companies and determined the following:

	Houlihan's Comparable Companies	LTD Holding Company	S&P Financial Medians: Telecommunications A Companies	S&P Financial Medians: Telecommunications BBB Companies
Pre-Tax Interest Coverage	** ___ ** times (2004 Average)	** ___ ** times (2004)	3.5-5.5 times	2.3-4.0 times
Total Debt/Total Capital	** _____ ** (2004 Average	** _____ ** (2004)	40%-52%	50%-62%

Financial Analysis also utilizes minimum standards to apply to Competitive Local Exchange Company (CLEC) filings when the company applies for a CLEC Application. One of the standards a CLEC must meet is Total Debt/Total Capital cannot be greater than 62% and Pre-Tax Interest must be at least 2.3 times. These two ratios are consistent with BBB companies in Schedule 7. Please see Schedule 7 for the benchmarks.

Q. Schedule 7 is dated June 16, 1999. Is there a more recent report available to Staff?

A. Yes, but since major telephone cases are rare for the Staff of Financial Analysis the department does not subscribe to the telephone sector of RatingsDirect. I contacted S&P and asked for a courtesy copy of the most recent credit statistics on telecommunication companies and was informed that the department would have to expand our access to RatingsDirect (which would cost more than what PSC currently pays) or we could request an electronic copy of the report from S&P's research department. I contacted the research department and asked how much it would cost for the electronic credit statistic report and was informed that it would cost $400 for a PDF file. I felt this was too expensive since Staff of the Financial Analysis department rarely works on major telephone cases; therefore I relied on Schedule 7 to compare benchmarks.

<u>Debt Issuances and Interest Rates</u>

Q. Please describe LTD Holding Company's issuance of new bank debt.

A. Approximately 60 days prior to the spin-off of LTD Holding Company, Sprint Nextel will issue ** ___________ ** in new bank notes with 3 to 5 years maturity that will bear an interest rate of ** ____ **. The interest rate is a floating rate that is subject to change before the spin-off. The cash proceeds from the issuance of ** ___________ ** in new bank notes will be distributed to Sprint Nextel.

Q. Please describe LTD Holding Company's issuance of new notes to Sprint Nextel.

NP

A. LTD Holding Company will issue new notes to Sprint in the amount of ** ____________ ** with a maturity of 7 to 30 years. Sprint Nextel will record these notes as an Asset in their books. There will not be any distribution of cash to Sprint Nextel from LTD Holding Company associated with these notes. The interest rate on these notes is stated by Sprint Nextel to be ** _____ **. Sprint Nextel will have the option to sell these new notes to a third party if they desire.

Q. Will the interest rate of ** _____ ** be a market rate?

A. It is difficult to determine at this time if the ** _____ ** interest rate will be a market rate at the time of issuance of ** ____________ ** debt. Staff has not received any analysis from Sprint Nextel that establishes how the Company determined to charge the ** _____ ** interest rate to the debt.

Q. Do you believe that the interest rate on these new notes may be a conflict of interest between LTD Holding Company and Sprint Nextel?

A. I concluded that the interest rate on these new notes may be a conflict of interest between LTD Holding Company and Sprint Nextel because it is negotiating the terms of the debt that will be issued to LTD Holding Company. If the cost of this debt is higher than what LTD Holding Company could have received if it had negotiated with creditors on its own, then this would be a detriment to LTD Holding Company and a benefit to Sprint Nextel. Since it is difficult to determine what the market interest rates will be at the time of issuance, I cannot render an opinion to the Commission if the ** _____ ** interest rate is a market rate for LTD Holding Company.

Q. Have you discussed this conflict of interest with Sprint Nextel?

A. Yes. Staff has discussed these concerns with Sprint Nextel.

Q. For the Commission to approve this transaction, does Staff have any conditions?

A. Yes. The purpose of these conditions is to ensure that the stock of Sprint Missouri, Inc. is transferred to a financially viable entity that will provide the capital needed to provide safe and adequate service upon reasonable terms and conditions. These conditions are also designed to minimize the risk that Sprint Missouri, Inc. stock will be transferred to an entity that is not financially capable of providing the capital needed so Sprint Missouri, Inc. can provide safe and adequate operations. Thus, Staff recommends the Commission place the following conditions to an approval of Sprint's Application:

1. That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

2. That LTD Holding Company file with the Commission all final terms and conditions on this financing that is going to be held by Sprint Nextel including, but not limited to the following: the aggregate principal amount to be sold or borrowed, price information, estimated expenses, loan or indenture agreement concerning each issuance.

3. That LTD Holding Company file with the Commission any credit rating agency reports concerning issuances by LTD Holding Company associated with this transaction.

4. LTD Holding Company shall be allowed to redeem the ** ____________ ** notes at their outstanding face value.

5. If two out of the three credit rating agencies do not assign an investment grade corporate credit rating to LTD Holding Company at the time of the spin-off, then LTD

Holding Company shall take all reasonable and necessary actions to obtain an investment grade corporate credit rating within 90 days after the spin-off. This shall include, but is not limited to adjusting the debt leverage and/or the dividend payout ratio as required by two out of the three credit rating agencies.

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Sprint Nextel Corporation 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	)	**Case No. IO-2006-0086**

AFFIDAVIT OF MATTHEW J. BARNES

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Matthew J. Barnes, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 19 pages to be presented in the above case; that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Matthew J. Barnes

Matthew J. Barnes

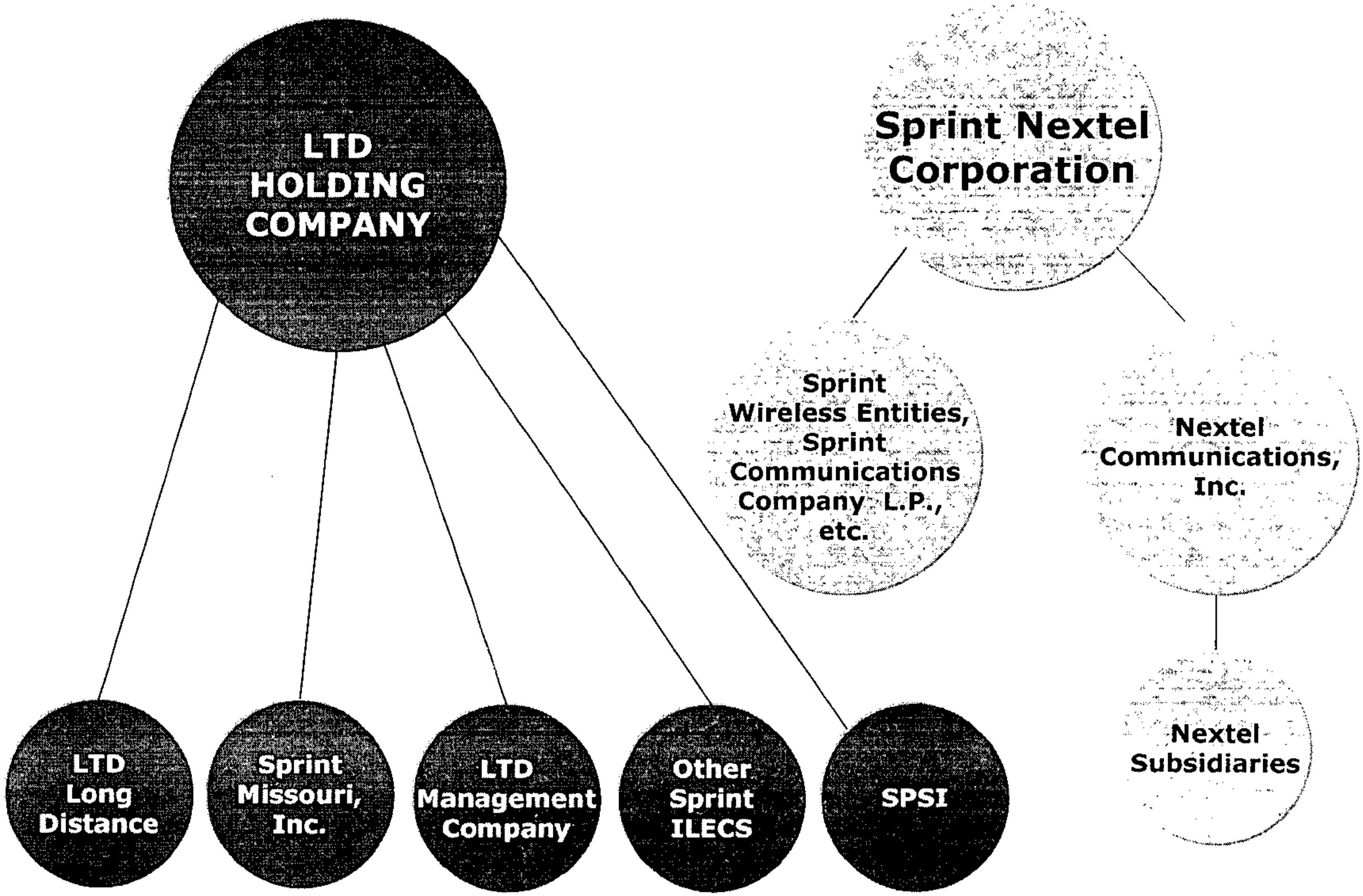
Subscribed and sworn to before me this 15th day of November, 2005.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D. Suzie Mankin

Notary

LTD Holding Company Separation from Sprint Nextel



Schedule 1

SCHEDULE 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

STANDARD
&POOR'S

55 Water Street
New York, NY 10041
212-438-7080 Fax

Fax

Attention Matt Barnes

From: E. Geil

Company MO PSC

Date 10-19-05

Fax Number 573-526-4994

Total Number of Pages, Including Cover 10

Schedule 3-1

Return to Regular Format

Research:
Sprint Nextel Corp.

Publication date: 07-Oct-2005
Primary Credit Analyst: Eric Gell, New York (1) 212-438-7833; eric_gell@standardandpoors.com

ISSUER CREDIT RATINGS	To	From
Sprint Nextel Corp.		
Corporate Credit Rating	A-/Stable/NR	BBB-/Watch Pos/NR
Carolina Telephone & Telegraph Co.		
Corporate Credit Rating	BBB-/Watch Neg/NR	
Centel Corp.		
Corporate Credit Rating	BBB-/Watch Neg/--	
Nextel Communications Inc.		
Corporate Credit Rating	A-/Stable/--	BB+/Watch Pos/
Sprint Capital Corp.		
Corporate Credit Rating	A-/Stable/NR	BBB-/Watch Pos/NR
US Unwired Inc.		
Corporate Credit Rating	BBB-/Stable/--	CCC+/Watch Pos/--
Central Telephone Co.		
Corporate Credit Rating	BBB /Watch Neg/NR	
Nextel Finance Co.		
Corporate Credit Rating	A-/Stable/--	BB+/Watch Pos/--
Sprint - Florida, Inc.		
Corporate Credit Rating	BBB-/Watch Neg/NR	

AFFIRMED RATINGS	
Carolina Telephone & Telegraph Co.	
Sr unsecd debt	
Local currency	BBB-/Watch Neg
Centel Corp.	
Sr unsecd debt	
Local currency	BBB-/Watch Neg
Central Telephone Co.	
Sr secd debt	
Local currency	BBB+/Watch Neg
Sprint - Florida, Inc.	
Sr secd debt	
Local currency	BBB+/Watch Neg

REVISED RATINGS	To	From
Sprint Nextel Corp.		
Sr unsecd debt		
Local currency	A-	BBB-
Nextel Communications Inc.		
Sr unsecd debt		
Local currency	A-	BB
Sprint Capital Corp.		
Sr unsecd debt		
Local currency	A-	BBB-
US Unwired Inc.		
Sr secd debt		
Local currency	BBB-	CCC+

Schedule 3-2

Nextel Finance Co.		
Sr secd debt		
Local currency	A-	BB+

Business risk profile:
Strong
Financial risk profile:
Intermediate
Debt maturities:
2006: $1.6 bil.
2007: $1.6 bil.
2008: $1.3 bil.
2009: $1.6 bil.
2010: $2.9 bil.
Thereafter: $15.4 bil.
Bank lines/Liquid assets:
Sprint has a $1 billion, 364-day unsecured revolving facility with one-year term out option, and two unused accounts receivable securitization programs totaling $1.2 billion. As of June 30, 2005, no amounts were outstanding on these facilities.
Nextel has a $4 billion revolving facility due 2009 and a $2.2 billion senior secured term loan E, unsecured following receipt of the investment grade rating. As of June 30, 2005, $1 billion in revolving credit was outstanding, and $2.5 billion of revolving credit capacity backed a letter of credit for the FCC spectrum reconfiguration plan; the term loan was fully drawn.
Corporate credit rating history:

Aug. 16, 2005	A-/NR
May 15, 2003	BBB-/NR
June 14, 2002	BBB-/A-3

■ Major Rating Factors

Strengths:

- 80% of revenue from fast-growing wireless business;
- Entrenched base of high-average revenue per unit (ARPU), low-churn business users that rely on Nextel's push to talk functionality;
- The Sprint wireless unit's relatively high ARPU and industry-leading data penetration;
- Healthy wireless spectrum position;
- Sprint's successful wholesale wireless operations help broaden market reach; and
- Strong discretionary cash flow potential after company integration is complete.

Weaknesses:

- Intense wireless industry competition, despite consolidation;
- Potential company integration or technology migration issues;
- Eventual slowing of wireless penetration growth; and
- High capital expenditure requirements characteristic of the wireless industry.

■ Rationale

Sprint Nextel Corp. is the result of the Aug. 12, 2005, stock merger between Sprint Corp. and Nextel Communications Inc. The ratings on Sprint Nextel incorporate our expectations that:

- Within a year of the merger close, Sprint Nextel will spin off the local exchange business to shareholders as an independent company with $7.25 billion in total debt (including about $700 million in existing debt) to generate roughly $6.5 billion cash for Sprint Nextel;
- Sprint Nextel could be required to spend up to $7 billion cash, based on the current market value, to satisfy the put for the 69% of Nextel Partners Inc. not owned by the company within one year of closing of the Sprint Nextel merger;
- Sprint Nextel may need to purchase some or all of the Sprint wireless affiliates for up to a total of $7 billion cash, based on estimated market values, to resolve business exclusivity issues arising from the merger; and

- Cash from operations, cash proceeds from the local spin-off, and existing balance-sheet cash of Sprint Nextel will be sufficient to fund the potential Partners and Affiliates transactions, as well as capital expenditures and Nextel spectrum reconfiguration expenses.

The ratings on Sprint Nextel reflect a strong business profile from:

- The Nextel wireless business' industry-leading average revenue per user (ARPU) and low subscriber churn from its deeply entrenched customer base that relies on the differentiated push-to-talk service;
- The Sprint wireless unit's healthy ARPU, market leadership in data services, and growing wholesale business;
- A strong spectrum position; and
- An intermediate financial risk profile from solid liquidity and good discretionary cash flow potential, despite significant near-term investment spending and business integration costs.

Tempering factors include:

- Competitive wireless industry conditions (e.g., slowing penetration growth and pricing pressure); and
- Potential business integration and network technology migration challenges.

The combined Sprint Nextel is the third-largest national wireless carrier, with about 36.5 million owned subscribers. Wireless will provide about 80% of revenue after the local division is spun off, with long distance accounting for the balance. The company is maintaining Sprint's long-distance operations largely to provide network support to wireless operations and to aid in developing converged wireless-wireline applications for business customers. The long-distance unit has low investment requirements and low exposure to the weak consumer segment.

Sprint Nextel plans to operate two wireless networks through at least 2010 while it migrates voice and data traffic to a common network, which should minimize missteps that could boost churn. Nextel's integrated Digital Enhanced Network (iDEN) is critical to the service quality of its push-to-talk and conferencing capabilities. Other carriers have not yet matched Nextel's capability, and even if they do, the entrenched base of Nextel customers in construction trades, transportation, and the public sector likely will resist unraveling established user groups without significant cost incentives.

Sprint Nextel's revenue should continue to grow at a low double-digit percentage rate for the next few years, largely from wireless penetration gains, augmented by data-services growth. The EBITDA margin after about $1 billion in integration expense should be in the 30% area. Once the integration is complete, EBITDA profitability could improve to the upper 30% area, about the same as Nextel's current level. Total debt to EBITDA, pro forma for the local spin-off, the Nextel Partners put, and potential buyouts of all Sprint affiliates, should initially be at or below 3x (adjusted for operating leases and existing unfunded pension and other post-retirement benefit obligations (OPEBs). We expect this ratio to improve within two years to the low-2x area.

Local telephone division

The ratings on the debt of Sprint's local telephone division are on CreditWatch with negative implications, reflecting the potential that the proposed standalone local company could be rated below investment grade. The spun-off company will have estimated debt to EBITDA of roughly 2.6x, excluding any adjustments for operating leases or unfunded pension and OPEBs, and will pay $300 million in annual dividends. Despite the local company's relatively moderate proposed capital structure and good free cash flow characteristics, we are concerned about industry-wide business risk from rising cable telephony and wireless substitution, which could eventually weaken the financial profile. We expect that any final rating determinations will be made near the time of the spin-off, although we do intend to provide further clarity on the probable outcome as appropriate in the months preceding the spin-off.

Liquidity

Sprint Nextel has solid liquidity from an $8.6 billion consolidated cash balance as of June 30, 2005, pro forma for about $1 billion cash spent to purchase the equity of Sprint affiliate US Unwired Inc. We expect that this, plus cash flow from operations and about $6.5 billion in proceeds from the

Schedule 3-4

proposed local division spin-off, should be sufficient to cover the Nextel Partners put, a buyout of all of the remaining Sprint affiliates, and capital expenditures, including Nextel's spectrum and spectrum reconfiguration costs. The company should generate substantial discretionary cash flow beginning in 2007, after the elevated costs related to the business integration and spectrum rebanding subside. Sprint Nextel initially will pay $300 million in annual dividends, representing the dividend policy proposed for the local company spin-off, but has not yet determined the post-spin-off dividend policy of Sprint Nextel. Sprint and Nextel each maintain sizable undrawn bank borrowing availability under their respective credit facilities for additional liquidity.

■ Outlook

The rating outlook on Sprint Nextel is stable. Further wireless penetration gains should support solid operating momentum and discretionary cash flow growth, which will enable the combined company to attain a low 2x debt to EBITDA ratio appropriate for the rating on an ongoing basis. Consideration of a positive outlook will hinge on successful merger integration, maintaining a strong market position in the push-to-talk business, meaningful churn reduction in the Sprint wireless service, and key credit measure improvement. Integration missteps or weakening operating performance could prompt a negative outlook revision.

■ Business Description

Sprint Nextel Corp. is the result of the Aug. 12, 2005, stock merger of Sprint Corp. and Nextel Communications Inc. The combined company has about 36.5 million owned wireless subscribers, ranking it as the third-largest national wireless company. Sprint Nextel also has nearly 10 million wholesale and affiliate wireless customers. Within 12 months of transaction closing, the company plans to spin off Sprint's local telephone division to shareholders in a tax-free transaction, along with about $7.25 billion in debt, subject to multiple state regulatory approvals. The unit serves about 7.5 million access lines, making it the largest non-regional Bell operating company (RBOC) local phone company Pro forma for the local spin-off, wireless will provide about 80% of Sprint Nextel's revenue. Sprint's long distance operations will remain at Sprint Nextel, primarily to provide network services to the wireless operations and to serve the enterprise customer market. The company will continue to operate Nextel's iDEN wireless network as it migrates to a common code division multiple access (CDMA) based network over the next five years.

Sprint Nextel owns about 31% of Nextel Partners, which has 1.7 million subscribers and represents about 22% of Nextel's total population equivalents (POPs). Nextel Partners' other shareholders are expected to trigger a process to put their interest to Sprint Nextel. The value of this potential transaction will be determined by a fair market appraisal process that could take at least four months, and a transaction may not be completed until mid-2006. The current market value of Sprint Nextel's potential obligation is about $6.6 billion, including about $1.2 billion in net debt.

About 22% of the POPs in the Sprint wireless network are served by affiliates using wireless spectrum owned by Sprint. These companies have about 3.5 million customers. The Sprint Nextel merger has given rise to business exclusivity issues between Sprint Nextel and the affiliates. Sprint Nextel is attempting to negotiate new affiliate agreements, but ultimately may need to purchase some or all of these companies to resolve contractual disputes. Sprint Nextel already has purchased US Unwired for about $1.3 billion, and unrated Gulf Coast Wireless LP for 207.5 million. In addition, the company has agreed to purchase IWO Holdings Inc. (CCC+/Watch Pos/--) for $427 million, including the assumption of approximately $208 million of net debt. The corporate credit rating on US Unwired was raised to 'BBB-' from 'CCC+' on Sept. 1, 2005. The magnitude of any further acquisition-related upgrades of Nextel Partners or Sprint Affiliates will depend on our assessment of the strategic importance of the target companies to Sprint Nextel, and the degree of operational and asset integration with Sprint Nextel.

■ Business Profile

Sprint Nextel has a strong business profile from two rapidly growing national wireless operations with roughly equal revenue. Wireless is the fastest growing telecom segment aside from broadband services offered by cable TV and local phone companies. The Nextel unit's industry-leading ARPU from a high concentration of business customers and low churn give it a slightly stronger business profile than that of the Sprint wireless segment. Both units should benefit from healthy industry expansion as penetration rises from the current 60% area and growing data usage. Synergies from combining two national wireless businesses should provide meaningful cost savings, although Sprint Nextel could experience challenges as it integrates these operations and transitions to one network platform. Despite recent industry consolidation, wireless remains very competitive, and is becoming increasingly commoditized for core voice services, especially as all carriers improve network quality. While data services offer growth potential, they represent a small percentage of total revenue and have not proven as popular in the U.S. as in European and Asian markets.

Nextel Wireless

Nextel's pioneering push-to-talk wireless service is fundamental to the company's nearly exclusive franchise serving customers in construction trades, transportation, and the public sector. These customer segments rely on this unique feature for convenient communications among working groups and are highly resistant to churn, contributing to the unit's strong $70 ARPU, low 1.6% churn, and upper-30% EBITDA margin, all of which are favorable compared with the industry averages. The ARPU remained flat during the past year, while for carriers other than Sprint, this measure declined. Sprint's strong data revenue growth mitigated its declining voice pricing.

Nextel's push-to-talk capability depends on its exclusive iDEN network, which is not compatible with other networks. Although other carriers have begun to offer this service during the past two years using other technologies, their offerings so far suffer from longer call set-up and latency. Eventually, competitors may replicate Nextel's functionality. Even so, the entrenched Nextel customer base would likely be unwilling to switch carriers and risk unraveling user groups without meaningful financial incentives.

Sprint Nextel intends to transition the existing Nextel and Sprint businesses to a common CDMA-based network technology platform over the next few years. Even before the Sprint Nextel merger was proposed, Nextel had been evaluating alternative network technologies to expand data offerings beyond iDEN's limited capability. Until at least 2010, Sprint Nextel will operate two networks, which should mitigate potential technology migration difficulties. Through 2007, the company will continue to invest in Nextel's iDEN network, or until the CDMA network can support push-to-talk service comparable to that provided by iDEN.

Nextel has about 1.7 million subscribers served by its wholly owned Boost prepaid service, which primarily targets the youth market. Boost's customer growth was 178% during the 12 months ended June 30, 2005, fueled by expanded distribution. As is characteristic of prepaid service, Boost's churn is elevated, at about 6% and ARPU is significantly below the level for postpaid Nextel service. With slowing industry penetration, carriers are pursuing prepaid to expand market reach, including into less creditworthy customer segments. Prepaid plans eliminate the risk of nonpayment for service, nevertheless, there still is the possibility of not recovering activation costs and handset subsidies from customers lapsing shortly after starting service, making it important for Boost to maintain low customer acquisition costs. A growing prepaid business could pressure overall profitability.

Sprint Wireless

The Sprint wireless business has a good position in the consumer market and high minute usage. At $62, the unit's ARPU ranks second in the industry to that of Nextel. Sprint currently leads the industry in wireless data revenue, which accounts for about 10% of ARPU and was important in enabling the company to maintain flat ARPU year over year as of June 30, 2005. Sprint began to offer Evolution Data Optimized (EV-DO) high-speed wireless data service to business customers in the first quarter of 2005 and expects to cover 130 million POPs with this service by year-end 2005, slightly behind Verizon Wireless' EV-DO rollout. Sprint's wireless churn has fallen in the past three years to about 2.4% from over 3% because tighter credit screening lowered involuntary churn, while better customer service and network quality reduced voluntary churn. Nevertheless, churn is still meaningfully higher than that of Nextel, factoring into the unit's 30% EBITDA margin and somewhat lower business profile. Competitive pressure could limit further churn improvement.

Sprint is the most active national carrier in establishing wholesale business relationships, with the largest being its agreement with 50%-owned Virgin Mobile USA LLC (B-/Developing/--), a fast-growing provider of prepaid services to about 3 million customers, mainly in the youth customer segment. Sprint also has a wholesale arrangement with Qwest Communications International Inc. As the largest national wireless carrier unaffiliated with one of the RBOCs, Sprint, and now Sprint Nextel, is in a good position to establish joint sales efforts with cable companies, which it has already done on a limited basis. Even though there is some risk of cannibalization, wholesale arrangements broaden Sprint's wireless market reach and are attractive because the company does not incur customer acquisition, servicing, or billing costs. In the Virgin deal, cannibalization likely is minimal, since Sprint does not offer its own prepaid plan, although Virgin is a close competitor to Boost

Local telephone division

Schedule 3-6

Sprint Nextel plans to spin off its local division within a year of closing the Sprint Nextel merger, subject to receiving state regulatory approvals. This mature business is experiencing 1%-2% annual revenue declines, because of product substitution, but generates solid 50% EBITDA margins and strong free cash flow, all in line with the industry. About one third of access lines are in densely populated areas with more than 300 lines per square mile in such markets as Las Vegas, Nev. and Orlando, Tallahassee, and Naples, Fla. The rest are in less competitive mid-size and smaller markets. Compared with local carriers serving less-dense areas, Sprint overlaps more major, rebuilt cable companies likely to become major competitors for voice services within the near term. This and wireless substitution are the primary factors that the independent local division could receive a non-investment grade rating.

Wireless substitution, second-line disconnections, and cable telephony are responsible for accelerating access-line erosion, which Sprint expects will reach 3.6% in 2005, up from 2.9% in 2004 and 2.2% in 2003. The company currently estimates that cable telephony is available to about 20% of its local customers and that this will rise to 40% by year-end 2005. In the 2005 third quarter, Cox Communications, Inc., a leader in cable telephony, announced plans to deploy voice over Internet protocol (VoIP) phone service in Las Vegas. Sprint's local division is responding to increased competition with bundled voice and data offerings, and currently estimates that it is has a 45% 60% share of new broadband customers. The division also bundles Sprint wireless service, as it will continue to do following the spin off, and EchoStar Communications Corp's satellite TV service. Resale wireless and video offerings should aid in customer retention, but are unlikely to generate meaningful profits

Long distance

Sprint Nextel is retaining Sprint's long-distance business primarily to provide back haul services for wireless and to support converged wireless-wireline services for businesses. The business is mature and experiencing upper single digit percentage revenue erosion. In the desirable enterprise customer segment, it ranks far behind first- and second-ranked players AT&T Corp. and MCI Inc., which are being acquired by SBC Communications Inc. and Verizon Communications Inc., respectively. Revenue declines are slightly less severe than AT&T's and MCI's double digit revenue erosion because only 10% of Sprint's long distance revenue is from the sharply declining consumer business, compared with over 20% of revenue for both AT&T and MCI.

Despite falling revenue, cost savings have helped Sprint's long distance business maintain an EBITDA margin in the mid-teens percentage area, between MCI's sub-10% performance and AT&T's low-20% level. The unit's wholesale business providing back-office interconnection and support services for cable companies' expanding VoIP phone services is growing. Sprint long distance is also seeing growth in IP-based enterprise services. Nevertheless, overall pricing pressure may temper rising demand for newer services. In addition, the AT&T SBC and MCI-Verizon mergers should boost those companies' capabilities and create more formidable competitors.

■ Financial Policy

Sprint Nextel adheres to an intermediate financial policy, as reflected by the both predecessor companies' debt reduction during the past three years and the stock-based merger. We do not expect any significant acquisitions in the near term other than potential buyouts of the Sprint Affiliates or Nextel Partners that are already factored into the ratings. We expect that any other acquisitions or investments will have a neutral effect on leverage.

■ Financial Profile

Accounting

Commitments and contingencies include operating leases, primarily associated with long-term wireless tower rentals. Tower leases are subject to escalation clauses and generally have initial five-year terms with renewal options for additional five-year terms totaling 20 to 25 years. The minimum rental commitment disclosure increased significantly from 2003 to 2004 because of the inclusion of expected optional renewal periods in the 2004 10-K report that were not included in 2003 based on the SEC's clarification of lease accounting issues in a February 2005 letter to the American Institute of Certified Public Accountants. We factor the present value of these operating leases into our broader financial ratio calculations and the leveraging effect of this adjustment is significant for Sprint Nextel and other wireless companies, although the recent change in disclosure has not affected ratings on any carrier.

Unfunded obligations of Sprint's pension plan and postretirement benefits plans aggregated about

$1.7 billion as of Dec. 31, 2004, before income tax effects. We view these obligations as debt-like, although they have a negligible effect on credit measures, boosting debt to EBITDA by less than 0.1x. An undisclosed amount of these obligations are attributable to the local exchange business, which Sprint Nextel intends to spin off in 2006.

A significant portion of Sprint Nextel's total assets are long-lived, with definite lives, consisting primarily of property, plant, and equipment associated with communications networks. Shifting technology and customer demand can affect values or useful lives of these assets. The company performs annual tests to determine the appropriateness of the depreciable asset lives and recognizes an impairment charge if it determines that the carrying amount is greater than the recoverable value. In 2004, Sprint recorded a $3.5 billion noncash charge, related to an impairment of the long-distance network assets, suggesting diminished potential for this business segment, which had already been factored into the ratings.

Sprint and Nextel's indefinite life intangibles consist largely of the wireless spectrum licenses. Sprint also has meaningful goodwill associated with its wireless operations. Sprint Nextel reviews goodwill and indefinite life intangibles at least annually for impairment, or more frequently if indicators of impairment exist. Sprint completed impairment analyses internally on both goodwill and indefinite life intangibles in the fourth quarter of 2004, and found no impairment. In 2003, Sprint recorded a $1.2 billion charge related to the impairment of spectrum the company had intended to use for providing residential service using fixed wireless technology. Under new accounting guidance announced by the SEC in September 2004, Nextel changed its method of determining impairment to the direct method from the residual method. In the first quarter of 2005, Nextel found no impairment of its spectrum licenses using the direct method.

Profitability and cash flow

Overall revenue should grow by a low double-digit percentage rate through the near term, largely from wireless customer additions, complemented by data growth. Both the Sprint and Nextel wireless businesses performed well in the second quarter of 2005, with the Sprint unit generating service revenue growth of 10.8%, year over year, and Nextel realizing a strong 17% increase. Data is contributing about $6.50 to Sprint's ARPU and is the key factor in flat year over year comparisons for this measure. Nextel's data ARPU is about half this amount. Data will be important in mitigating declining voice ARPU, but as other carriers improve their data offerings, overall ARPU could sag. The overall EBITDA margin, excluding the local phone division and after about $1 billion in integration expense should be in the upper 20% to 30% area. Once the integration is complete, EBITDA profitability could improve to the upper 30% area, about the same as Nextel's current level.

Capital structure and financial flexibility

Total debt to EBITDA pro forma for the local spin off, the Nextel Partners put, and potential buyouts of all Sprint affiliates should be in the upper 2x area as of year end 2005, including adjustments for operating lease obligations and unfunded pensions and OPEBs. As integration expenses subside and elevated capital expenditures for network projects moderate, the company should achieve the low 2x leverage appropriate for the ratings on an ongoing basis. Sprint Nextel had about $8.6 billion in cash as of June 30, 2005, pro forma for the US Unwired acquisition. This, plus $6.5 billion in proceeds from the proposed local spin-off likely will be used to satisfy the Nextel Partners put and Sprint affiliate buyouts, which could cost up to $14 billion in aggregate. Aside from these transactions, Sprint Nextel should generate roughly $10 billion in cash from operations to support $7.5 billion in capital expenditures and to meet near term debt maturities of under $2 billion annually. Capital expenditures include amounts needed to fund the Nextel network spectrum rebanding required by the FCC. Sprint Nextel will pay $300 million in dividends associated with the local phone division until spinning off the unit. Post spin-off, the company does not initially plan to pay dividends, but we expect it to eventually establish a dividend program.

Table 1 Sprint Nextel Corp.--Peer Comparison				
Industry Sector: Telecommunications and Cable TV				
	--Rolling 12 months ended June 30, 2005--			
	Sprint Corp.*	ALLTEL Corp.	Telephone and Data Systems Inc.¶	Nextel Communications Inc.
Rating as of June 30, 2005	BBB-/Watch Pos/NR	A/Negative/A-1	A-/Negative/--	BB+/Watch Pos/--
(Mil. $)				

Sales	27,901.0	8,629.0	3,809.0	14,403.0
EBITDA	8,956.8	3,380.1	1,035.0	5,538.8
Net income from cont. oper.	(401.0)	1,289.4	101.4	2,192.0
Funds from oper. (FFO)	7,833.2	2,820.5	1,072.8	5,240.9
Cash flow from oper.	7,690.2	2,561.0	1,051.5	4,990.9
Capital expenditures	5,711.9	1,680.2	852.7	4,379.9
Free oper. cash flow	1,978.3	880.8	198.8	611.0
Discretionary cash flow	1,230.3	423.8	159.4	611.0
Cash and equivalents	6,833.0	2,027.7	1,132.7	2,774.0
Total debt	20,181.7	5,595.0	2,350.5	11,057.3
Preferred stock	247.0	0.3	3.9	7.0
Common equity	14,478.0	8,854.7	3,266.0	11,011.0
Total capital	34,906.7	14,450.0	5,620.4	22,075.3
Adjusted ratios				
EBITDA/sales (%)	32.1	39.2	27.2	38.5
Oper. income/sales (%)	33.2	40.3	29.0	40.9
EBIT interest coverage (x)	2.8	6.2	2.5	5.5
EBITDA interest coverage (x)	5.2	9.4	4.4	8.3
Return on capital (%)	13.1	14.7	8.8	16.8
FFO/total debt (%)	38.8	50.4	45.6	47.4
Cash flow from oper./total debt (%)	38.1	45.8	44.7	45.1
Free oper. cash flow/total debt (%)	9.8	15.7	8.5	5.5
Disc. cash flow/total debt (%)	6.1	7.6	6.8	5.5
Disc. cash flow/EBITDA (%)	13.7	12.5	15.4	11.0
Total debt/EBITDA (x)	2.3	1.7	2.3	2.0
Total debt/capital (%)	57.8	38.7	41.8	50.1

Note: Figures are adjusted for operating leases. *Cash flow statement items are adjusted to exclude $1.2 billion deferred tower rental income cash received in May 2005. ¶Total debt excludes 1,698.4 million of debt effectively collateralized by common stock of unaffiliated companies.

Table 2 Sprint Corp.–Financial Summary

Industry Sector: Telecommunications and Cable TV			
	–Fiscal year ended Dec. 31–		
	2004	2003	2002
Rating history	BBB-/Watch Pos/NR	BBB-/Stable/NR	BBB-/Stable/A-3
(Mil. $)			
Sales	27,428.0	26,197.0	26,634.0
EBITDA	8,611.8	8,118.0	7,598.5
Net income from cont. oper.	(1,012.0)	(367.0)	468.0
Funds from oper. (FFO)	7,275.8	7,684.5	6,993.5
Cash flow from oper.	6,922.8	7,106.5	6,765.5
Capital expenditures	6,362.7	4,177.3	5,482.7
Free oper. cash flow	560.1	2,929.3	1,282.9
Discretionary cash flow	(109.9)	2,472.3	828.9
Cash and equivalents	4,621.0	2,549.0	1,035.0

Schedule 3-9

Total debt	21,311.7	21,326.0	24,394.3
Preferred stock	247.0	247.0	256.0
Common equity	13,521.0	13,224.0	12,294.0
Total capital	35,079.7	34,797.0	36,944.3
Adjusted ratios			
EBITDA/sales (%)	31.4	31.0	28.5
Oper. income/sales (%)	32.5	33.5	31.1
EBIT interest coverage (x)	2.2	1.9	1.5
EBITDA interest coverage (x)	4.7	4.9	4.4
Return on capital (%)	14.0	8.1	6.6
FFO/total debt (%)	34.1	36.0	28.7
Cash flow from oper./total debt (%)	32.5	33.3	27.7
Free oper. cash flow/total debt (%)	2.6	13.7	5.3
Disc. cash flow/total debt (%)	(0.5)	11.6	3.4
Disc. cash flow/EBITDA (%)	(1.3)	31.4	13.6
Total debt/EBITDA (x)	2.5	2.6	3.2
Total debt/capital (%)	60.8	61.3	66.0

Note: Figures are adjusted for operating leases. Year 2004 capital expenditure amount and related cash flow statement impact reflects a substantial increase in the minimum rental commitment disclosure between 2003 to 2004, because of the inclusion of expected optional renewal periods in the 2004 10-K that were not included in the 2003 report, based on a February 2005 SEC clarification.

SCHEDULES 4 through 6

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Publication date: 16-Jun-1999

	AA	A	BBB
Pretax interest coverage (x)	over 4.5	3.5-5.5	2.3-4.0
Total debt / total capital (%)	under 42	40-52	50-62
Funds from operations interest coverage (x)	over 6.5	5.0-7.0	3.5-5.5
Net cash flow to total debt (%)	over 32	25-33	20-30

Schedule 7