

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Application of Sprint Nextel Corporation)
for Approval of the Transfer of Control of) Case No.IO-2006-0086
Sprint Missouri, Inc., Sprint Long)
Distance, Inc. and Sprint Payphone)
Services, Inc. From Sprint Nextel)
Corporation to LTD Holding Company.)

SPRINT RESPONSE TO STAFF RECOMMENDATION

COMES NOW Sprint Nextel Corporation, Sprint Missouri, Inc., Sprint Long Distance, Inc., Sprint Payphone Services, Inc., and LTD Holding Company, Inc. (hereafter referred to collectively as "Sprint") and pursuant to the Commission's November 16, 2005 Order Directing Response hereby respectfully submit its Response to Staff's Recommendation regarding Sprint's Application for the Transfer of Control of Sprint Missouri, Inc., Sprint Long Distance, Inc. and Sprint Payphone Services, Inc. from Sprint to LTD Holding Company. In support of this Response to Staff's Recommendation, Sprint states as follows:

Executive Overview

On November 15, 2005, Staff filed a recommendation that the Commission approve Sprint's application in this matter, subject to Sprint complying with certain conditions. Staff's Recommendation was supported by Rebuttal Testimony of Mr. William Voight, Mr. Matthew Barnes and Mr. Larry Henderson. Sprint's Application to separate its local telephone operations into a separate, stand-alone company is not an ordinary transaction and required a comprehensive review by these and other members of the Staff. Sprint is gratified that Staff ultimately concluded that this transaction is not detrimental to the public and that Staff recommended Commission approval.

Regarding Staff's proposed conditions for approval, Sprint accepts and hereby commits to abide by 17 of the 19 conditions. However, two of the conditions as initially proposed by Staff are not feasible and/or will produce unintended consequences detrimental to the public. That said, Sprint acknowledges the concerns that underlie these two conditions and offers alternative proposals that address the concerns. Further, Sprint's alternatives are doable.

Summary of Staff Recommended Conditions

Staff's Recommendation and Rebuttal Testimony conclude that Sprint's Application be approved if 19 conditions are met. The conditions are:

1. Sprint file the Distribution Agreement Summary and/or Draft Distribution Agreement within three business days of filing with the SEC (Staff Recommendation page 3);
2. Sprint file the final Distribution Agreement within three business days after execution (Staff Recommendation page 3);
3. Sprint file the Board resolution(s) approving the final terms of the transaction within three business days after passage (Staff Recommendation page 4);
4. Sprint Long Distance, Inc. comply with Commission Rule 4 CSR 240.33.150(4) and 4 CSR 240.33.150(6)(E) regarding the transfer of long distance customers from Sprint Communications Company LP (Staff Recommendation page 4 and Voight Rebuttal Testimony page 15);
5. Sprint Communications Company L.P. not transfer the impacted long distance customers to Sprint Long Distance, Inc. until all required customer notices have

been provided and customers have an opportunity to choose another long distance provider (Staff Recommendation page 4 and Voight Rebuttal Testimony page 11);

6. Sprint Long Distance, Inc. file the customer notice with the Commission four weeks before mailing and allow interested parties 10 days to object (Staff Recommendation page 4 and Voight Rebuttal Testimony page 16);

7. That nothing in the Commission's order 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 (Barnes Rebuttal Testimony page 18, recommendation #1);

8. 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 (Barnes Rebuttal Testimony page 18, recommendation #2);

9. That LTD Holding Company file with the Commission any credit rating agency reports concerning issuances by LTD Holding Company associated with this transaction (Barnes Rebuttal Testimony page 18, recommendation #3);

10. LTD Holding Company shall be allowed to redeem the long-term notes at their outstanding face value¹ (Barnes Rebuttal Testimony page 18, recommendation #4);

11. 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 if two

¹ Sprint has opted not to include the actual dollar amount of the long-term notes in this Response to maintain a non-proprietary filing. Sprint acknowledges the accuracy of the dollar amount of Staff's Recommendation.

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. Such reasonable and necessary actions include, are but are not limited to adjusting the debt leverage and/or the dividend payout ratio as required by two out of the three credit rating agencies. (Barnes Rebuttal Testimony, page 18-19, recommendation #5);

12. Sprint Missouri, Inc, continue broadband deployment (Voight Rebuttal Testimony page 7);

13. The final contract between LTD Holding Company and Sprint Nextel for long distance services contain the following provisions: (a) MFN, (b) minimum service commitment periods, (c) periodic price adjustments, (d) third-party benchmark pricing, (d) aggregate averaging pricing comparisons with other resellers, and (e) non-exclusive provider (Voight Rebuttal Testimony page 14);

14. The final contract between LTD Holding Company and Sprint Nextel for wireless services contain the following provisions: (a) MFN and (b) non-exclusive provider (Voight Rebuttal Testimony page 17);

15. The Commission cancel the affiliated transaction conditions imposed on Sprint Communications Company LP as a CLEC operating in Sprint's ILEC territory in Case No. TA-97-269 and thereby allowing Sprint Nextel to fully compete in the territory of Sprint Missouri, Inc. (Voight Rebuttal Testimony page 26);

16. Sprint Missouri, Inc. submit monthly quality of service reporting, as opposed to the current requirement of quarterly reporting, if an out of compliance condition occurs during the quarterly reporting period. This requirement should apply for the company's first four quarterly reports submitted to the Commission following the

actual separation of the local telecommunications company (Henderson Rebuttal Testimony pages 8-9);

17. All Sprint Long Distance services will be offered pursuant to tariff, unless otherwise specifically authorized by Missouri law. This provision includes “grandfathered services” no longer being offered to new customers. (Voight Rebuttal Testimony page 13);

18. Sprint Missouri, Inc. will continue to honor all current Interconnection Agreements approved by the Commission, as well as any Agreement(s) pending approval at the time of transaction. Pursuant to Section 252(a)(2)(1) of the Federal Telecommunications Act, Sprint Missouri, Inc. will continue uninterrupted any current negotiations for agreements that may be in progress at the time of transaction. (Voight Rebuttal Testimony page 17); and

19. Sprint Missouri, Inc.’s exchanges that have been deemed to be competitive will continue to maintain their competitive designation, subject to any statutorily imposed future review requirements of the Commission. (Voight Rebuttal Testimony page 21).

Acceptance of 17 of Staff’s Recommended Conditions

Sprint hereby commits to comply with all the Staff’s proposed conditions with the exception of conditions #10 and #11. Conditions #10 and #11 were proposed by Staff witness Matthew Barnes (Barnes Rebuttal Testimony, page 18, recommendations #4 and #5, respectively). Sprint submits that these two conditions contain requirements that are simply beyond Sprint’s control. Therefore, Sprint can not ensure compliance. Further, even if complying with condition #10 were possible, the condition will produce unintended consequences detrimental to the public.

Staff Condition #10: Long-Term Debt Redemption

As part of this transaction, LTD Holding Company will issue unsecured debt to Sprint Nextel. At the same time, LTD Holding Company will be assigned the local telephone operations assets. This debt, which Sprint Nextel expects to sell to bond investors on the open market, will mature over a range of seven to 30 years.

In condition #10, Staff proposes that LTD Holding Company be allowed to retire the notes issued to Sprint Nextel at any time and at their outstanding face value.

This is not the way the bond market typically functions. The bond market views such bonds as an agreement to issue debt at a set interest rate for a specific period of time. Sprint is unaware of any such issuance that provides for the kind of redemption flexibility proposed by Staff. Sprint Nextel would be unable to sell the LTD Holding Company debt to investors if such a provision were required, thus undermining an essential element of the spin-off transaction.

Even if Staff's condition called for redemption flexibility in the latter years of the debt's maturity, such a debt instrument would require the issuer (in this case the LTD Holding Company) to pay a higher interest rate than it would otherwise. Sprint believes that such a premium could be one percent or higher than the market interest rate for such debt. Requiring LTD Holding Company to assume additional debt as a condition of the transaction would not be in the public interest.

Permitting early redemption of the notes at outstanding face value would weaken the LTD Holding Company's financial position in other ways. The proposed capital structure is intended to provide LTD Holding Company with an evenly staggered debt

maturity curve. Such a capital structure strengthens the LTD Holding Company's long term liquidity position. Introducing the concept of early redemption would erode investor confidence in that position.

Finally, permitting early redemption of the notes at outstanding face value would jeopardize the tax-free nature of the spin-off transaction and would put at risk the spin-off itself.

In order for LTD Holding Company to issue debt to Sprint Nextel on a tax-free basis, the debt must constitute debt securities for tax purposes. The Internal Revenue Code does not define debt securities and the Internal Revenue Service will not render private ruling letters about whether specific debt is or is not debt securities. Such opinions are derived by analysis of case law. Thus, the opinions of outside tax counsel are required. Sprint has been advised by its outside counsels that they cannot opine that this debt constitutes debt securities if their terms and conditions include flexible redemption as described above. Without such an opinion, the spin-off transaction will not occur because of the resulting tax risks. If the spin-off is in the public interest, then requiring flexible redemption of the LTD Holding Company debt is not.

Regardless, Sprint wants to address Staff's concern that underlies its proposed condition for approval. Mr. Barnes states this concern at page 17 of his Rebuttal Testimony: "I concluded that the interest rates 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

the creditors on its own, then this would be a detriment to LTD Holding Company and a benefit to Sprint Nextel.”

Sprint has discussed this issue at length with Staff. Staff has said it will entertain an alternative approach to addressing its concerns. To address Staff’s concern in a feasible manner, Sprint commits to the following as a condition for Commission approval of the application:

The long-term debt issued by LTD Holding Company to Sprint Nextel will be issued in such a way as to ensure that interest rates, terms and conditions associated with the debt will be virtually identical to rates, terms and conditions LTD Holding Company would receive if it were offering the debt to the commercial market.

Attachment A explains how this debt will be issued to ensure that Sprint Nextel does not receive an unfair advantage and the LTD Holding Company is treated fairly. The explanation is verified by Gene Betts, who is the designated Chief Financial Officer of LTD Holding Company.

Staff Condition #11: Investment Grade Credit Ratings

In condition #11, Staff proposes that LTD Holding Company obtain investment grade corporate credit ratings from two credit rating agencies at the time of separation or within 90 days after the separation (Barnes Rebuttal Testimony page 18, recommendation #4). Sprint submits that it is impossible to comply with such a provision because LTD

Holding Company can not control the ultimate decisions of credit rating agencies, regardless of LTD Holding Company's financial condition.

LTD Holding Company has always been committed to maintaining investment grade characteristics for its debt. In fact, the application for transfer of control that was filed in Missouri explicitly states that the company would strive to maintain such characteristics. Unfortunately, however, obtaining an investment grade rating is actually dependent on a wide variety of conditions, many of which are beyond the direct control of the company.

For example, when the rating agency Moody's determines whether a company will receive an investment grade, it places significant weight on both the competitive environment and the regulatory environment in which the company operates. All else held equal, the more competitive a market, the harder it is for a company to achieve an investment grade. And the more unpredictable the regulatory environment, the more difficult it is to achieve an investment grade. Both factors, of course, are things over which the firm has no real control.

An example of the impact of these uncontrollable factors is found in a recent press release from the rating agency Standard & Poors (issued November 10, 2005), which discusses LTD Holding Company and stated, "Despite the relatively moderate proposed capital structure, strong EBITDA margins, and good discretionary cash flow characteristics, we are concerned about industry-wide business risk..." The statement could not be clearer; it is not the financial characteristics of LTD Holding Company that concern S&P. Rather, it is the industry in which the company operates. Such a point of view has led S&P to issue other public statements such as, "industry-wide business-risk

concerns about rising cable telephony and wireless competition will make it difficult for this unit to obtain an investment grade rating as a standalone entity, *regardless of the resulting capitalization*" (emphasis supplied).

Simply stated, LTD Holding Company can only make commitments regarding things that are within its control. Maintaining investment grade financial characteristics is in the company's control, but achieving the actual rating is not. Therefore, Sprint proposes that any condition that the Commission place on the company be limited to those items over which the firm has control.

Again, Sprint has discussed this issue at length with Staff. Sprint and Staff have the same goal – a financially secure LTD Holding Company at the time of separation. To determine whether that goal is being met, Staff has agreed to consider an alternative approach to evaluate the LTD Holding Company's credit worthiness. Specifically, Staff has agreed to evaluate objective financial measures used by credit rating agencies to determine if LTD Holding Company's debt would be investment grade, absent any subjective judgments about the business environment in which LTD Holding Company operates.

Sprint has already obtained indicative debt ratings from two major debt rating agencies. Both agencies indicated that LTD Holding Company has the financial characteristics of companies whose debt has been rated investment grade. Sprint believes these same agencies will rate LTD Holding Company's debt investment grade at the time of separation, unless key financial measures of LTD Holding Company change in a meaningful way or the rating agencies apply subjective criteria not used to obtain the earlier indicative ratings. If both of these rating agencies do not rate LTD Holding

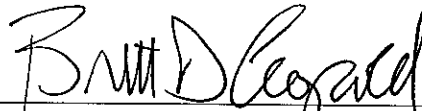
Company's debt investment grade at the time of separation, Sprint will demonstrate that its key financial measures which earlier garnered the positive indicative ratings have not changed in any meaningful way and would produce investment grade corporate credit ratings, absent subjective criteria applied by the credit rating agencies to derive their ratings. The methodology that will be used to make such a demonstration, if such a demonstration is necessary, is set out in Exhibit B.

Conclusion

WHEREFORE, Sprint respectfully requests the Commission accept Sprint's proposed alternative conditions and approve Sprint's Application to transfer control of Sprint Missouri, Inc., Sprint Long Distance, Inc., and Sprint Payphone Services, Inc. from Sprint Nextel Corporation to LTD Holding Company, Inc.

Respectfully submitted this 6th day of December, 2005,

Sprint Nextel Corporation



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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on this 6th day of December, 2005, a copy of the above and foregoing Application was served via electronic mail to each of the following:

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