

Embarq CORP

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S-1/A

AMENDMENT NO. 5 TO FORM S-1
Filed on 05/11/2006
File Number 333-131747



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As filed with the Securities and Exchange Commission on May 11, 2006.

Registration No. 333-131747

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

**AMENDMENT NO. 5
TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

Embarq Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

4813
(Primary Standard Industrial
Classification Code Number)

20-2923630
(I.R.S. Employer
Identification No.)

5454 W. 110th Street
Overland Park, Kansas 66211
(913) 323-4637

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Approximate date of commencement of proposed sale to public: As soon as practicable after the effective date of this Registration Statement.If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. _____**CALCULATION OF REGISTRATION FEE**

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Unit(1)	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
Senior Notes	\$4,485,000,000	100%	\$ 4,485,000,000	\$ 479,895(2)

(1) Estimated solely for the purpose of computing the registration fee pursuant to Rule 457(o) under the Securities Act of 1933.

(2) Previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment that specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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RISK FACTORS

You should carefully consider the risks described below, together with all of the other information included in this prospectus, before making an investment in the notes. If any of the risks described below actually occurs, our business, financial results and financial condition could be materially adversely affected.

Risk Factors Relating to the Spin-off

Our future financial performance may be worse than the performance reflected in our historical financial information included in this prospectus.

The historical financial information we have included in this prospectus may not reflect what our results of operations, financial position and cash flows would have been had we been an independent company during the periods presented or be indicative of what our results of operations, financial position and cash flows may be in the future when we are an independent company. This is primarily a result of the following three factors:

- our historical financial information reflects allocations for services historically provided by Sprint Nextel, and we expect these allocations to be different from the costs we will incur for these services in the future as a smaller independent company, including with respect to services provided by Sprint Nextel under the transition services agreements and other commercial service agreements. We expect that, in some instances, the costs incurred for these services as a smaller independent company will be higher than the share of total Sprint Nextel expenses allocated to us historically;
- our historical financial information does not reflect the debt and related interest expense (as shown on the pro forma contractual obligations table under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity”) that we will incur as part of the spin-off, including debt we will incur in order to transfer cash and issue securities to Sprint Nextel in consideration of Sprint Nextel’s transfer to us of the local telecommunications division assets; and
- the historical financial information does not reflect the increased costs associated with being an independent company, including changes that we expect in our cost structure, personnel needs, financing and operations of the transferred business as a result of the spin-off from Sprint Nextel (e.g., we may experience losses on our wholesale wireless operations following the spin-off), and from reduced economies of scale.

For these reasons, our future financial performance may be worse than the performance implied by the historical financial information we have presented in this prospectus.

For additional information about the past financial performance of our business and the basis of the presentation of the historical combined financial statements, see “Selected Combined Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Unaudited Pro Forma Combined Financial Information” and the historical combined financial statements and the accompanying notes included elsewhere in this prospectus.

We have no history operating as a separate public company on which you can evaluate our business strategy.

Historically, our business has been principally operated as one of Sprint Nextel’s business units, and therefore we have no operating history as a separate public company. Accordingly, there can be no assurance that our business strategy and operations will be successful on a stand-alone basis.

We may experience increased costs or decreased operational efficiencies as a result of our need to replace corporate functions previously provided by Sprint Nextel.

Sprint Nextel has historically performed many important corporate functions for our operations, including information technology support, treasury, accounting, finance and tax administration, human resources, legal, regulatory, public relations and strategic development functions. Following the spin-off, Sprint Nextel will

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provide support to us with respect to certain of these functions, including customer bill printing and mailing services, information technology application and support services, data center services and human resources helpdesk services, on a transitional basis for up to two years. We will need to replicate certain facilities, systems, infrastructure and personnel to which we will no longer have access after our spin-off from Sprint Nextel. These initiatives will be costly to implement. We estimate that capital expenditures and other costs associated with developing and implementing our own support functions, including information technology systems and infrastructure, in these areas will be approximately \$237 million.

In addition, there may be an adverse operational impact on our business as a result of the significant time of our management and other employees and internal resources that will need to be dedicated to building these capabilities during the first few years following the spin-off that otherwise would be available for other business initiatives and opportunities. When we begin to operate these functions independently, if we do not have in place adequate systems and business functions of our own, or obtain them from other providers, we may not be able to operate our company effectively and our profitability may decline.

Our profitability may be adversely affected when revenues for certain support functions that we will provide to Sprint Nextel on a transitional basis following the spin-off cease.

Following the spin-off, we will provide support to Sprint Nextel with respect to certain functions on a transitional basis for up to two years. Among the principal services that we will provide to Sprint Nextel are billing support services, field technician support for complex voice customers and information technology application services. Amounts paid by Sprint Nextel for these services are expected to be approximately \$30 million annually. Upon expiration of these transitional arrangements, we will need to replace such amounts with new revenue sources or otherwise reduce our cost structure appropriately or our profitability will suffer.

Our spin-off from Sprint Nextel could adversely affect our business and profitability due to our loss of Sprint Nextel's strong brand, reputation, capital base and purchasing power.

As a business unit of Sprint Nextel, we have marketed our products and services using the "Sprint" brand name and logo, and we believe the association with Sprint Nextel has provided us with preferred status among our customers and employees due to Sprint Nextel's:

- globally recognized brands;
- perceived high-quality products and services;
- strong capital base and financial strength; and
- significant purchasing power.

We may not be able to achieve or maintain comparable name recognition or status under our new brand, which could adversely affect our ability to attract and retain customers, resulting in reduced sales and revenues. Our separation from Sprint Nextel could also adversely affect our ability to attract and retain key employees. We will also incur substantial capital and other costs associated with launching and marketing our new brand. We may be required to change our marketing strategy to reflect the loss of the preferred brand status (e.g., we could determine to more aggressively price our services for high-speed Internet access and that strategy could result in lower profitability). In addition, we have historically benefited from Sprint Nextel's size and purchasing power in procuring goods and services. Following the spin-off, we may be unable to obtain goods and services at prices and on terms as favorable as those obtained before the spin-off, which could decrease our overall profitability.

If the distribution does not qualify as a tax-free transaction, tax could be imposed on Sprint Nextel stockholders.

Sprint Nextel received a private letter ruling from the Internal Revenue Service, or IRS, that the distribution will qualify for tax-free treatment under the Internal Revenue Code of 1986, as amended, or the Code, Sections 355 and 361. The private letter ruling was granted on July 20, 2005, in response to a request dated

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April 6, 2005. Certain additional information was provided to the IRS before and after the private letter ruling was received. In addition, Sprint Nextel intends to obtain, immediately before the distribution, an opinion of counsel from each of Cravath, Swaine & Moore LLP and Paul, Weiss, Rifkind, Wharton & Garrison LLP that the distribution will qualify for tax-free treatment. The receipt of the opinions is a condition to the distribution, which may be waived by Sprint Nextel in its discretion. If satisfactory opinions from counsel regarding the tax-free qualification of the distribution cannot be obtained, Sprint Nextel's board of directors would consider not completing the distribution. The IRS ruling relies, and the opinions will rely, on representations, assumptions and undertakings, including those relating to the past and future conduct of our business, and neither the IRS ruling nor the opinions would be valid if such representations, assumptions and undertakings were incorrect. Moreover, the IRS private letter ruling does not address all the issues that are relevant to determining whether the distribution will qualify for tax-free treatment. The issues not addressed by the private letter ruling consist primarily of issues on which the IRS customarily declines to rule. These issues are expected to be addressed by the opinions.

Notwithstanding the IRS private letter ruling and the opinions, the IRS could determine that the distribution should be treated as a taxable transaction if it determines that any of the representations, assumptions or undertakings that were included in the request for the private letter ruling is false or has been violated or if it disagrees with the conclusions in the opinions that are not covered by the IRS ruling. If the distribution fails to qualify for tax-free treatment, it will be treated as a taxable dividend to Sprint Nextel stockholders in an amount equal to the fair market value of our common stock issued to Sprint Nextel common stockholders.

If the distribution does not qualify as a tax-free transaction, tax could be imposed on Sprint Nextel and we may be required to indemnify Sprint Nextel for such tax.

For the reasons described in the preceding risk factor, the distribution may not be tax-free to Sprint Nextel. In that event, Sprint Nextel would be required to recognize gain in an amount up to the fair market value of our common stock that Sprint Nextel distributes on the distribution date plus the fair market value of the notes that Sprint Nextel receives from us. The treatment of the distribution for federal tax purposes is not dependent on the tax treatment of the Sprint Nextel merger.

Furthermore, events subsequent to the distribution could cause Sprint Nextel to recognize gain on the distribution. For example, under Code Section 355(e), even minimal acquisitions of either our equity securities or Sprint Nextel's equity securities that are deemed to be part of a plan or a series of related transactions that include the distribution and the Sprint Nextel merger could cause Sprint Nextel to recognize gain on the distribution.

Under the tax sharing agreement between Sprint Nextel and us, we are generally required to indemnify Sprint Nextel against any tax resulting from the distribution if such tax results from (1) an issuance of our equity securities, a redemption of our equity securities or our involvement in other acquisitions of our equity securities (excluding the distribution of our common stock in the spin-off), (2) other actions or failures to act by us or (3) any of our representations or undertakings being incorrect or violated. We estimate that if any of these conditions occurs the indemnification obligation to Sprint Nextel for taxes would be significant and we are unlikely to have the ability to pay that obligation.

We are agreeing to certain restrictions to preserve the tax-free treatment of the distribution to Sprint Nextel, which may reduce our strategic and operating flexibility.

To preserve the tax-free treatment to Sprint Nextel of the distribution, under a tax sharing agreement that we will enter into with Sprint Nextel, for specified periods of up to 30 months following the distribution, we may be prohibited, except in specified circumstances, from:

- issuing, redeeming or being involved in other acquisitions of our equity securities;
- transferring significant amounts of our assets;

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- amending our certificate of incorporation or bylaws;
- failing to maintain certain components of our business as an active business; or
- engaging in other actions or transactions that could jeopardize the tax-free status of the distribution.

These restrictions may limit our ability to pursue strategic transactions or engage in new business or other transactions that may maximize the value of our business. See “Agreements with Sprint Nextel—Tax Sharing Agreement.”

Following the spin-off, we will have substantial indebtedness, which could restrict our ability to pay dividends and have a negative impact on our financing options and liquidity position.

On or shortly before the distribution date, we expect to enter into a credit facility with certain financial institutions and, in connection with the spin-off, will transfer approximately \$2.1 billion in cash borrowed under the credit facility and issue the notes being offered by Sprint Capital under this prospectus to Sprint Nextel. As a result, on the distribution date we will have approximately \$7.25 billion of total debt outstanding and expect to have interest expense of approximately \$515 million annually.

The extent to which we are leveraged could:

- limit our ability to obtain additional financing in the future for working capital, capital expenditures and acquisitions;
- limit our ability to refinance our indebtedness on terms acceptable to us or at all;
- require us to dedicate a significant portion of our cash flow from operations to paying the principal of and interest on our indebtedness, thereby reducing funds available for other corporate purposes;
- make it more difficult for us to pay our anticipated cash dividends of \$75 million quarterly (or \$300 million annually) on our common stock; and
- make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures.

Our financing arrangements will subject us to various restrictions that could limit our operating flexibility.

We expect that our credit facility and other financing arrangements will contain covenants and other restrictions that, among other things, will require us to satisfy certain financial tests and maintain certain financial ratios and restrict our ability to incur additional indebtedness. In addition, both the indenture governing the notes and the credit facility will restrict our ability to create liens, which could limit our ability to incur additional indebtedness and restrict the ability of our subsidiaries to incur additional indebtedness. The restrictions and covenants in our anticipated financing arrangements, and in future financing arrangements, may limit our ability to respond to market conditions, provide for capital investment needs or take advantage of business opportunities by limiting the amount of additional borrowings we may incur. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity.”

The agreements that we are entering into with Sprint Nextel may involve, or may appear to involve, conflicts of interest.

Because the spin-off involves the separation of Sprint Nextel’s existing businesses into two independent companies, we are entering into certain agreements with Sprint Nextel to provide a framework for our initial relationship with Sprint Nextel following the spin-off. We have negotiated these agreements with Sprint Nextel while we are still a wholly owned subsidiary of Sprint Nextel. Accordingly, our executive officers and some of our directors were employees, officers or directors of Sprint Nextel or its subsidiaries at the time of the negotiations and, as such, had an obligation to serve the interests of Sprint Nextel and its subsidiaries. As a result, they could be viewed as having had a conflict of interest.

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Some of the agreements we are entering into with Sprint Nextel contain early termination provisions that, if exercised by Sprint Nextel, could be materially detrimental to our ability to operate our business.

We are entering into commercial service agreements with Sprint Nextel under which each company will obtain services from the other. Some of these agreements are subject to various restrictions and early termination provisions. For instance, we will market and sell our own branded wireless service under a wholesale agreement with Sprint Nextel. Although this agreement has a seven year term, Sprint Nextel has the right to terminate the agreement if we fail to meet subscriber targets within the first two years of the agreement, if we transfer more than 50% of our subscribers to another carrier or if a change of control of our company occurs. There are also certain restrictions that prevent us from transferring our base of wireless subscribers to another carrier. These restrictions may reduce our strategic and operating flexibility. Early termination of these agreements could have an adverse effect on our ability to operate our business.

We do not own or have a license to all technology that may be necessary to expand our product offerings, which could adversely affect our business and profitability.

We may need to obtain the right to use certain patents from Sprint Nextel or third parties to be able to offer new products and services. We have the right to use all of Sprint Nextel's existing patents only for a two-year period after the distribution date (although we do have the right to use the Sprint Nextel patents for business that we are conducting as of the distribution date for the life of those patents). If we cannot license or otherwise obtain rights to use any required technology from Sprint Nextel following that two-year period or from a third party on reasonable terms, our ability to offer new IP-based products and services, including VoIP (a technology that enables customers to make telephone calls using high-speed Internet access services), or other new offerings may be restricted, made more costly or delayed. Our inability to implement IP-based or other new offerings on a cost-effective basis could impair our ability to successfully meet increasing competition from companies offering integrated communications services, including cable operators and other service providers offering high-speed Internet services that can be used as a platform to support voice services utilizing VoIP. Our inability to deploy new technologies could also prevent us from successfully diversifying, modifying or bundling our service offerings and result in accelerated loss of access lines, customer usage and revenues or otherwise adversely affect our business and profitability. See "Agreements with Sprint Nextel—Patent Agreement."

Restrictions in the patent agreement that we are entering into with Sprint Nextel could adversely affect our ability to grow through acquisitions, be acquired or make divestitures.

Following the spin-off, if we grow by acquisitions to become more than twice our size at the time of the distribution, any new companies that we acquire, or operations that are integrated with new acquisitions, will not have the benefit of the patent agreement with Sprint Nextel. If we undergo a change of control and there is a functional integration of our operations with a third party we will lose the benefits of some or all of the patent agreement with Sprint Nextel. The benefits of that agreement do not extend to any parent company or any companies under common control with us. These limitations may make us less attractive as an acquisition candidate and reduce the value that an acquirer would be willing to pay for our business. Divestitures of our assets and operations could also be restricted because the benefits of the agreement would continue to apply only if divested operations or assets are isolated from the other members of the corporate group making the acquisition and only if the business is conducted in substantially the same manner and in substantially the same geographic area that it was conducted before the divestiture. These limitations may make our assets less attractive to a potential acquirer and could reduce the value that an acquirer would be willing to pay for the assets. See "Agreements with Sprint Nextel—Patent Agreement."

Risk Factors Relating to our Business

We face widespread competition that may reduce our market share and harm our financial performance.

We face significant competition from a number of different types of communications services providers, including wireless telephone service providers, Internet service providers, cable companies, companies that offer VoIP and competitive local exchange carriers, or CLECs.

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In particular, we face increasing competition from wireless telephone service providers. As wireless carriers continue to expand and improve their network coverage while lowering their prices, some customers choose to stop using traditional wireline phone service and instead rely solely on wireless service. We anticipate that this trend toward solely using wireless services will continue, particularly if wireless service rates continue to decline and the quality of wireless services improves. Technological developments in cellular telephone, personal communications services, digital microwave, satellite, broadband radio services, local multipoint distribution services, meshed wireless fidelity, or WiFi, and other wireless technologies are expected to permit the further development of alternatives to traditional wireline communications services.

We also face increasing competition from cable operators and other service providers offering high-speed Internet services that can be used as a platform to support voice services utilizing VoIP technology. As VoIP becomes a more robust and widely available service, existing competitors could become more formidable and new competitors could enter our markets.

Many of our current and potential competitors have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources greater than ours, and mergers or other combinations involving our competitors may increase this competitive factor. In addition, some of our competitors can conduct operations or raise capital at a lower cost than we can and are subject to less regulation, taxes or fees. Consequently, some competitors are able to charge lower prices for their products and services, to develop and expand their communications and network infrastructures more quickly, to adapt more swiftly to new or emerging technologies and changes in customer requirements, and to devote greater resources to the marketing and sale of their products and services than we can.

Competition may adversely impact our revenues and profits in several ways, including:

- the loss of customers and market share;
- the possibility of customers shifting to less profitable services;
- forcing us to lower prices or increase capital or marketing expenses to remain competitive; and
- increasing our need to incur additional costs in order to diversify by offering new products or services.

We face increased competition from companies offering integrated communication services.

The traditional dividing lines between providers of local and long distance telephone services and wireless, video, Internet and cable television services are increasingly becoming blurred, in part because of changes in the regulatory environment that have facilitated the offering of integrated services. Through mergers, joint ventures and various service expansion strategies, providers of competing communication services are increasingly able to provide integrated services in many of the markets we serve. If we are unable to offer integrated service offerings, we may not be able to compete successfully against competitors that offer more integrated service packages.

In recent years, we have broadened our service and product offerings in pursuit of our strategy of growing our share of communications spending by customers within our local service territories. As a business unit of Sprint Nextel, we bundled Sprint Nextel's long distance and CDMA-based wireless services, expanded high-speed Internet coverage and provided video capability with Echostar Communications Corp. Following the spin-off, we expect to continue to expand our high-speed Internet coverage and to continue our relationship with Echostar. We also expect to offer certain wireline services and CDMA-based wireless services through wholesale (such as the MVNO relationship) and sales agency relationships with Sprint Nextel. However, it may be more difficult for us to achieve our goal of continuing to enhance our customers' service experience with a single, clear invoice and integrated customer care for bundled services. We cannot assure you that we will be able to continue successfully our recent product diversification efforts.

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New technologies may be developed that could displace our service offerings.

We expect competition to intensify as new technologies, products and services are developed. Changes in technology may permit new entrants into the communications services marketplace, and as a result the future prospects of the incumbent wireline industry and the success of our services remain uncertain. We cannot predict which of many possible future technologies, products or services will be important for us to develop in order to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. To the extent we do not keep pace with technological advances or fail to timely respond to technology-driven changes in our industry, we could lose market share or experience a decline in revenue and net income.

We may not be able to compete successfully against Sprint Nextel, which has greater financial resources and superior brand recognition.

In addition to the competitive threats posed to us by other wireless carriers and cable operators, Sprint Nextel has stated publicly that it expects to pursue an aggressive strategy of serving as a wireless alternative to wireline service and to advance competition by, for example, pursuing alliances or joint ventures with cable operators that may have the effect of making the cable operators' voice offerings that compete with our services more attractive. To this end, Sprint Nextel recently announced a joint venture with several major cable operators that provide services that compete directly with those that we offer. As Sprint Nextel will be a substantially larger company with greater financial resources and superior brand recognition, we may not be able to compete successfully against Sprint Nextel or its alliances or joint ventures.

Our industry is highly regulated and continues to undergo various regulatory and legislative changes, which could adversely affect our prospects and results of operations.

As an ILEC, we have traditionally been subject to significant regulation from federal, state and local authorities and in many respects are subject to more extensive regulation than some of our competitors. This regulation imposes substantial compliance costs on us, restricts our ability to adjust rates to reflect market conditions and impacts our ability to compete and respond to changing industry conditions. In recent years, the communications industry has undergone various fundamental regulatory changes, including those resulting from federal and state legislation, that have generally permitted competition in each segment of the telephone industry, while also in some respects reducing the regulation of ILECs. These and subsequent regulatory and legislative changes could adversely affect us by reducing the switched access charges that we are permitted to charge customers for use of our network to originate and terminate calls, altering our tariff structures, or otherwise changing the nature of our operations and competition in our industry. In particular, Congress and state legislatures may enact laws, and the Federal Communications Commission, or FCC, and state regulatory commissions may adopt new regulations or take other actions that could adversely affect our business prospects or results of operations.

The regulatory uncertainty surrounding VoIP and the apparent use of VoIP by some CLECs, long distance carriers and wireless carriers as a strategy to minimize access charges may adversely affect our access revenues. Adoption by the FCC of intercarrier compensation reform could reduce or eliminate other opportunities for access charge arbitrage, but could also reduce our revenues unless the plan provides a feasible mechanism to replace those revenues with revenues from other sources. Depending on its outcome, the FCC's recently instituted proceeding regarding regulation of rates for dedicated special access services that we sell to other carriers could affect what we charge for those services in the future.

Similarly, recent rule changes that permit customers to retain their wireline or wireless numbers when switching to another service provider could increase the number of our customers who choose to disconnect their wireline service and rely exclusively on their wireless service for their communications needs. Other pending rulemakings could also have a substantial impact on our operations, including in particular rulemakings on intercarrier compensation and universal service. In addition, various federal legislative proposals are pending that

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could substantially alter universal service support mechanisms, which could adversely affect the operating income we derive from those sources. Litigation and different objectives among federal and state regulators could create uncertainty and delay our ability to respond to new regulations. Moreover, changes in tax laws, regulations or policies could increase our tax rate. We are unable to predict the future actions of Congress, state legislatures and the various regulatory bodies that govern us, but those actions could materially affect our business.

Due to competitive, technological and regulatory changes, we cannot assure you that our core business will grow, and it could decline, which could have an adverse effect on our business and future prospects.

Due to the competitive, technological and regulatory changes described above, the local communications industry has recently experienced a decline in access lines, interstate and intrastate access traffic and long distance traffic. The recent decline in access lines and usage, coupled with the other changes resulting from competitive, technological and regulatory developments, could materially adversely affect our core business and future prospects. We anticipate that expected increases in our data revenue will be partially offset by continued declines in revenues from traditional voice services. Our access lines declined 4.1%, 2.9% and 2.2% in 2005, 2004 and 2003, respectively, and declined 4.9% at March 31, 2006 compared to March 31, 2005. Due to competitive factors we expect access line loss to continue.

We may not keep all of the long distance customers that are transferred to us by Sprint Nextel.

As part of the separation, we expect Sprint Nextel will, subject to state and federal regulatory approvals, transfer to our long distance subsidiary all of Sprint Nextel's switched long distance consumer customers, certain of its switched long distance business customers and certain IP data customers, which, in any case, reside or are headquartered in our local service territories. We are required by applicable regulations to provide the affected customers with notice of the transfer, and in the case of consumer customers, we must also provide them with an opportunity to opt out of the transfer. To the extent that customers opt out of the transfer or switch to competitive carriers following the transfer, our revenues and profitability could be adversely affected.

Our capital raising may adversely affect holders of the notes by increasing our leverage and reducing our credit ratings.

In addition to the new financing arrangements we expect to enter into as part of the spin-off, we may need to incur additional debt or issue securities in order to fund working capital needs, capital expenditures and product development requirements or to make acquisitions and other investments. Due to limitations in our tax sharing agreement, for specified periods of up to 30 months following the distribution date, any additional capital we seek to raise may have to be in the form of debt, which could increase our leverage and reduce our credit ratings.

We may not have access to capital on acceptable terms, and if we are not able to obtain sufficient financing, we may be unable to maintain or grow our business.

Following the spin-off, our credit ratings are expected to be lower than the current ratings of Sprint Nextel. Differences in credit ratings affect the interest rate charged on financings, as well as the amounts of indebtedness and types of financing structures that may be available to us. Regulatory restrictions and the terms of our indebtedness limit our ability to raise capital through our subsidiaries, pledge the stock of our subsidiaries, encumber the assets of our subsidiaries and cause our subsidiaries to guarantee our indebtedness. We may not be able to raise the capital we require on acceptable terms, if at all. If we are not able to obtain sufficient financing, we may be unable to maintain or grow our business. In addition, our financing costs may be higher than they were as part of Sprint Nextel as reflected in our historical financial statements. Further, issuances of equity securities will be subject to limitations imposed on us in the tax sharing agreement that we will enter with Sprint Nextel.

A significant portion of our workforce is unionized, and if we are unable to reach new agreements before our current labor contracts expire, our unionized workers could engage in strikes or other labor actions that could materially disrupt our ability to provide services to our customers.

As of December 31, 2005, we had approximately 14,500 active employees. Approximately 7,000 of these employees (48%) were represented by unions which are subject to collective bargaining agreements. We expect

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to have approximately 20,000 employees at the time of the spin-off. This expected increase is primarily the result of the transfer of Sprint Nextel employees, who perform corporate headquarters functions, to our company, as well as some external hiring.

Each year, a portion of our labor agreements expire pursuant to their terms and we negotiate the terms of new agreements. In 2006, the contracts governing approximately 29% of the union workforce lapse and are scheduled to be renegotiated. We cannot predict the outcome of these negotiations. We may be unable to reach new agreements, and union employees may engage in strikes, work slowdowns or other labor actions, which could materially disrupt our ability to provide services. New labor agreements may impose significant new costs on us, which could adversely affect our financial condition and results of operations in the future.

We face hurricane and other natural disaster risks, which can disrupt our operations and cause us to incur substantial additional capital costs.

Approximately 52% of our access lines are located in Florida, North Carolina, South Carolina and Texas, and our operations there are subject to the many hazards inherent in being located in areas frequently hit by severe storms, hurricanes and tornadoes, including downed telephone lines, power-outages, destroyed property and equipment, and work interruptions. For example, during 2004 when numerous major hurricanes hit our local service territories, we incurred approximately \$60 million of incremental labor and material costs related to service restoration and network repairs.

Although we maintain property and casualty insurance and may under certain circumstances be able to seek recovery of some additional costs through increased rates, only a portion of our additional costs directly related to the hurricanes in 2004 and 2005 was recoverable. We cannot predict whether we will continue to be able to obtain insurance for hurricane-related damages or, if obtainable and carried, whether this insurance will be adequate to cover our liabilities. In addition, we expect any insurance of this nature to be subject to substantial deductibles and to provide for premium adjustments based on claims. Any future hurricane-related costs and work interruptions could adversely affect our operations in the South and our financial condition.

Our designated executive team has not previously worked together to lead an independent company, and any inability of members of the executive team to work together effectively or the loss of any of them could adversely affect our performance.

While the persons expected to be our executive officers have significant industry experience, some do not have extensive operating experience with the incumbent local communications operations of Sprint Nextel, and they have not worked together as managers of an independent, stand-alone company. As a separate company, we will have substantially fewer resources than Sprint Nextel. Our success will depend, in part, on the ability of our executives to work effectively as a team in this new environment. Any inability of our executive officers to work together effectively or the loss of any of them could impair our operational and financial performance.

Risk Factors Relating to the Notes

We may be unable to pay interest on or repay the notes. We will be a holding company and our subsidiaries will have no obligations to the holders of the notes. The debt of our subsidiaries will be effectively senior to the notes.

The notes will mature on _____, 2013, _____, 2016 and _____, 2036, respectively. In addition, we will be obligated to pay interest on the notes semiannually on _____ and _____ each year, beginning on _____, 2006. On the distribution date, we will have approximately \$7.25 billion of total debt outstanding, including the notes, and expect to have interest expense of approximately \$515 million annually. Our ability to make these payments will depend in part on our cash flow. Following the spin-off, we will conduct substantially all of our business through our subsidiaries. Our cash flow and, consequently, our

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ability to pay interest in cash and to service our debt, including the notes, will be dependent upon the cash flow of our subsidiaries and the payment of funds to us by those subsidiaries in the form of loans, dividends or otherwise. See “Unaudited Pro Forma Combined Financial Information.” Our subsidiaries will be separate and distinct legal entities and will have no obligation, contingent or otherwise, to pay any amounts due on the notes or to make cash available for that purpose. These subsidiaries may use the earnings they generate, as well as their existing assets, to fulfill their own direct debt service requirements. As of December 31, 2005, these subsidiaries had outstanding indebtedness of approximately \$1.125 billion, of which approximately \$665 million will remain outstanding to third parties as of the distribution date. Our subsidiaries may incur additional debt. The debt of our subsidiaries will be effectively senior to the notes.

There are limited restrictive covenants in the indenture governing the notes relating to our ability to incur future indebtedness, pay dividends or engage in other activities, which could adversely affect our ability to pay our obligations under the notes.

The indenture governing the notes does not contain any financial covenants and contains only limited restrictive covenants. The indenture will not limit our or our subsidiaries’ ability to incur additional indebtedness, issue or repurchase securities, pay dividends or engage in transactions with affiliates. We, therefore, may pay dividends and incur additional debt, including secured indebtedness in certain circumstances or indebtedness by, or other obligations of, our subsidiaries to which the notes would be structurally subordinate. Our ability to incur additional indebtedness and use our funds for numerous purposes may limit the funds available to pay our obligations under the notes.

There may not be a public market for the notes.

The notes constitute a new issue of securities with no established trading market. We do not intend to list the notes on any securities exchange or to include the notes in any automated quotation system. Accordingly, no market for the notes may develop, and any market that develops may not last. If the notes are traded, they may trade at a discount from their offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors. To the extent that an active trading market does not develop, you may not be able to resell your notes at their fair market value or at all.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus. These forward-looking statements relate to our outlook or expectations for earnings, revenues, expenses, asset quality or other future financial or business performance, strategies or expectations, or the impact of legal, regulatory or supervisory matters on our business, results of operations or financial condition. Specifically, forward-looking statements may include:

- statements relating to our plans, intentions, expectations, objectives or goals, including those relating to the establishment of our new brand and the benefits of the spin-off;
- statements relating to our future economic performance, business prospects, revenue, income and financial condition following the spin-off, and any underlying assumptions relating to those statements; and
- statements preceded by, followed by or that include the words “estimate,” “plan,” “project,” “forecast,” “intend,” “expect,” “anticipate,” “believe,” “seek,” “target” or similar expressions.

These statements reflect our management’s judgment based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. With respect to these forward-looking statements, our management has made assumptions regarding, among other things, customer and network usage, customer growth and retention, pricing, operating costs, technology and the economic and regulatory environment.

Future performance cannot be ensured. Actual results may differ materially from those in the forward-looking statements. Some factors that could cause our actual results to differ include:

- expected benefits from the spin-off may not be fully realized;
- our revenues and operating costs may be different than expected following the spin-off;
- our ability to establish our new brand;
- a determination by the IRS that the distribution should be treated as a taxable transaction;
- our different capital structure as an independent company, including our access to capital, credit ratings, indebtedness and ability to raise additional financing;
- volatility in the securities market;
- the effects of vigorous competition in the markets in which we operate;
- the effects of other mergers and consolidations in the industries relevant to our operations and unexpected announcements or developments from others in those industries;
- the costs and business risks associated with providing new services and entering new markets;
- the impact of new, emerging or competing technologies on our business;
- the impact of any adverse change in the ratings assigned to our debt by ratings agencies on the cost of our financing and our ability to raise additional financing if needed;
- the uncertainties related to our investments in networks, systems and other businesses;
- the uncertainties related to the implementation of our business strategies;
- unexpected results of litigation filed against our company;
- the impact of equipment failure, natural disasters, terrorist acts or other breaches of network or information technology security;
- inability of third parties to perform to our requirements under agreements related to our business operations;

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- the costs of compliance with regulatory mandates;
- the possibility of one or more of the markets in which we compete being impacted by changes in political or other factors, such as monetary policy, legal and regulatory changes or other external factors over which we have no control; and
- other risks referenced from time to time in our future filings with the SEC and those factors listed under “Risk Factors.”

You are cautioned not to place undue reliance on any forward-looking statements, which speak only as of the date of this prospectus. Except as required by law, we undertake no obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events.