Embarq CORP
Form FWP
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Table of Contents

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EMBARQ CORPORATION PROVIDES FINANCIAL OUTLOOK FOR 2006

Overland Park, KS May 4, 2006 Embarq Corporation (NYSE: EQ WI), the new company formed in connection with Sprint Nextel Corporation s (NYSE: S) spin-off of its local communications business, today provided its financial outlook for 2006. The spin-off of Embarq is expected to be completed on May 17, 2006.

Historical operating results for the businesses comprising Embarq have been previously reported in three different manners. Each form of reporting was necessary for compliance with generally accepted accounting principles and the requirements of the Securities and Exchange Commission (SEC). A reconciliation of these forms of reporting is provided in the attached tables.

Local Segment Results reported on this basis represent the performance of the local operations as managed and reported by Sprint Nextel.

Embarq Historical Results reported on this basis represent the combined performance of the specific legal entities that will be spun-off from Sprint Nextel. The performance of these entities for the periods reported in Embarq s Form 10 and Form S-1 filings does not include in-territory residential long distance results that were included in the Local Segment reporting defined above.

Embarq Pro Forma Results reported on this basis represent Embarq Historical reporting, as defined above, adjusted to reflect the operations as if the spin-off had occurred on January 1, 2005. Pro forma adjustments include such items as the transfer of in-territory residential and business long distance customers from Sprint Nextel to Embarq, the contribution by Sprint Nextel of shared assets, and the apportionment of defined benefit plan assets and liabilities between Sprint Nextel and Embarq. Consistent with SEC regulations, Embarq s 2005 pro forma financial information does not include adjustments to reflect the higher levels of non-recurring separation expenses and incremental expenses associated with corporate support functions that the company expects to incur in 2006.

Table of Contents

2006 Guidance

As an independent company, Embarq expects its 2006 performance to be influenced by several key factors.

Continued competition from wireless providers and increasing competition from cable providers are expected to drive an increased level of access line losses in 2006. On a year-over-year basis, access lines are expected to decline between 5.5% and 7.5%.

Refreshed offers and more focused marketing programs are expected to drive strong high-speed Internet subscriber growth in 2006. On a year-over-year basis, high-speed Internet lines in service are expected to increase by approximately 40%, however, the resulting increase in data revenue will be partially offset by up-front selling and installation costs.

The launch of MVNO wireless service under the EMBARQ™ brand is expected to make a small contribution to revenue in 2006, but is expected to be dilutive to earnings due to up-front customer acquisition costs.

Product distribution revenues are expected to decline in 2006 as a result of the spin-off from Sprint Nextel and the exit from certain low margin customer markets. This revenue decline is not expected to have a material effect on earnings.

Annual expenses associated with corporate support functions are expected to increase by approximately $80 million in 2006. The increase in these expenses is expected to grow to $100 million per year by 2008.

Non-recurring separation expenses, which include costs associated with launching the EMBARQ™ brand and establishing information technology systems, are expected to increase by $100 million to approximately $125 million in 2006.

Productivity improvements in Embarq s core operations are expected to partially offset the net negative impact of the items outlined above. In light of these factors, Embarq expects net operating revenues to decline from $6.7 billion in 2005, as reported on a pro forma basis, to between $6.4 billion and $6.5 billion in 2006. Operating income is expected to decline from the 2005 pro forma level of $1.76 billion to between $1.45 billion and $1.55 billion in 2006. Depreciation and amortization in 2006 is expected to be approximately $1.05 billion. This guidance assumes the spin-off occurred on January 1, 2006 and is provided for the purpose of evaluating trends in Embarq s operating performance. As indicated above in the description of Embarq Pro Forma reporting, 2005 operating income reported on a pro forma basis includes lower levels of both non-recurring separation expenses and incremental expenses associated with corporate support functions than are included in Embarq s 2006 operating income estimates.

Table of Contents

In the 2006 results that will be reflected in its 2006 Form 10-K, Embarq expects to report net operating revenues of $6.2 billion to $6.3 billion, compared to $6.3 billion in 2005 reported on an Embarq Historical basis. Reported operating income is expected to decline from the 2005 Embarq Historical level of $1.55 billion to between $1.35 billion and $1.45 billion in 2006. Reported depreciation and amortization in 2006 is expected to be approximately $1.01 billion. This guidance assumes the spin-off occurs on May 17, 2006. The primary difference between the 2006 results expected to be reported in Embarq s 2006 Form 10-K and the guidance referenced in the paragraph above is that the 2006 results expected to be reported in Embarq s 2006 Form 10-K will not include in-territory residential or business long distance results for the periods prior to and including May 17, 2006.

Registration Statements

Embarq has filed a registration statement (including a prospectus) with the SEC (File No. 333-131747) for the registered public offering of senior notes, to which this communication relates. Before you invest in that offering, you should read the prospectus in that registration statement and other documents Embarq has filed with the SEC for more complete information about Embarq and the offering. You may obtain these documents free of charge by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, the issuer will arrange to send to you the prospectus if you request it by calling toll-free 1-866-591-1964.

You may review the most recent prospectus for the offering of senior notes filed with the SEC prior to the date of this release by clicking here: http://www.sec.gov/Archives/edgar/data/1350031/000119312506099225/ds1a.htm

Embarq has filed a registration statement (including a prospectus) with the SEC (File No. 333-133343) for restricted stock and restricted stock units to be issued to Sprint Nextel employees, to which this communication relates. Such employees should read the prospectus in that registration statement and other documents Embarq has filed with the SEC for more complete information about Embarq and the offering. You may obtain these documents free of charge by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, the issuer will arrange to send to you the prospectus if you request it by calling toll-free 1-866-591-1964.

You may review the most recent prospectus for the restricted stock and restricted stock units filed with the SEC prior to the date of this release by clicking here: http://www.sec.gov/Archives/edgar/data/1350031/000119312506099236/ds1a.htm

Table of Contents

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

The matters discussed in this document that are not historical or current facts deal with potential future circumstances and developments, in particular relating to future business developments and financial results. This discussion is qualified by the inherent risks and uncertainties surrounding future events generally and also may differ materially from actual future experience involving any one or more of such matters. Such risks and uncertainties include: the receipt of satisfactory tax opinions, the effect of the spin-off on future operations and financial results, and the risks that are described in the sections entitled Risk Factors and Cautionary Statement Regarding Forward-Looking Statements contained in the Registration Statement on Form S-1 of Embarq, as filed with the Securities and Exchange Commission on February 10, 2006, as amended. In addition to the factors mentioned above and within the Registration Statement on Form S-1, economic, competitive, regulatory, technological, capital market and other factors could affect the forward-looking statements in this document. Forward-looking statements speak only as of the date they were made, and Embarq undertakes no obligation to update or revise any forward-looking statements in light of new information or future events.

About Embarq

Following the completion of its spin-off from Sprint Nextel, Embarq will provide a suite of communications services, consisting of local and long distance voice and data services, including high-speed Internet access to consumer, business and wholesale customers. Embarq will also provide wireless, entertainment, logistics and other communications-related services and equipment. The company will have approximately 20,000 employees at the time of its spin-off from Sprint Nextel and expects to be listed on the NYSE and rank among the Fortune 500.

Table of Contents

Embarq Corporation

Statements of Operations

Reconciliation of Sprint Nextel Local Segment to Embarq Results

(Unaudited, in millions)

2005	Local Segment	Residential Long Distance	Deprec. Reclass	Corporate Allocations & Other	Embarq Historical	Residential & Business LD	Pension	Shared Assets / Liabilities	Other	Embarq Pro Forma
Voice	$ 4,335	$ (333)	$	$ 1	$ 4,003	$ 528	$	$	$ 5	$ 4,536
Data	983				983				8	991
Other	1,209	59			1,268	(94)				1,174
Operating Revenues	6,527	(274)		1	6,254	434			13	6,701
Cash Expenses	3,679	(176)	122	98	3,723	300	(15)	(147)	8	3,869
Depreciation	1,090		(122)	11	979			90	1	1,070
Operating Income	$ 1,758	$ (98)	$	$ (108)	$ 1,552	$ 134	$ 15	$ 57	$ 4	$ 1,762
Capital Expenditures	$ 857	$	$	$ (29)	$ 828					

2004	Local Segment	Residential Long Distance	Deprec. Reclass	Corporate Allocations & Other	Embarq Historical
Voice	$ 4,498	$ (342)	$	$ 1	$ 4,157
Data	833				833
Other	1,090	60		(1)	1,149
Operating Revenues	6,421	(282)			6,139
Cash Expenses	3,596	(173)	114	40	3,577
Depreciation	1,089		(114)	(3)	972
Operating Income	$ 1,736	$ (109)	$	$ (37)	$ 1,590
Capital Expenditures	$ 1,018	$	$	$ (43)	$ 975

2003	Local Segment	Residential Long Distance	Deprec. Reclass	Corporate Allocations & Other	Embarq Historical
Voice	$ 4,654	$ (384)	$	$ (2)	$ 4,268
Data	730				730
Other	1,102	59			1,161
Operating Revenues	6,486	(325)		(2)	6,159
Cash Expenses	3,577	(174)	97	51	3,551
Depreciation	1,089		(97)		992

Operating Income	**$**	**1,820**	$	(151)	$		$	(53)	**$**	**1,616**
Capital Expenditures	**$**	**1,201**	$		$		$	(83)	**$**	**1,118**

Table of Contents

As filed with the Securities and Exchange Commission on May 4, 2006.

Registration No. 333-131747

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

Embarq Corporation

(Exact name of registrant as specified in its charter)

Delaware	4813	20-2923630
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(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)

Claudia S. Toussaint, Esq.

Vice President Corporate Governance

and Ethics, and Corporate Secretary

Embarq Corporation

5454 W. 110th Street

Overland Park, Kansas 66211

(913) 794-1513

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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New York, New York 10004

(212) 558-4000

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.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 4, 2006

PROSPECTUS

$4,485,000,000

Embarq Corporation

$1,495,000,000 % Notes due 2013

$1,495,000,000 % Notes due 2016

$1,495,000,000 % Notes due 2036

We are currently a subsidiary of Sprint Nextel Corporation. Sprint Nextel has determined to spin off our company by distributing all of our common stock to its stockholders as a dividend. In connection with the spin-off, we will issue to Sprint Nextel $1,495,000,000 aggregate principal amount of % Notes due 2013, $1,495,000,000 aggregate principal amount of % Notes due 2016, and $1,495,000,000 aggregate principal amount of % Notes due 2036. Sprint Nextel intends to transfer these notes to Sprint Capital Corporation, its wholly owned subsidiary, which intends to sell the notes. In connection with the offering of the notes, each of Sprint Nextel and Sprint Capital is an underwriter within the meaning of the Securities Act of 1933. We will not receive any of the proceeds from the sale of the notes being offered.

The 2013 notes will mature on , 2013, the 2016 notes will mature on , 2016, and the 2036 notes will mature on , 2036. We will pay interest on the notes semiannually on and of each year, beginning on , 2006. We may redeem some or all of the notes as discussed under the caption Description of the Notes Optional Redemption. The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior unsecured indebtedness. The notes will effectively rank junior to all indebtedness and other liabilities of our subsidiaries.

We do not intend to list the notes on any exchange or to include the notes in any automated quotation system.

See Risk Factors beginning on page 13 for a discussion of the factors that you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public Offering Price	Underwriting Discounts	Proceeds to Sprint Capital
Per 2013 note	%	%	%
Total	$	$	$
Per 2016 note	%	%	%
Total	$	$	$
Per 2036 note	%	%	%
Total	$	$	$
Combined Total (before expenses)	$	$	$

Interest on the notes, if any, will accrue from , 2006 to the date of delivery. The underwriters expect to deliver the notes through the facilities of The Depository Trust Company against payment in New York, New York on , 2006, which is expected to be the business day following the distribution date.

Bear, Stearns & Co. Inc. **Goldman, Sachs & Co.** **Lehman Brothers**

The date of this prospectus is , 2006.

Table of Contents

TABLE OF CONTENTS

You should not assume that the information contained in this prospectus is accurate as of any date other than the date set forth on the cover. Changes to the information contained in this prospectus may occur after that date, and we undertake no obligation to update the information, except in the normal course of our public disclosure obligations and practices. You should be aware of certain risks relating to the spin-off, our business and ownership of the notes, which are described under the heading Risk Factors.

Table of Contents

SUMMARY

This summary highlights selected information contained in this prospectus. We urge you to read carefully this prospectus in its entirety. Except as otherwise indicated, references in this prospectus to Embarq, we, us or our are to Embarq Corporation and its subsidiaries. Effective August 12, 2005, Nextel Communications, Inc., which we refer to as Nextel, merged with and into a subsidiary of Sprint Corporation. Following the merger, which we refer to as the Sprint Nextel merger, Sprint changed its name to Sprint Nextel Corporation, which we refer to as Sprint Nextel. References in this prospectus to Sprint are to Sprint Corporation before the completion of the Sprint Nextel merger. References in this prospectus to Sprint Capital are to Sprint Capital Corporation, a wholly owned subsidiary of Sprint Nextel.

Our Company

We are a new company that, following the spin-off, will own the incumbent local communications operations conducted by Sprint Nextel and reported as its Local segment in its financial statements. The spin-off is a transaction that involves two general steps. First, Sprint Nextel will transfer to us assets consisting primarily of Sprint Nextel s incumbent local communications operations. In exchange for, and as a condition to, the transfer of assets and assumption by us of certain liabilities, Sprint Nextel will receive (1) shares of common stock of our company and (2) the notes being offered by Sprint Capital under this prospectus and the cash proceeds of our new borrowings, in an aggregate amount of approximately $6.6 billion. Secondly, Sprint Nextel will distribute pro rata to its stockholders shares of our common stock. We refer to this last step as the distribution. The distribution date for the distribution is expected to occur on or about May 17, 2006. As a result of the spin-off, we will become a separate public company, although we will continue to have a number of significant commercial arrangements with Sprint Nextel. Following the spin-off, we expect to be included in the *Fortune* 500 list based on our historic revenues and those of other companies included in the most recent version of that list.

We offer regulated local communications services as an incumbent local exchange carrier, or ILEC, to roughly 5% of U.S. households, with approximately 7.26 million consumer and business access lines, as of March 31, 2006. Following the spin-off, we will provide a suite of communications services, consisting of local and long distance voice and data services, including high-speed Internet access. We also expect to provide access to our local network and other wholesale communications services for other carriers, communications equipment for business markets, and other communications-related services. Following the spin-off, we expect to provide code division multiple access, or CDMA, based wireless voice and data services in most of our local service territories to consumers and small business customers through a non-exclusive wholesale arrangement involving a mobile virtual network operator, or MVNO, relationship, with Sprint Nextel. We also expect to offer certain wireline voice and data, wireless and video services through sales agency and other wholesale agreements.

Following the spin-off, we expect to have total indebtedness of approximately $7.25 billion. A portion of this debt is currently outstanding, and we will incur the remainder, approximately $6.6 billion, in connection with the spin-off. We intend to transfer the cash proceeds of the new indebtedness and issue the notes being offered by Sprint Capital under this prospectus in partial consideration for the assets to be transferred to us by Sprint Nextel in the spin-off. The transfer of the assets is conditioned on our incurrence of the new indebtedness and making the related transfers to Sprint Nextel.

We will continue to serve our local service territories, which are located in 18 states. We have a significant presence in Florida, North Carolina, Nevada and Ohio (these four states represent nearly two-thirds of all of our access lines). The remaining states (in order of number of access lines) are: Virginia, Pennsylvania, Texas,

Table of Contents

Indiana, Missouri, Tennessee, New Jersey, Minnesota, Kansas, South Carolina, Washington, Oregon, Nebraska and Wyoming.

Our Strengths

We believe our strengths will enable us to continue to generate cash flow and to grow new streams of revenue by diversifying our offerings, such as high-speed Internet services, while also allowing us to focus our efforts on minimizing the loss of access lines in our traditional local wireline business. Our principal strengths include:

Longstanding customer relationships

As the incumbent provider of communications services in our local service territories, we have developed longstanding customer relationships. Based on our estimates, we provide communications services to approximately 85% of the total potential customers in our local service territories, which we define to include potential customers who purchase local wireline services or wireless services in lieu of wireline. We manage our service offerings at the local level to serve the needs of each community effectively and efficiently.

Pre-existing network infrastructure

As the incumbent provider of communications services in our local service territories, we have a network infrastructure already in place to serve our customers current needs and that can also serve as the foundation for offering new services to meet our customers evolving needs.

Ability to offer a wide array of bundled services

We believe that following the spin-off, we will be among the few communications service providers in many of the markets we serve that can provide a suite of services to both consumers and business customers that includes wireline voice services, high-speed data, consumer video entertainment services, and communications equipment for business customers. We plan to expand our service offerings by providing CDMA-based wireless voice and data services to our consumers and business customers in our local service territories through our MVNO and sales agency relationships with Sprint Nextel. We seek to maximize profitable communications services revenue per customer through the convenience and cost savings of using a single provider for a broad suite of services. By offering a bundled package of products and services, we have improved our long distance and high-speed Internet services penetration, resulting in increased revenue and lower customer churn, which have helped to offset revenue decreases driven by continuing declines in access lines and product substitution. Going forward, we expect to go beyond merely bundling services by offering truly integrated or converged services and we believe that, combined with the modernization of our networks (such as by circuit to packet migration) and support systems, this will allow us to be more competitive and thereby achieve a greater market share.

Favorable demographics

The annual growth in number of households in our local service territories has averaged approximately 1.8% over the three years ended December 31, 2005, compared to the national average over that period of approximately 1.3%. Our local service territories cover all or part of six of the 20 fastest growing metropolitan statistical areas, or MSAs, based on the 2000 census. Approximately 29% of our access lines as of December 31, 2005 were in those MSAs.

2

Table of Contents

Service and product expertise

We believe that our strong heritage provides a solid foundation for the continued development and delivery of cost-effective products and services. We intend to build on the core strengths of our business to fulfill our mission of providing high quality, cost-effective products and services and innovations that address our customers communications needs.

Experienced management team

We have a senior management team with experience managing the expansion of communications companies, including experience at Sprint.

Business Strategy

Our strategy is to maximize profitable communications services revenue per customer by selling integrated and bundled products and services and meeting the needs of our consumers and business and wholesale customers within our local service territories. Four key goals will support this strategy:

- Provide useful products and solutions to attract and retain customers by marketing integrated service offerings including video and wireless services, expanding high speed Internet coverage, developing simplified products that meet our customers needs and updating our networks to provide Internet Protocol, or IP, based services such as Voice over Internet Protocol, or VoIP;
- Improve customer experience and perception of service and product offerings by providing customers with simplified billing, maintaining service quality and reliability, expanding our distribution channels, providing competitively priced services and using our local market knowledge and experience to provide customers with superior service.
- Manage costs by implementing process improvements, focusing our network investment in areas that support enhanced services including high-speed network facilities, improving the efficiency and effectiveness of our customer support operations and simplifying our information technology, or IT, support systems.
- Maintain a customer-focused culture that encourages high performance and employee satisfaction by maintaining our commitment to the communities we serve, providing innovative and competitive services while providing an exceptional customer experience, making Embarq a great place to work by improving employee communication, and aligning management and employee incentives and compensation plans.

We describe in this prospectus the local communications business to be transferred to us by Sprint Nextel in the spin-off as if it were our business for all historical periods described. However, we are a newly formed entity. References in this document to our historical assets, liabilities, products, business or activities generally refer to the historical assets, liabilities, products, business or activities of the transferred business as it was conducted as part of Sprint Nextel and its subsidiaries before the spin-off. Our historical financial results as part of Sprint Nextel contained in this prospectus may not be indicative of our financial results in the future as an independent company or reflect what our financial results would have been had we been an independent company during the periods presented.

Our principal executive offices are located at 5454 W. 110th Street, Overland Park, Kansas 66211 and our main telephone number is (913) 323-4637. We were incorporated in Delaware in 2005.

Table of Contents

The Spin-off

Assets and Liabilities Transferred to Embarq	We and Sprint Nextel have entered into a separation and distribution agreement that contains the key provisions relating to the separation of our business from Sprint Nextel and the distribution of our shares of common stock. The separation and distribution agreement identifies the assets to be transferred, liabilities to be assumed and contracts to be assigned to us by Sprint Nextel in the spin-off and describes when and how these transfers, assumptions and assignments will occur. See Agreements with Sprint Nextel Separation and Distribution Agreement.
Relationship with Sprint Nextel After the Spin-off	Before the distribution date, we and Sprint Nextel will also enter into agreements to define the initial relationship between Sprint Nextel and us with respect to a number of services that will be provided. We are entering into commercial service agreements with Sprint Nextel pursuant to which we will purchase certain wireless and long distance services from Sprint Nextel to support our business and Sprint Nextel will purchase special access, calling number identification and other services from us. The commercial service agreements that we are entering into with Sprint Nextel have terms that generally extend from two to seven years and, in certain circumstances, may be terminated earlier by us or Sprint Nextel.
	We have also entered into transition services agreements under which we and Sprint Nextel will provide each other certain services on an interim basis.
	We and Sprint Nextel will also enter into an agreement providing for the sharing of taxes incurred before and after the distribution, certain indemnification rights with respect to tax matters and certain restrictions to preserve the tax-free status of the distribution to Sprint Nextel.
	See Risk Factors Risk Factors Relating to the Spin-off The agreements that we are entering into with Sprint Nextel may involve, or may appear to involve, conflicts of interest and 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. See also Agreements with Sprint Nextel.
Management of Embarq	In connection with the spin-off, we have established a board consisting of eight initial directors. After the initial term, directors will be elected each year at our annual meeting of stockholders. See Management Board Structure.
	Our executive officers will continue to serve in their respective designated capacities after the spin-off. See Management Directors and Executive Officers.

4

Table of Contents

Debt	Effective as of the distribution date, we will enter into a credit facility with certain financial institutions. On the distribution date, we expect to transfer to Sprint Nextel approximately $6.6 billion in the form of cash and the notes being offered by Sprint Capital under this prospectus in partial consideration of Sprint Nextel s transfer to us of the local telecommunications division and wholesale product distribution operations and the consumer and certain business long distance customers located in our local service territories. Although the allocation of that consideration paid to Sprint Nextel may be adjusted, we currently expect that we will issue to Sprint Nextel the notes in an aggregate initial principal amount of approximately $4.5 billion and transfer to Sprint Nextel approximately $2.1 billion in cash borrowed under our credit facility. Including these borrowings and existing borrowings of our subsidiaries, we will have approximately $7.25 billion of indebtedness on the distribution date. Our incurrence of the new indebtedness and the related transfers to Sprint Nextel are conditions to the completion of the spin-off. The credit facility will also provide a revolving credit arrangement to satisfy other financing needs. We anticipate that immediately following the distribution date, we will have combined cash and equivalents and available liquidity under the credit facility of $1.2 billion. We expect that the terms of our credit facility will include customary covenants that, among other things, will require us to satisfy certain financial tests, maintain certain financial ratios, 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. To the extent permitted, we may also incur additional indebtedness from time to time for general corporate purposes, including working capital requirements, capital expenditures and future acquisitions. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity. See also Risk Factors Risk Factors Relating to the Spin-off 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, Our financing arrangements will subject us to various restrictions that could limit our operating flexibility, Risk Factors Relating to our Business Our capital raising may adversely affect holders of the notes by increasing our leverage and reducing our credit ratings and Risk Factors Relating 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.
Timeline of Key Events Related to the Spin-off	*Before the Distribution Date:*

We will receive all required regulatory approvals.

Table of Contents

The Sprint Nextel board of directors will determine the record date for the dividend of our common stock to Sprint Nextel stockholders, declare that dividend and determine the distribution ratio.

Our common stock is expected to begin trading on a when issued basis on the second trading day before the record date for the spin-off.

Sprint Nextel, as our sole stockholder, will:

- elect our board of directors;
- approve our adoption of certain benefit plans; and
- approve various actions related to the spin-off.

Our board of directors will approve:

- the adoption of certain benefit plans;
- our corporate governance documents and policies; and
- various actions related to the spin-off.

The Securities and Exchange Commission, or the SEC, will declare effective under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, the registration statement for the registration of our common stock issued in connection with the distribution.

Sprint Nextel will mail the information statement relating to the spin-off to its stockholders.

Sprint Nextel and Sprint Capital will enter into an exchange agreement pursuant to which Sprint Nextel will agree to transfer the notes and the cash proceeds of our new borrowings that will be paid to Sprint Nextel to Sprint Capital in satisfaction of intercompany indebtedness.

We will enter into a credit facility, which will be effective as of the distribution date.

The SEC will declare effective under the Securities Act of 1933, as amended, which we refer to as the Securities Act, the registration statement of which this prospectus is a part.

We, Sprint Capital and the other underwriters (excluding Sprint Nextel) will enter into an underwriting agreement relating to Sprint Capital s resale of all or a portion of the notes.

On or Before the Distribution Date:

We will have entered into numerous agreements with Sprint Nextel, including:

- the separation and distribution agreement;
- transition services agreements;

6

Table of Contents

- commercial service agreements;
- the tax sharing agreement;
- intellectual property agreements; and
- the employee matters agreement.

On the Distribution Date:

- Sprint Nextel will receive opinions of counsel as to the tax-free nature of the distribution.
- Sprint Nextel will transfer to us assets consisting primarily of Sprint Nextel s incumbent local communications operations.
- In exchange for, and as a condition to, Sprint Nextel s transfer to us of the assets and our assumption of certain liabilities, we will (1) issue to Sprint Nextel shares of our common stock and (2) issue to Sprint Nextel the notes being offered by Sprint Capital under this prospectus and transfer to Sprint Nextel the cash proceeds of our new borrowings, in an aggregate amount of approximately $6.6 billion.
- Sprint Nextel will distribute its shares of our common stock pro rata to all of its stockholders of record as of the record date.

Following the Distribution Date:

- We expect that our common stock will begin trading on the New York Stock Exchange on a regular way basis under the symbol EQ on the first trading day following the distribution date.
- We will operate as a separate public company.
- Sprint Nextel will transfer to Sprint Capital, in satisfaction of indebtedness owed by Sprint Nextel to Sprint Capital, the notes and the cash proceeds of our new borrowings that will be paid to Sprint Nextel.
- We expect that Sprint Capital will subsequently sell all or a portion of the notes for cash in an underwritten public offering under this prospectus.

Table of Contents

The Notes

The following summary of the terms of the notes is not intended to be complete. For a more complete description of the terms of the notes, see Description of the Notes.

Issuer	Embarq Corporation
Notes Offered	$1,495,000,000 principal amount of % Notes due 2013 $1,495,000,000 principal amount of % Notes due 2016 $1,495,000,000 principal amount of % Notes due 2036
Maturity Date	, 2013 for the % Notes due 2013; , 2016 for the % Notes due 2016; and , 2036 for the % Notes due 2036.
Interest	Interest will accrue from the issue date of the notes and will be payable semiannually on and of each year, beginning on , 2006.
Ranking	The notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior unsecured indebtedness, including any indebtedness under our credit facility. The notes will effectively rank junior to all indebtedness and other liabilities of our subsidiaries. As of December 31, 2005, the companies which will become our subsidiaries as a result of the spin-off had approximately $1.125 billion of outstanding indebtedness, of which approximately $665 million will remain outstanding to third parties as of the distribution date. Effective as of the distribution date, we will enter into a credit facility with certain financial institutions and we will transfer to Sprint Nextel approximately $2.1 billion in cash borrowed under our credit facility, which borrowings will be senior indebtedness. Including these borrowings, existing borrowings of our subsidiaries and the notes, we will have approximately $7.25 billion of indebtedness on the distribution date. The credit facility will also provide a revolving credit arrangement to satisfy other financing needs. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity.
Listing	We do not intend to list the notes on any exchange or to include the notes in any automated quotation system.
Additional Notes	The indenture governing the notes will not limit the aggregate principal amount of notes or other debt securities that we may issue. We may issue as many distinct series of debt securities under the indenture as we wish. We may also issue additional notes of any series offered under this prospectus without the consent of the holders of the outstanding notes of that series.

Table of Contents

Optional Redemption	The notes will be redeemable, as a whole or in part, at our option, at any time or from time to time, on at least 30 days, but not more than 60 days, prior notice. The redemption prices will be equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) the sum of the present values of the remaining scheduled principal and interest payments discounted, on a semiannual basis, at a rate equal to the sum of the comparable Treasury rate and:
	basis points for the 2013 notes
	basis points for the 2016 notes
	basis points for the 2036 notes
	Accrued interest will be payable to the redemption date.
Covenants	The indenture governing the notes will contain covenants that will limit the ability of Embarq and our restricted subsidiaries to, among other things:
	create liens; and
	consolidate, merge or convey all or substantially all of our properties and assets.
	These covenants are described under the headings Description of the Notes Restrictive Covenants and Description of the Notes Consolidation, Merger and Conveyances.
Use of Proceeds	We will not receive any of the proceeds from the sale of the notes under this prospectus. Sprint Capital will receive the net proceeds of the sale of the notes offered under this prospectus. See Use of Proceeds.
Risk Factors	Investing in the notes involves substantial risks. See Risk Factors for a discussion of the factors that you should consider before buying the notes.

9

Table of Contents

Summary Combined Financial Data

The following table sets forth our summary combined financial data. The following financial position data as of December 31, 2005 and 2004 and results of operations and cash flow data for the years ended December 31, 2005, 2004 and 2003 have been derived from our combined financial statements that were audited by KPMG LLP. The results of operations and cash flow data for the years ended December 31, 2002 and 2001 and the financial position data as of December 31, 2003, 2002 and 2001 have been derived from our unaudited combined financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read together with our combined financial statements and the notes related to those combined financial statements. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Index to Financial Statements and Financial Statement Schedule.

Our combined financial information may not be indicative of our future performance and does not necessarily reflect what our financial condition and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented, particularly since many changes will occur in our operations and capitalization as a result of our spin-off from Sprint Nextel.

	As of and For the Years Ended December 31,				
	2005	2004	2003(1)	2002	2001
(millions, except as noted)				(unaudited)	(unaudited)
Results of Operations					
Net operating revenues	$ 6,254	$ 6,139	$ 6,159	$ 6,250	$ 6,547
Total operating expense	4,702	4,549	4,543	4,654	4,965
Operating income (2)	1,552	1,590	1,616	1,596	1,582
Net income (3)	878	917	1,554	933	998
Cash Flow Data					
Net cash provided by operating activities	$ 1,904	$ 2,064	$ 1,804	$ 2,258	$ 1,832
Capital expenditures	828	975	1,118	1,136	1,353
Financial Position					
Total assets	$ 9,221	$ 9,329	$ 9,268	$ 8,745	$ 9,593
Property, plant and equipment, gross	19,784	19,470	18,975	18,332	17,684
Property, plant and equipment, net	7,804	7,977	7,979	7,444	7,371
Total debt (including short-term and long-term borrowings)	1,125	1,240	1,392	2,033	2,360
Total business equity	4,852	4,960	4,889	4,004	4,490
Other Data (unaudited):					
OIBDA (4)	$ 2,531	$ 2,562	$ 2,608	$ 2,680	$ 2,638
Ratio of earnings to fixed charges (5)	14.25x	12.78x	11.48x	10.34x	8.40x
Pro forma ratio of earnings to fixed charges (6)	3.68x				
Ratio of total debt (including short-term and long-term borrowings) to OIBDA (7)	0.44x	0.48x	0.53x	0.76x	0.89x
Ratio of pro forma total debt (including short-term and long-term borrowings) to OIBDA (8)	2.86x				
Ending access lines (9)	7.35	7.67	7.90	8.08	8.21
Ending high-speed Internet lines in service (*thousands*)	693	492	304	151	55

(1) The results of operations and cash flow data for the year ended December 31, 2003 is derived from our audited combined financial statements. The financial position data as of December 31, 2003 is unaudited.

(2) In 2005, we recorded $79 million in allocated asset impairments of which $77 million resulted from the abandonment of a network monitoring software application.

In 2004, we recorded restructuring charges of $40 million. The restructuring charges were related to severance costs associated with Sprint Nextel s organizational realignment.

In 2003, we recorded restructuring charges of $25 million. The restructuring charges were related to severance costs associated with Sprint Nextel s organizational realignment, in the amount of $26 million,

Table of Contents

and $5 million for asset impairments. The 2003 restructuring charges were offset by the finalization of the 2001 and 2002 restructuring liability in the amount of $6 million.

In 2002, we recorded restructuring charges of $57 million. The restructuring charges were primarily related to the consolidations in Sprint Nextel s network, information technology and billing and accounts receivable organizations, as well as additional steps to reduce overall operating costs.

In 2001, we recorded restructuring charges of $113 million. The restructuring charges were primarily related to consolidation and streamlining of marketing and network operations.

(3) In 2003, we adopted Statement of Financial Accounting Standard No. 143, *Accounting for Asset Retirement Obligations*. In connection with this adoption, we recognized a cumulative effect of change in accounting principle credit, net of tax, of $258 million. Additionally, in 2003, we recognized an after tax gain of $375 million related to the sale of the directory publishing business.

(4) We define Operating Income Before Depreciation and Amortization, or OIBDA, as operating income adjusted to exclude depreciation and amortization.

We use OIBDA, among other metrics, to evaluate our operating performance and as one of the components of incentive compensation targets for eligible employees. OIBDA is a performance measure that captures the income and expenses which relate to our business and are managed by our executives. Because our business is capital intensive, depreciation and amortization are excluded from the measurement as they are non-cash items. Other relevant, internal management measures addressing return on invested capital as well as U.S. generally accepted accounting principles, or GAAP, measures are used to manage the level of and return on capital investments. Overall financing and investment decisions are managed at a corporate level. We believe the presentation of this measure is relevant and is useful for investors as it enhances the transparency of our financial information by allowing them to view our performance through the eyes of our executive management. OIBDA is also among the primary measures used externally by analysts and peers in the industry for purposes of assessing operating performance.

Since OIBDA is not a measure of performance calculated in accordance with GAAP it should not be considered in isolation from, or as a substitute for, net income. As required by the SEC, provided below are reconciliations of OIBDA to income from continuing operations, the most directly comparable GAAP financial measure.

Reconciliation of Non-GAAP Measure

	As of and for the Years Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**
(millions)				**(unaudited)**	**(unaudited)**
Income from continuing operations	$ 894	$ 917	$ 920	$ 897	$ 958
Income tax expense	578	569	569	552	598
Other (income) expense, net (a)	(3)	2	6	12	(128)
Premium on early retirement of debt			5		

Interest expense	83	102	116	136	154
Depreciation and amortization	979	972	992	1,084	1,056
OIBDA	$ 2,531	$ 2,562	$ 2,608	$ 2,681	$ 2,638

(a) The $128 million of income reflected in 2001 arose primarily from curtailment gains resulting from the amendment of certain post-retirement benefit plans.

(5) The ratios of earnings to fixed charges are computed by dividing fixed charges into the sum of earnings (after adjustment for capitalized interest) and fixed charges. Earnings include income from continuing

operations before income taxes less capitalized interest. Fixed charges include interest on all debt of continuing operations, including amortization of debt issuance costs, and the interest component of operating rents. Our historical ratio of earnings to fixed charges is not representative of our anticipated ratio following the spin-off.

(6) The pro forma ratio of earnings to fixed charges is computed consistently with the historical ratios except that fixed charges are adjusted to reflect the net increase in interest expense that would result from the issuance of the notes, the expected borrowings under our credit facility and the elimination of the related party notes payable.

(7) The ratio of total debt to OIBDA is calculated by dividing our total debt as of the end of the specified year by OIBDA for the year then ended (as calculated above). The ratio of total debt to OIBDA is commonly used by investors and credit agencies as an indicator of financial risk, including the ability to repay or refinance debt obligations. The ratio of total debt to OIBDA as defined above may not be similar to measures used by other companies, is not a measure of performance calculated in accordance with GAAP and should not be considered in isolation from, or as a substitute for, the information contained in our combined financial statements.

(8) The ratio of pro forma total debt to OIBDA is calculated by dividing our pro forma total debt as of December 31, 2005 by OIBDA for the year then ended (as calculated above). Pro forma total debt of $7.25 billion as of December 31, 2005 gives effect to the spin-off, the borrowing of funds under our credit facility and transfer of such funds to Sprint Nextel, the issuance of the notes to Sprint Nextel and the elimination of the related party notes payable. See Unaudited Pro Forma Combined Financial Information.

(9) At March 31, 2006, we had approximately 7.26 million access lines.

Table of Contents

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 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

14

Table of Contents

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;

Table of Contents

- 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.

Table of Contents

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.

17

Table of Contents

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.

Table of Contents

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

19

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

Table of Contents

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 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.

Table of Contents

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, b 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;

Table of Contents

- 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.

Table of Contents

USE OF PROCEEDS

We will issue the notes to Sprint Nextel on the distribution date in partial consideration of the contribution of the local communications business to us, and Sprint Nextel will transfer the notes to Sprint Capital in satisfaction of inter-company indebtedness owed by Sprint Nextel to Sprint Capital. Sprint Capital is the seller of the notes under this prospectus. Accordingly, we will not receive any of the proceeds from the sale of the notes under this prospectus. Sprint Capital will receive the net proceeds of the sale of the notes and use them ultimately to repay outstanding third-party indebtedness, which will reduce Sprint Nextel s consolidated indebtedness by that amount. See Summary The Spin-off , Selling Noteholder and Underwriting.

Table of Contents

CAPITALIZATION

The following table sets forth as of December 31, 2005:

our capitalization on a historical basis; and

our capitalization on a pro forma basis giving effect to the transactions provided for in the separation and distribution agreement, including (1) the delivery to Sprint Nextel of (a) approximately 149 million shares of our common stock, using a distribution ratio of one share of our common stock for every 20 shares of Sprint Nextel common stock, (b) approximately $4.5 billion of the notes and (c) cash proceeds of approximately $2.1 billion from borrowings under our credit facility, and (2) elimination of the related party notes payable.

You should read this table in conjunction with Unaudited Pro Forma Combined Financial Information, Management s Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and notes to combined financial statements included elsewhere in this prospectus.

	As of December 31, 2005	
	Actual	**Pro Forma**
	(in millions, except per share amounts)	
Current maturities of long-term debt	$ 2	$ 2
Long-term debt:		
Credit facility (1)(2)	$	$ 2,100
% notes due 2013 (2)		1,495
% notes due 2016 (2)		1,495
% notes due 2036 (2)		1,495
Other long-term debt	1,123	663
Total long-term debt	1,123	7,248
Total debt	1,125	7,250
Business equity	4,852	
Stockholders equity		
Common stock, par value $0.01 per share, 1,250 shares authorized, 149 shares issued and outstanding		1
Additional paid in capital		(601)
Retained earnings		
Accumulated other comprehensive loss		(471)
Total stockholders equity		(1,071)

Total capitalization	$ 5,977	$ 6,179

(1) After the borrowing of funds under our credit facility and transfer of such funds to Sprint Nextel, we expect to have $1 billion of borrowing availability, subject to customary conditions, under our credit facility.

(2) The amounts set forth in the table above with respect to the credit facility and the notes assume that we issue to Sprint Nextel notes in an aggregate initial principal amount of approximately $4.5 billion and transfer to Sprint Nextel approximately $2.1 billion of cash borrowed under our credit facility. The allocation between the principal amount of the notes and amounts borrowed under the credit facility could change but will not exceed $6.6 billion in the aggregate.

Table of Contents

SELECTED COMBINED FINANCIAL DATA

The following table sets forth our selected combined financial data. The following financial position data as of December 31, 2005 and 2004 and results of operations, dividends paid to Sprint Nextel and cash flow data for the years ended December 31, 2005, 2004 and 2003 have been derived from our combined financial statements that were audited by KPMG LLP. The results of operations, cash flow data and dividends paid to Sprint Nextel for the years ended December 31, 2002 and 2001 and the financial position data as of December 31, 2003, 2002 and 2001 have been derived from our unaudited combined financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The following information should be read together with our combined financial statements and the notes related to those combined financial statements. See Management s Discussion and Analysis of Financial Condition and Results of Operations and Index to Financial Statements and Financial Statement Schedule.

Our combined financial information may not be indicative of our future performance and does not necessarily reflect what our financial condition and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented, particularly since many changes will occur in our operations and capitalization as a result of our spin-off from Sprint Nextel.

	As of and For the Years Ended December 31,				
	2005	2004	2003(1)	2002	2001
(millions)				(unaudited)	(unaudited)
Results of Operations					
Net operating revenues	$ 6,254	$ 6,139	$ 6,159	$ 6,250	$ 6,547
Operating income (2)	1,552	1,590	1,616	1,596	1,582
Income from continuing operations (2)	894	917	920	897	958
Dividends paid to Sprint Nextel	$ 983	$ 865	$ 683	$ 864	$ 699
Financial Position					
Total assets	$ 9,221	$ 9,329	$ 9,268	$ 8,745	$ 9,593
Property, plant and equipment, gross	19,784	19,470	18,975	18,332	17,684
Property, plant and equipment, net	7,804	7,977	7,979	7,444	7,371
Total debt (including short-term and long-term borrowings)	1,125	1,240	1,392	2,033	2,360
Total business equity	4,852	4,960	4,889	4,004	4,490
Cash Flow Data					
Net cash provided by operating activities	$ 1,904	$ 2,064	$ 1,804	$ 2,258	$ 1,832
Capital expenditures	828	975	1,118	1,136	1,353
Other Data (unaudited):					
Ratio of earnings to fixed charges (3)	14.25x	12.78x	11.48x	10.34x	8.40x
Pro forma ratio of earnings to fixed charges (4)	3.68x				

(1) The results of operations, dividends paid to Sprint Nextel and cash flow data for the year ended December 31, 2003 is derived from our audited combined financial statements. The financial position data as of December 31, 2003 is unaudited.

(2) In 2005, we recorded $79 million in allocated asset impairments of which $77 million resulted from the abandonment of a network monitoring software application.

In 2004, we recorded restructuring charges reducing our operating income by $40 million and income from continuing operations by $25 million. The restructuring charges were related to severance costs associated with Sprint Nextel s organizational realignment.

In 2003, we recorded restructuring charges reducing our operating income by $25 million and income from continuing operations by $16 million. The restructuring charges were related to severance costs associated

27

with Sprint Nextel s organizational realignment, in the amount of $26 million, $13 million, net of tax, and asset impairments of $5 million, $3 million, net of tax. The 2003 restructuring charges were offset by the finalization of the 2001 and 2002 restructuring liability in the amount of $6 million.

In 2002, we recorded restructuring charges reducing our operating income by $57 million and income from continuing operations by $36 million. The restructuring charges were primarily related to the consolidations in Sprint Nextel s network, information technology and billing and accounts receivable organizations, as well as additional steps to reduce overall operating costs.

In 2001, we recorded restructuring charges reducing our operating income by $113 million and income from continuing operations by $70 million. The restructuring charges were primarily related to consolidation and streamlining of marketing and network operations.

(3) The ratios of earnings to fixed charges are computed by dividing fixed charges into the sum of earnings (after adjustment for capitalized interest) and fixed charges. Earnings include income from continuing operations before income taxes less capitalized interest. Fixed charges include interest on all debt of continuing operations, including amortization of debt issuance costs, and the interest component of operating rents. Our historical ratio of earnings to fixed charges is not representative of our anticipated ratio following the spin-off.

(4) The pro forma ratio of earnings to fixed charges is computed consistently with the historical ratios except that fixed charges are adjusted to reflect the net increase in interest expense that would result from the issuance of the notes, the expected borrowings under our credit facility and the elimination of the related party notes payable.

Table of Contents

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The unaudited pro forma combined financial information presented below has been derived from our audited combined financial statements as of and for the year ended December 31, 2005. The pro forma adjustments and notes to the pro forma combined financial information give effect to the distribution of our common stock by Sprint Nextel and the other transactions contemplated by the separation and distribution agreement that we have entered into with Sprint Nextel. This unaudited pro forma combined financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our combined financial statements and notes related to those combined financial statements included elsewhere in this prospectus.

The unaudited pro forma combined statement of operations for the year ended December 31, 2005 has been prepared as if the distribution had occurred as of January 1, 2005. The unaudited pro forma condensed combined balance sheet as of December 31, 2005 has been prepared as if the distribution occurred on December 31, 2005. The pro forma adjustments are based on the best information available and assumptions that management believes are reasonable. The unaudited pro forma combined financial information is for illustrative and informational purposes only and is not intended to represent or be indicative of what our results of operations or financial position would have been had the transactions contemplated by the separation and distribution and related transactions occurred on the dates indicated. The unaudited pro forma combined financial information also should not be considered representative of our future results of operations or financial position.

The pro forma adjustments give effect to the following transactions provided for in the separation and distribution agreement:

- the execution of our credit facility and concurrent borrowing of approximately $2.1 billion against the facility;
- the delivery to Sprint Nextel of (1) approximately 149 million shares of our common stock, using a distribution ratio of one share of our common stock for every 20 shares of Sprint Nextel common stock, (2) approximately $4.5 billion of the notes and (3) cash proceeds of approximately $2.1 billion from borrowings under our credit facility;
- the transfer to us by Sprint Nextel of the assets of the incumbent local communications and wholesale product distribution operations;
- the transfer to us by Sprint Nextel of all other assets and liabilities related to the ongoing operations of our business previously held by Sprint Nextel or its subsidiaries;
- the transfer to us by Sprint Nextel of the in-territory consumer and business long distance customers, as well as the transfers to Sprint Nextel of certain in-territory equipment and professional service customers;
- the dividend to, or contribution by, Sprint Nextel of the remaining non-commercial service-related intercompany balances;
- adjustments to provide that we will have $200 million in cash as of the distribution date; and
- the distribution by Sprint Nextel of our common stock pro rata to its stockholders of record as of the record date.

See the notes to unaudited pro forma combined financial information for a more detailed discussion of these events.

Due to regulations governing the preparation of pro forma financial information, the following non-recurring separation and distribution related expenses associated with establishing ourselves as an independent company are not included as a pro forma adjustment in the unaudited pro forma combined statement of operations; however, they are reflected as an adjustment in the unaudited pro forma condensed combined balance sheet.

Table of Contents

Non-recurring, separation costs estimated to be approximately $265 million pretax. An additional $35 million was incurred in 2005 and included in our audited combined financial statements. Due to the scope and complexity of the underlying projects, the amount of these costs could increase or decrease materially and the timing of incurrence of these costs could change. The following table sets forth our actual and estimated non-recurring separation costs by category and period:

	Year Ending 31-Dec-06 (Estimate)(1)	2007 and Beyond (Estimate)	Total (Estimate)
		(millions)	
Re-branding and brand launch	$ 33	$ 15	$ 48
Information technology systems and infrastructure	116	34	150
Transaction costs	13		13
Employee retention and other	27	5	32
Wireless capability development	22		22
Total	$ 211	$ 54	$ 265
Portion of total representing capitalized costs	$ 86	$ 24	$ 110

(1) We estimate that approximately $127 million of these costs will be incurred before June 2006, of which approximately $52 million related to information technology systems and infrastructure costs and wireless capability development costs are expected to be capitalized when incurred.

The pro forma adjustments do not give effect to the following recurring items:

- the annual aggregate costs resulting from the establishment of the corporate support services for our business, including information technology, human resources, treasury, tax, risk management, accounting and financial reporting, investor relations, legal, procurement and other services. By 2008, we estimate these annual costs to be approximately $100 million greater than the costs historically allocated to us by Sprint Nextel for these services; or

- the annual aggregate costs we will incur under our agreement with Sprint Nextel to purchase wholesale wireless services, which we currently estimate will be approximately $6 million in 2006, $48 million in 2007 and $116 million in 2008 based on our projected growth of the wireless offering.

Table of Contents

EMBARQ CORPORATION (formerly referred to as the New Local Company)

PRO FORMA COMBINED STATEMENT OF OPERATIONS (Unaudited)

(in millions, except per share amounts)

	Year Ended December 31, 2005						
		Pro Forma Adjustments					
	Historical	Customer Transfers(1)	Capital Structure(2)	Pension(3)	Shared Assets/Liabilities(4)	Other(5)	Pro Forma
Net Operating Revenues	$ 6,254	$ 434	$	$	$	$ 13	$ 6,701
Operating Expenses							
Costs of services and products	2,306	226				3	2,535
Selling, general and administrative	1,338	74		(15)	(147)	5	1,255
Depreciation and amortization	979				90	1	1,070
Restructuring and asset impairments	79						79
Total operating expenses	4,702	300		(15)	(57)	9	4,939
Operating Income	1,552	134		15	57	4	1,762
Interest expense	(83)		(462)		25		(520)
Other income	3						3
Income from continuing operations before income taxes	1,472	134	(462)	15	82	4	1,245
Income tax expense (6)	(578)	(52)	169	(6)	(32)	(2)	(501)
Income from Continuing Operations	$ 894	$ 82	$ (293)	$ 9	$ 50	$ 2	$ 744
Pro forma basic earnings per common share (7)							
Income from continuing operations							$ 4.99
Pro forma basic shares outstanding (7)							149
Pro forma fully diluted earnings per common share (8)							
Income from continuing operations							$ 4.96
							150

Pro forma fully diluted shares outstanding (8)	

31

Table of Contents

EMBARQ CORPORATION (formerly referred to as the New Local Company)

PRO FORMA CONDENSED COMBINED BALANCE SHEET (Unaudited)

(in millions, except per share amounts)

	December 31, 2005							
		Pro Forma Adjustments						
	Historical	Customer Transfers(1)	Capital Structure(9)	Pension(3)	Shared Assets/Liabilities(10)	Non-recurring Separation Costs(11)	Other(5)	Pro Forma
Assets								
Current assets								
Cash and equivalents	$ 103	$	$ 97	$	$	$	$	$ 200
Other	969	(8)			31		2	994
Total current assets	1,072	(8)	97		31		2	1,194
Gross property, plant and equipment	19,784				557	86	13	20,440
Accumulated depreciation	(11,980)				(305)		(1)	(12,286)
Net property, plant and equipment	7,804				252	86	12	8,154
Other assets	345			(228)	8			125
Total	$ 9,221	$ (8)	$ 97	$ (228)	$ 291	$ 86	$ 14	$ 9,473
Liabilities and Stockholders Equity								
Current liabilities								
Current maturities of long-term debt	$ 2	$	$	$	$	$	$	$ 2
Other	1,082	8			(146)	211		1,155
Total current liabilities	1,084	8			(146)	211		1,157
Noncurrent liabilities								
Long-term debt	1,123		2,100		(460)			2,763
Long-term notes payable distributed to Sprint Nextel			4,485					4,485
Deferred income taxes	1,290	(36)		(130)	(30)		(3)	1,091
Postretirement and other benefit obligations	793			73	42			908
Other	79			31	30			140
Total noncurrent liabilities	3,285	(36)	6,585	(26)	(418)		(3)	9,387
Business equity	5,377		(5,377)					
Accumulated other comprehensive loss	(525)		525					

Total business equity	4,852		(4,852)					
Stockholders equity								
Common stock, $.01 par value, 1,250 shares authorized, 149 shares issued and outstanding			1					1
Additional paid in capital		20	(1,112)	(256)	855	(125)	17	(601)
Retained earnings								
Accumulated other comprehensive loss			(525)	54				(471)
Total stockholders equity		20	(1,636)	(202)	855	(125)	17	(1,071)
Total	$ 9,221	$ (8)	$ 97	$ (228)	$ 291	$ 86	$ 14	$ 9,473

Table of Contents

EMBARQ CORPORATION (formerly referred to as the New Local Company)

NOTES TO PRO FORMA COMBINED FINANCIAL INFORMATION

(1) Represents net revenue of $469 million, operating expenses of $328 million and income from continuing operations of $86 million resulting from the transfer from Sprint Nextel of the in-territory consumer and business long distance customers. A $36 million deferred tax asset, representing the tax effect of the fair market value of these customers, will also be generated from this transfer. Also included is net revenue of $35 million, operating expenses of $28 million and income from continuing operations of $4 million resulting from the transfer to Sprint Nextel of certain in-territory equipment and professional services customers, whose accounts are part of nationwide service agreements. These customer transfers will not occur before the spin-off as these customers and agreements are part of a Sprint Nextel subsidiary that will remain with Sprint Nextel after the spin-off.

(2) Reflects the adjustment to record interest expense on long term debt incurred as consideration for our business. Pro forma interest expense was calculated as follows:

	Principal Outstanding	Assumed Interest Rate	Estimated Annual Expense	Sensitivity to Change of 1/8% in Interest Rate
		(millions)		
Notes	$ 4,485	7.5%	$ 336	$ 6
Credit facility	2,100	6.0%	126	3
Total	$ 6,585		$ 462	$ 9

The rate on the notes was derived after giving consideration to the impact of our derivative instruments in limiting our exposure to increases in the United States Dollar London Interbank Offered Rate, or LIBOR, and the U.S. Treasury rate. See Note 3 of the Notes to the Combined Financial Statements included elsewhere in this prospectus for additional details. The actual interest expense related to the notes will be dependent on rates prevailing at the date of issuance. We assumed an effective interest rate of 6.0% for the approximately $2.1 billion anticipated to be borrowed under our credit facility. The rate on the credit facility was based on a review of the LIBOR forward interest rate curve through April 2007. We cannot predict the movement of future interest rates and thus cannot determine the period this rate would remain in effect. The derivative instruments referred to in Note 3 of the Notes to Combined Financial Statements have not been considered in determining the interest rate on the credit facility nor did these instruments have a material impact on the determination of the rate used on the notes. The actual interest expense related to the credit facility will be dependent on market and other conditions at the time of issuance. As described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity, the allocation between the amount of notes and amounts borrowed under the credit facility could change but will not exceed $6.6 billion in the aggregate.

(3) Reflects the estimated allocation, as determined by an independent actuary and consistent with the Code, Treasury Regulations and the Employee Retirement Income Security Act of 1974, as amended, or ERISA, guidelines, of the Sprint Nextel defined benefit pension plan to reflect the accumulated benefit obligation, fair value of plan assets and annual expense with respect to the active and retired employees of our business. The assumptions used to estimate both net periodic pension costs as well as the benefit obligation

were as follows: (1) discount rate of 5.75%, (2) long-term rate of return on plan assets of 8.75% and (3) blended rate of future pay raises of 4.25%.

(4) Reflects the following:

elimination of allocated depreciation expense and capital charges. These allocated charges were historically recorded as selling, general and administrative expense;

increase in depreciation expense resulting from the transfer of property, plant and equipment, or PP&E, from a subsidiary of Sprint Nextel. Estimated useful lives did not change as a result of the transfer; and

Table of Contents

EMBARQ CORPORATION (formerly referred to as the New Local Company)

NOTES TO PRO FORMA COMBINED FINANCIAL INFORMATION (Continued)

elimination of interest expense related to related party notes payable.

(5) Represents the transfer by a subsidiary of Sprint Nextel of the operations and related assets of fiber rings located outside of our local service territory in Florida.

(6) Represents the estimated income taxes for the pro forma adjustments. The statutory federal and state tax rates used to reflect the impact of taxes on interest expense discussed in Note (2) are lower than the comparable tax rate used for other adjustments because the statutory state income tax rate for the legal entity incurring the interest expense is lower than the projected overall state income tax rate.

(7) The number of shares used to compute pro forma basic earnings per share was the number of shares of common stock assumed to be outstanding at the distribution date using a distribution ratio of one share of our common stock for every 20 shares of Sprint Nextel common stock outstanding at March 31, 2006.

(8) The number of shares used to compute pro forma fully diluted earnings per share was the number of shares of common stock assumed outstanding at the distribution date adjusted for potentially dilutive common shares. Potentially dilutive common shares primarily include the dilutive effects of shares issuable under our equity plans. Options to purchase 18 million shares of Sprint Nextel common stock held by our employees will be converted in connection with the spin-off and result in fully diluted shares outstanding of 150 million. This information is subject to the actual number of dilutive options outstanding at distribution, their related intrinsic value and the current market price of the shares.

(9) Reflects the recapitalization of our business through the following series of transactions:

cash payment of approximately $2.1 billion to Sprint Nextel obtained through borrowings under our credit facility;

issuance of approximately $4.5 billion of notes, ranging in maturity from 7 to 30 years from the anticipated issuance at the distribution date;

cash infusion from Sprint Nextel to bring our opening cash balance to $200 million; and

the assumed issuance of approximately 149 million shares of our common stock. See Note (7) above.

(10) Reflects the transfer of certain assets and liabilities related to the operations of our business which were previously held by a subsidiary of Sprint Nextel. Also included is the elimination of the intercompany balances, including related party notes payable, except for the amounts associated with normal commercial services provided to or from Sprint Nextel. The following table further details the intercompany balance elimination included in other current liabilities:

	Historical	Customer Transfers	Shared Asset/ Liabilities	Non-recurring Separation Costs	Pro Forma
			(millions)		
Accounts payable (AP)	$ 265	$	$ 63	$ 211	$ 539
Affiliated payable (component of AP in historical statements)	263		(263)		
Other	554	8	54		616
Total other current liabilities	$ 1,082	$ 8	$ (146)	$ 211	$ 1,155

Table of Contents

EMBARQ CORPORATION (formerly referred to as the New Local Company)

NOTES TO PRO FORMA COMBINED FINANCIAL INFORMATION (Continued)

(11) Reflects the balance sheet effect of the non-recurring separation related expenses as discussed in the introduction to Unaudited Pro Forma Combined Financial Information. Pursuant to regulations governing the preparation of pro forma financial information, these expenses are not reflected in the unaudited pro forma combined statement of operations.

35

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information should be read in conjunction with our selected combined financial and operating data and the accompanying combined financial statements and related notes. See Index to Financial Statements and Financial Statement Schedule. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in Risk Factors and Cautionary Statement Regarding Forward-Looking Statements.

Our combined financial information may not be indicative of our future performance and does not necessarily reflect what our financial condition and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented, particularly since many changes will occur in our operations and capitalization as a result of our spin-off from Sprint Nextel.

Overview

We are currently a subsidiary of Sprint Nextel. Sprint Nextel has determined to spin off our company by distributing all of our common stock to its stockholders as a dividend. We have entered into a separation and distribution agreement with Sprint Nextel containing the key provisions relating to the separation of our business from Sprint Nextel. The separation and distribution agreement identifies the assets to be transferred, liabilities to be assumed and contracts to be assigned to us. Our capital structure will be changed significantly at the date of the spin-off from Sprint Nextel.

Our operations consist mainly of regulated incumbent local phone companies operating in 18 states. We provide local voice and data services, including high-speed Internet, for customers within our local service territories. We also provide access to our local network and other wholesale communications services for other carriers, sales of communications equipment and other services to residential and business customers.

Key business factors that impacted the year ended December 31, 2005 include:

- Continued competition from wireless and cable providers negatively impacted revenue, operating income and total access lines in service. We expect access line loss to continue.

- We added nearly 201,000 new high-speed Internet lines in service increasing high-speed Internet revenues from $224 million for the year ended December 31, 2004 to $326 million for the year ended December 31, 2005.

- We entered into a new sales contract with a large communications company resulting in additional product distribution sales of $104 million.

Table of Contents

Key business factors that are anticipated to impact our 2006 performance are summarized below.

These estimates represent management s judgment based on currently available information. A number of risks and uncertainties, including but not limited to, the impact of increased competition as well as the effectiveness of our response to that competition and our success in achieving growth targets concerning high-speed Internet lines in service could cause our actual results to differ materially from those presented below. See Cautionary Statement Regarding Forward-Looking Statements.

	Estimated Income from Continuing Operations Before Income Taxes increase (decrease) (millions)
Core Operations:	
Continued competition from wireless providers and increased competition from cable providers are expected to drive increased levels of access line losses, which are anticipated to negatively impact revenue and income from continuing operations before income taxes.	
Continued growth in high-speed Internet lines in service, partially offset by pricing incentives largely associated with bundled service offerings, is expected to generate increased data revenues. Up-front selling and installation costs will partially offset the impact of this increase in data revenues.	
Product distribution sales are expected to decline as a result of the exit from certain markets and the spin off from Sprint Nextel. This is expected to have minimal impact on income from continuing operations before income taxes due to the low margins associated with this business.	
Anticipated losses from wireless service offering attributable to up-front customer acquisition costs.	
Anticipated productivity improvements across our business will partially offset the items presented above.	
Estimated impact to 2006 performance	($150) ($210)
Spin-off Related(1):	
Customer transfers (principally in-territory consumer and business long distance customers) and elimination of allocated charges from Sprint Nextel (e.g., merger and integration costs, asset impairments and return on investment charge) (2)	$210-$250
Increased costs resulting from our spin-off from Sprint Nextel (e.g., establishing our own corporate support functions consisting primarily of employee-related expenses) (3)	($80)
Incremental non-recurring separation costs	($100)
Incremental interest expense resulting from the issuance of $4.485 billion of notes and borrowings of $2.1 billion under our credit facility (4)	($460)
Elimination of interest expense on related-party notes	$25

(1) See Unaudited Pro Forma Combined Financial Information.
(2) 2006 impact will be dependent on the actual date of the spin-off.
(3) Estimated to be $100 million annually by 2008.
(4) 2006 impact will be dependent on the actual date of the spin-off and prevailing interest rates at that time.

37

Table of Contents

The following factors are also expected to affect liquidity in 2006:

- Dividend payments to stockholders are anticipated to be approximately $300 million annually. If the spin-off occurs before June 30, 2006, our anticipated dividend payments to stockholders in 2006 will be approximately $150 million.

- Capital expenditures are anticipated to be approximately $960 million, including certain one-time capital expenditures associated with IT systems and other capabilities required to be created in order for Embarq to operate as a separate company.

Planned Separation from Sprint Nextel

On December 15, 2004, the boards of directors of Sprint and Nextel each unanimously approved a strategic merger combining Sprint and Nextel in a merger of equals. Upon completion of the merger on August 12, 2005, Sprint changed its name to Sprint Nextel Corporation and Sprint Nextel common stock is now quoted on the New York Stock Exchange under the symbol S. Previously existing shares of Sprint common stock remain outstanding as Sprint Nextel common stock, as Sprint was the acquiring entity for legal and accounting purposes.

When the merger was announced, Sprint also announced its intention to pursue the spin-off of the companies comprising our operations, after completion of the merger. The distribution, now expected to occur in the second quarter of 2006, will occur through a tax-free distribution by Sprint Nextel of all of the shares of our common stock to Sprint Nextel s stockholders. The separation is subject to certain conditions including receipt of necessary state and federal regulatory approvals and our transfer to Sprint Nextel of cash and notes in the aggregate amount of approximately $6.6 billion in partial consideration for, and as a condition to, Sprint Nextel s transfer to us of the local telecommunications division and wholesale product distribution operations and the consumer and certain business long distance customers located in our local service territories, as described below in New Financing Arrangements. We anticipate we will incur separation and distribution related expenses associated with establishing ourselves as an independent company. These expenses are expected to be significant and will be expensed as incurred.

Basis of Presentation

We are presenting the Combined Balance Sheets as of December 31, 2005 and 2004. The Combined Statements of Operations, Combined Statements of Cash Flows, and the Combined Statements of Business Equity and Comprehensive Income (Loss) are presented for the years ended December 31, 2005, 2004 and 2003.

Our combined financial statements were prepared using the specific financial accounting records of the entities that comprise the local communications business of Sprint Nextel, including the wholesale distribution of communication products. These combined financial statements have been presented using the historical results of operations and historical basis of assets and liabilities of these businesses. All intercompany transactions between these combined entities have been eliminated.

Our operations are divided into two segments, Local and Product Distribution. Our chief operating decision maker determines resource allocation and assesses financial performance based on these two segments. The Local segment includes local exchange voice services, access by phone customers and other carriers to our local network, high-speed Internet services and other data transport and special access services. The Product Distribution segment includes the wholesale distribution of communications equipment.

The combined financial statements are prepared using accounting principles generally accepted in the U.S. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates and assumptions. Additionally, the assets and liabilities included in our combined financial statements may differ from our assets and liabilities upon completion of the spin-off. The spin-off will be completed on the terms contained in the separation and distribution agreement that we have entered into with Sprint Nextel. Our management believes that all historical costs of operations have been reflected in the combined financial statements.

We are also presenting unaudited pro forma combined financial information to reflect adjustments for and give effect to the transactions contemplated by the separation and distribution agreement as well as provide disclosures regarding actual and estimated one-time separation costs and with respect to the impact of our wireless commercial service agreement. See Unaudited Pro Forma Combined Financial Information included elsewhere in this prospectus.

New Financing Arrangements

In connection with the spin-off, we will enter into a credit facility with certain financial institutions. We expect to transfer to Sprint Nextel approximately $6.6 billion in the form of cash and the notes being offered by Sprint Capital under this prospectus in partial consideration for, and as a condition to, Sprint Nextel s transfer to us of our business. The assumed allocation of consideration is expected to result in the issuance to Sprint Nextel of the notes in an aggregate initial principal amount of approximately $4.5 billion and the transfer to Sprint Nextel of approximately $2.1 billion in cash borrowed under our credit facility. The credit facility will also provide a revolving credit arrangement, including letters of credit, to help satisfy other financing needs. We expect that the terms of our credit facility will include customary covenants that, among other things, will require us to satisfy certain financial tests, maintain certain financial ratios, 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. To the extent permitted, we may also incur additional indebtedness from time to time for general corporate purposes, including working capital requirements, capital expenditures and future acquisitions.

We anticipate that immediately following the distribution date, we will have combined cash and equivalents of $200 million and available liquidity under the credit facility of $1 billion. As a result of the borrowings to be incurred and paid to Sprint Nextel in partial consideration for our assets and existing borrowings of our subsidiaries, we will have approximately $7.25 billion of indebtedness on the distribution date.

Centralized Management and Allocations

Sprint Nextel uses a centralized cash management program, whereby Sprint Nextel advances funds to and from its subsidiaries. These advances are accounted for as short-term borrowings and bear interest at a market rate that is substantially equal to the rate the subsidiary would be able to obtain from third parties on a short-term basis. Following the spin-off, we will be responsible for our own cash management functions. Advance receivables with Sprint Nextel have been presented as Cash and equivalents for purposes of these historical combined financial statements. Advance payables with Sprint Nextel have been presented as short-term borrowings.

Sprint Nextel provides facilities, information services, marketing and certain corporate and administrative services to its subsidiaries, including our company. Sprint Nextel directly assigns, where possible, related costs based on actual use of these services. Where direct assignment is not possible or practical, Sprint Nextel uses other indirect methods, including time studies and headcounts, to estimate the allocation of shared service costs to its subsidiaries. The services provided by Sprint Nextel to its subsidiaries are generally accounted for based on fully distributed costs, which we believe approximates fair value. The costs allocated are not necessarily indicative of costs that will be charged or incurred in the future. Related party payables to Sprint Nextel resulting from the allocation of shared service costs are settled approximately one month after their initial recognition. Related party payables for purposes of historical combined financial statements have been presented as Accounts payable.

Following the spin-off, Sprint Nextel will continue to provide us with many of these services pursuant to a transition services agreement for a period of up to two years following the separation. We will also arrange to

39

procure other services pursuant to arrangements with third parties or through our own employees. We currently expect that the aggregate annual costs we will pay to Sprint Nextel under the transition services agreement for services that have historically been provided by Sprint Nextel will not differ significantly from the amounts reflected in our historical combined financial statements, which include charges for those services. We also expect that by 2008 our annual incremental costs resulting from the establishment of corporate support services for our business will be approximately $100 million. We expect to incur significant non-recurring costs before June 2006 to establish our new brand of approximately $48 million and information technology investment to create the underlying infrastructure to support our business functions of approximately $150 million.

As a separate company, we will no longer benefit from being included in Sprint Nextel s insurance package and will be responsible for obtaining our own insurance. We currently estimate that our first annual property insurance premium, with a $10 million deductible, will be approximately $5 million. Factors contributing to this premium include (1) the concentration of our assets in windstorm areas, (2) the number of older buildings that we will own and (3) general property insurance market conditions following recent hurricanes, especially Hurricane Katrina in 2005. We could be subject to windstorm sublimits and/or aggregate limits that could potentially limit our insurance recovery in the future. Overall insurance market conditions will determine premiums paid in future years.

See Note 12 of the Notes to Combined Financial Statements for additional related party transaction information.

Business Environment

We operate in an industry that has been and continues to be subject to consolidation and dynamic change. In light of these changes in the communications industry, including bankruptcies, over-capacity and the highly competitive pricing environment in all communications sectors, we routinely assess the implications of these industry factors on our operations. These assessments may impact the future valuation of our long-lived assets and could have a material effect on our business, financial condition, liquidity and results of operations.

Critical Accounting Policies

The fundamental objective of financial reporting is to provide useful information that allows a reader to understand our business activities. To aid in that understanding, management has identified our critical accounting policies. These policies are considered critical because they have the potential to have a material impact on our combined financial statements, and because they require judgments and estimation due to the uncertainty involved in measuring, at a specific point in time, events that are continuous in nature.

Long-lived Asset Recovery.

A significant portion of our total assets are long-lived assets, consisting primarily of property, plant and equipment, or PP&E. Changes in technology or in our intended use of these assets, as well as changes in broad economic or industry factors, may cause the estimated period of use or the value of these assets to change.

Depreciable Lives of Assets. Estimates and assumptions are used both in setting depreciable lives and testing for recoverability of our long lived assets. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. We perform annual internal studies to confirm the appropriateness of depreciable lives for each category of PP&E. These studies utilize models, which take into account actual usage, physical wear and tear, replacement history, and assumptions about technology evolution, and in certain instances actuarially-determined probabilities to calculate remaining lives of our asset base.

Table of Contents

We believe that the accounting estimate related to the establishment of asset depreciable lives is a critical accounting estimate because: (1) it requires our management to make assumptions about technology evolution and competitive uses of assets, and (2) the impact of changes in these assumptions could be material to our financial position, as well as our results of operations. Management s assumptions about technology and its future development require significant judgment because the timing and impacts of technology advances are difficult to predict, and actual experience has varied from previous assumptions and could continue to do so.

If our studies had resulted in a depreciable rate that was 5% higher or lower than those used in the preparation of our combined financial statements, recorded depreciation expense would have been impacted by approximately $58 million and $57 million for the years ended December 31, 2005 and 2004, respectively.

PP&E and Definite Life Intangibles. PP&E and definite life intangibles are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, we must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the carrying amount is more than the recoverable amount, an impairment charge must be recognized, based on the fair value of the asset.

We believe that the accounting estimate related to asset impairment is a critical accounting estimate because: (1) it requires management to make assumptions about future revenues and costs of sales over the life of the asset, (2) judgment is involved in determining the occurrence of a triggering event and (3) the impact that recognizing an impairment would have on our financial position, as well as our results of operations, could be material. Management s assumptions about future revenues require significant judgment as actual revenues have fluctuated in the past and may continue to do so.

In estimating future revenues, we use our internal business forecasts. We develop our forecasts based on recent revenue data for existing products and services, planned timing of new products and services, and other industry and economic factors.

During the fourth quarter of 2005, Sprint Nextel terminated development and deployment of a network monitoring software application resulting in approximately $77 million in asset impairment charges to our business.

Employee Benefit Plan Assumptions.

Retirement benefits are a significant cost of doing business for us and yet represent obligations that will be settled far in the future. Retirement benefit accounting is intended to reflect the recognition of the future benefit costs over the employee s expected tenure with us based on the terms of the benefit plans and the related investment and funding decisions. The accounting standards require that management make assumptions regarding such variables as the return on assets, the discount rate and future health care costs. Changes in these key assumptions can have a significant impact on the projected benefit obligation and periodic benefit cost incurred.

We believe that the accounting estimate related to retirement benefit accounting is a critical accounting estimate because: (1) it requires assumptions about discount rates, future health care costs, and future return on assets funding the obligation and (2) the impact that changes in actual performance versus these estimates would have on the projected benefit obligation reported on our balance sheet and the related benefit expense could be material.

In determining pension obligations, assumptions concerning market performance are required. Market performance has fluctuated in the recent past and could have continued volatility in the future. In selecting a discount rate, an independent actuary models a hypothetical portfolio of bonds rated AA- or better that produces cash flows matching the projected benefit payments of the plan. To determine the return on asset assumption, forward-looking estimates of the expected long-term returns for a portfolio invested in accordance with the target investment policy is used.

41

The assumptions associated with the employee benefit plans are made by Sprint Nextel s management, and while these assumptions are critical to the determination of estimates used in the plan accounting, the assessment of risk associated with an estimate differing from the actual events that may transpire must be assessed at the Sprint Nextel level. Following the spin-off, these assessments will be made by our management.

In determining post-retirement medical and life insurance benefit obligations, assumptions are made concerning the cost of health care, including the assumed medical inflation rate, and the discount rate. Again, as these plans are managed by Sprint Nextel s management, the assessment of risk associated with an estimate differing from the actual events that may transpire must be assessed at the Sprint Nextel level. Following the spin-off, these assessments will be made by our management.

Income Taxes.

Current income tax expense represents the amount of income taxes paid or currently payable to various taxing jurisdictions in which we operate. Inherent in the current provision for income taxes are estimates and judgments regarding the interpretations of tax regulations, the tax class life assigned to assets, and the timing of deferred tax asset and liability realization. The amount of income taxes we ultimately pay is subject to ongoing audits by federal and state taxing authorities. Our estimate for the potential outcome for any uncertain tax issues is highly judgmental. We believe we have adequately provided for any foreseeable outcome related to these matters. However, our future results may include adjustments to our estimated tax liabilities in the period the assessments are made or resolved. As a result, our effective tax rate may fluctuate on a quarterly basis.

The combined financial statements reflect certain amounts related to deferred tax assets and liabilities, which result from temporary differences between the assets and liabilities measured for financial statement purposes versus the assets and liabilities measured for tax return purposes. Management must assess the expected realizable future tax benefits of deferred tax assets and record any required valuation allowances. We maintained a $2 million valuation allowance in each of the periods presented. The valuation allowance relates to state net operating loss carryovers. Actual income taxes could vary from estimates due to changes in income tax laws, significant changes in the jurisdictions in which we operate or our ability to generate sufficient future taxable income.

We believe that the accounting estimate related to establishing deferred taxes is a critical accounting estimate because: (1) it requires management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (2) the impact that changes in actual performance as compared to these estimates could have on the realization of tax benefits as reported in our results of operations could be material. Management s assumptions require significant judgment because actual performance has fluctuated in the past and may continue to do so.

We recorded income tax expense of $578 million for the year ended December 31, 2005 and we carried a net deferred tax liability of $1.3 billion at December 31, 2005. This amount includes approximately $1.5 billion in deferred tax liabilities, which is partially offset by a $281 million deferred tax asset. See Note 9 of the Notes to the Combined Financial Statements.

Revenue Recognition Policies.

We recognize operating revenues as services are rendered or as products are delivered to customers in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition. In connection with recording revenue, estimates and assumptions are required in determining the expected conversion of the revenue streams to cash collected. The revenue estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in the credit worthiness of our customers and other relevant factors. Changes in these key assumptions can have a significant impact on the projection of cash collected and the periodic revenue stream recognized.

Table of Contents

We believe that the accounting estimates related to the establishment of revenue and receivable reserves and the associated provisions in the results of operations are critical accounting estimates because: (1) they require management to make assumptions about future billing adjustments for disputes with customers, unauthorized usage, future returns on asset sales and future access adjustments for disputes with CLECs and inter-exchange carriers, as well as the future economic viability of our customer base; and (2) the impact that changes in actual performance as compared to these estimates would have on the accounts receivable reported on our balance sheet and the results reported in our statements of operations could be material. In selecting these assumptions, we use historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions to assess the impact on collectibility of accounts.

If the revenue reserve balances for the years ended December 31, 2005 and 2004 were to be increased by 1%, our net operating revenues would be reduced approximately $1 million for each period. If the accounts receivable reserve estimates as a percentage of accounts receivable for the years ended December 31, 2005 and 2004 were increased by 1%, bad debt expense would increase approximately $7 million for each period.

Management believes the reserve estimate selected, in each instance, represents its best estimate of future outcomes, but the actual outcomes could differ from the estimate selected.

Results of Operations

For the year ended December 31, 2005, we produced strong growth in data revenues through our high-speed Internet offerings and strong growth in product distribution due to a significant new contract. We continued to be impacted by developing competition and product substitution that resulted in a decline in access lines and switched access minutes of use and therefore a decline in voice revenues.

In the fourth quarter of 2005, Sprint Nextel, in conjunction with our management, terminated development and deployment of a network management software application resulting in approximately $77 million in allocated asset impairment charges to our business.

For the year ended December 31, 2004, we recorded a $40 million restructuring charge representing severance, real estate and other costs associated with the overall Sprint Nextel organizational realignment.

Combined Operations

Year ended December 31, 2005 compared to year ended December 31, 2004.

Years ended	December 31, 2005	December 31, 2004
	(millions)	
Net operating revenues	$ 6,254	$ 6,139
Operating income	$ 1,552	$ 1,590

Operating margin	24.8%	25.9%
Capital expenditures	$ 828	$ 975

Net Operating Revenues. Net operating revenues increased $115 million, or 2%, for 2005 as compared to 2004. Data revenues and Product Distribution revenues increased $150 million and $163 million, respectively, stemming from a 41% increase in high-speed Internet lines in service and a new Product Distribution contract. These increases were partially offset by a decrease of $154 million in voice revenues resulting from a 4% decrease in access lines and a $44 million reduction in other revenues. We ended 2005 with approximately 7.35 million switched access lines. The reduction in access lines was driven principally by losses to wireless and cable providers, along with broadband substitution.

Table of Contents

Operating income decreased $38 million, or 2%, for 2005 compared to 2004. The growth in net operating revenues discussed above was more than offset by increased costs of services and products of $171 million and increased restructuring and asset impairment costs of $39 million. The increase in costs of services and products was due to increased Product Distribution revenues. Partially offsetting these cost increases was a decrease of $64 million in selling, general and administrative expenses driven by cost containment initiatives.

Year ended December 31, 2004 compared to year ended December 31, 2003.

Years ended	December 31, 2004	December 31, 2003
	(millions)	
Net operating revenues	$ 6,139	$ 6,159
Operating income	$ 1,590	$ 1,616
Operating margin	25.9%	26.2%
Capital expenditures	$ 975	$ 1,118

Net Operating Revenues. Net operating revenues decreased $20 million for the year ended December 31, 2004 compared to the year ended December 31, 2003. The decrease was due to lower voice revenue of $111 million and declines in equipment and other sales, which reduced other revenue by $57 million. We ended 2004 with 7.67 million switched access lines, a 3% decrease compared to the prior year. Product Distribution revenues increased $45 million, or 13%, for the year ended December 31, 2004 compared to the year ended December 31, 2003. The increase was due to growth in sales to third parties partially offset by lower sales to other Sprint Nextel subsidiaries.

Operating income decreased $26 million, or 2%, for the year ended December 31, 2004 compared to the year ended December 31, 2003. Reduced revenues, discussed above, resulted in a corresponding decrease of $2 million in costs of products and services. Increases in restructuring and asset impairment charges and selling, general and administrative costs more than offset this decrease.

Table of Contents

Year ended December 31, 2005 compared to year ended December 31, 2004.

Segmental Results of Operations

Local

Years ended	December 31, 2005	December 31, 2004
	(millions)	
Net operating revenues		
Voice	$ 4,003	$ 4,157
Data	983	833
Other	705	749
Total net operating revenues	5,691	5,739
Operating expenses		
Costs of services and products	1,815	1,814
Selling, general and administrative	1,226	1,298
Depreciation and amortization	982	967
Restructuring and asset impairment	79	40
Total operating expenses	4,102	4,119
Operating income	$ 1,589	$ 1,620
Operating margin	27.9%	28.2%
Capital expenditures	$ 850	$ 999

Voice Revenues. Voice revenues, consisting of revenue from local communication services, and access by phone customers and other carriers to our local network, decreased $154 million, or 4%, for the year ended December 31, 2005. This results from both a decrease in access lines and lower access minutes of use. Access lines decreased from 7.67 million lines at December 31, 2004 to 7.35 million lines at December 31, 2005 accounting for $63 million of the decrease. Switched access minutes of use in 2005 decreased 7% compared to 2004 resulting in a $38 million decrease in revenues. Additionally, FCC-allowable cost recoveries associated with local number portability ceased in 2004 causing a $6 million decrease in voice revenues for 2005. Recoveries for the cost of pooling local telephone numbers ceased in 2004 causing a decrease of $18 million. The wireless local number portability, or WLNP, charges that started in 2004 and ended in 2005 caused a decrease of $16 million.

Data Revenues. Data revenues are mainly generated from high-speed Internet, local data transport services and special access. Data revenues increased $150 million, or 18%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. This increase was driven by strong growth in high-speed Internet lines in service and special access sales primarily to wireless companies. We ended 2005 with

693,000 high-speed Internet lines in service, an increase of 41% compared to December 31, 2004.

Other Revenues. Other revenues are primarily generated from maintenance agreements, professional services agreements, sales agency relationships and the sale of communications equipment. Other revenues declined $44 million, or 6%, during the year ended December 31, 2005. This decrease was due to a de-emphasis of business equipment sales, which accounted for approximately $21 million of the decrease, and elimination of some sales agency agreements, which accounted for approximately $16 million of the decrease.

Costs of Services and Products. Costs of services and products include costs to operate and maintain our network. These costs were comparable year over year. Increases in labor strike costs of $5 million and increased network charges related to the expansion of high-speed Internet of $9 million were offset by a $19 million year-over-year decline in hurricane-related expenses. Costs of services and products were 32% of net operating revenues for the years ended December 31, 2005 and 2004.

Selling, General and Administrative Expense. Selling, general and administrative, or SG&A, expense decreased $72 million, or 6%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. The decrease was due to cost containment initiatives, which resulted in $73 million in lower allocated costs and reduced information technology costs of approximately $60 million. These reductions were partially offset by $51 million in allocated merger, integration and spin-off related costs. SG&A expense was 22% of net operating revenues for the year ended December 31, 2005 compared to 23% for the year ended December 31, 2004.

SG&A expense includes charges for estimated bad debt expense. The reserve for bad debt requires management s judgment and is based on historical trending, industry norms and recognition of current market indications regarding general economic conditions. Bad debt expense as a percentage of net revenues was 1% for the years ended December 31, 2005 and 2004. The reserve for bad debt as a percent of outstanding accounts receivable was 8% at December 31, 2005 and 9% at December 31, 2004.

Depreciation and Amortization Expense. Depreciation and amortization expense increased $15 million, or 2%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. Approximately $5 million of the increase was due to increased plant investment. The remainder of the increase was due to the annual remaining life depreciation rate update process. As part of the depreciation rate update process, depreciation rates were increased for digital switching equipment and metallic cable, while other items had minor adjustments. The rate updates resulted in increased depreciation expense of $10 million for 2005. Depreciation and amortization expense was 17% of net operating revenues for each of the years ended December 31, 2005 and 2004.

Restructuring and Asset Impairments. In 2005, we recorded $79 million in restructuring and asset impairment costs. Sprint Nextel, in conjunction with our management, terminated development and deployment of a network management software application resulting in approximately $77 million in allocated asset impairment charges. The project was terminated after evaluating business strategies as it was determined that the project would not provide the cost structure, flexibility or operational functionality we would need once the spin-off is complete.

For the year ended December 31, 2004, we recorded a $40 million restructuring charge representing severance, real estate and other costs associated with the overall Sprint Nextel organizational realignment.

See Note 5 of the Notes to the Combined Financial Statements for additional information regarding restructuring and impairment charges.

Capital Expenditures. For the year 2005 compared to the year 2004, capital expenditures decreased by $149 million, or 15%, resulting from increased capital efficiency achieved primarily by tighter capacity management, vendor cost reductions and successful execution of equipment re-use opportunities. Capacity spending reductions represented 76% of the decrease, with regulatory mandates and operational requirements representing the remainder.

Table of Contents

Year ended December 31, 2004 compared to year ended December 31, 2003.

Years ended	December 31, 2004	December 31, 2003
	(millions)	
Net operating revenues		
Voice	$ 4,157	$ 4,268
Data	833	730
Other	749	806
Total net operating revenues	5,739	5,804
Operating expenses		
Costs of services and products	1,814	1,854
Selling, general and administrative	1,298	1,285
Depreciation and amortization	967	983
Restructuring and asset impairments	40	24
Total operating expenses	4,119	4,146
Operating income	$ 1,620	$ 1,658
Operating margin	28.2%	28.6%
Capital expenditures	$ 999	$ 1,143

Voice Revenues. Voice revenues decreased $111 million, or 3%, for 2004 due to a decrease in access lines, which reduced revenues by approximately $53 million. Additionally, FCC-allowable cost recoveries associated with local number portability ceased in 2004 causing a $42 million decrease in voice revenues. Recoveries for the cost of pooling local telephone numbers ceased in 2004 causing a decrease of $18 million in 2005, which was offset by an increase of $18 million in WLNP charges which started in July 2004.

Data Revenues. Data revenues increased $103 million, or 14%, during 2004 as a result of strong growth in high-speed Internet services. We ended 2004 with 492,000 high-speed Internet lines in service, an increase of 62% compared to the end of 2003.

Other Revenues. Other revenues decreased $57 million, or 7%, during 2004, principally driven by a decline in business equipment sales of $38 million. The decrease in equipment sales was a result of both a planned shift in focus to selling higher margin products as well as a reduction in customer demand. Additionally, we moved to a sales agency relationship for PCS handsets rather than taking ownership of the handsets, thereby reducing revenue by approximately $28 million.

Costs of Services and Products. Costs of services and products decreased $40 million, or 2%, during 2004. General expense controls within the information technology and support organizations resulted in approximately $35 million of savings. Additionally, lower costs of $18 million and $29 million associated with business equipment sales and PCS handset sales, respectively, were partially offset by a $25 million increase in hurricane-related expenses and $14 million in associated consumer equipment expenses. Costs of services and products were 32% of net operating revenues for both 2004 and 2003.

Selling, General and Administrative Expense. SG&A expense increased $13 million, or 1%, during 2004 compared to 2003. The increase was driven by $29 million in stock-based compensation expense, recoveries of bad debts in 2003 of $35 million that did not recur in 2004 and other various increases totaling approximately $19 million. These increases were partially offset by general cost controls within the information technology and support organizations of approximately $70 million. Bad debt expense as a percentage of net revenues was 1% for both the year ended December 31, 2004 and the year ended December 31, 2003. The reserve for bad debt expense as a percent of outstanding accounts receivable was 9% at December 31, 2004 and 2003.

Table of Contents

SG&A expense was 23% of net operating revenues for the year ended December 31, 2004 and 22% for the year ended December 31, 2003.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased $16 million, or 2%, year over year, and was 17% of net operating revenues for each of the years ended December 31, 2004 and 2003. Effective January 1, 2003, we adopted Statement of Financial Accounting Standards, or SFAS No. 143, Accounting for Asset Retirement Obligations, which eliminated the accrual for removal cost from the depreciable rate. For further information on the implementation of SFAS No. 143, see Note 4 of the Notes to Combined Financial Statements.

Restructuring and Asset Impairment. For the years ended December 31, 2004 and 2003, we recorded approximately $40 million and $20 million, respectively, of severance costs associated with the Sprint Nextel organizational realignment.

During the year ended December 31, 2003, Sprint Nextel terminated deployment of its Insight video service resulting in our recognition of approximately $5 million in asset impairment charges.

For additional discussion of restructuring and asset impairments, see Note 5 of the Notes to Combined Financial Statements.

Capital Expenditures. Capital expenditures decreased by $144 million, or 13%, in 2004 compared to 2003 as we changed our network deployment guidelines and engineering standards.

Product Distribution

Year ended December 31, 2005 compared to year ended December 31, 2004.

Years ended	December 31, 2005	December 31, 2004
	(millions)	
Net operating revenues		
Third party	$ 509	$ 341
Related party	54	59
Intercompany	386	450
Total net operating revenues	949	850
Operating expenses		
Costs of products	850	745
Selling, general and administrative	112	104
Depreciation and amortization	21	22

Total operating expenses	983	871
Operating loss	$ 34	$ 21
Operating margin	(3.6)%	(2.5)%
Capital expenditures	$ 5	$ 2

Net Operating Revenues. Product distribution revenues consist of sales to third parties, sales to related parties, consisting of Sprint Nextel entities other than us, and intercompany sales, consisting of sales to our Local segment. Product distribution revenues increased $99 million, or 12%, in 2005 compared to 2004, driven by higher equipment sales to third parties. Of the $168 million increase in sales to third parties, $104 million, or 62%, was due to a significant new contract with a large communications company. Partially offsetting third-party

Table of Contents

sales were decreases of $5 million in related party revenues and $64 million in intercompany sales, which were caused by lower capital expenditures by the Local segment and related parties.

Costs of Products. Costs of products include costs of equipment sold. These costs increased $105 million, or 14%, during 2005 compared to 2004. The increase was driven by the increase in sales to third parties. Costs of products were 90% of net operating revenues for 2005 compared to 88% for 2004.

Selling, General and Administrative Expense. SG&A expense increased $8 million, or 8%, for 2005 compared to 2004. The increase was due to increased business selling costs associated with increased third party sales. SG&A expense was 12% of net operating revenues for both 2005 and 2004.

SG&A expense includes charges for estimated bad debt expense. The reserve for bad debt requires management s judgment and is based on historical trending, industry norms and recognition of current market indications regarding general economic conditions. Bad debt expense was approximately $1 million for the years ended December 31, 2005 and 2004. The reserve for bad debt as a percent of outstanding third and related party accounts receivable was 4% at December 31, 2005 compared to 5% at December 31, 2004.

Year ended December 31, 2004 compared to year ended December 31, 2003.

Years ended	December 31, 2004	December 31, 2003
	(millions)	
Net operating revenues		
Third party	$ 341	$ 290
Related party	59	65
Inter-company	450	485
Total net operating revenues	850	840
Operating expenses		
Costs of products	745	743
Selling, general and administrative	104	104
Depreciation and amortization	22	23
Restructuring and asset impairments		1
Total operating expenses	871	871
Operating loss	$ 21	$ 31
Operating margin	(2.5)%	(3.7)%
Capital expenditures	$ 2	$ 1

Net Operating Revenues. Product Distribution revenues increased $10 million, or 1%, for 2004 compared to 2003. The increase was due to growth in sales to third party customers partially offset by lower sales to related parties and inter-company sales. Sales to third parties increased due to increases in capital spending in the communications industry. The decreases in related party and intercompany revenues were a result of both a planned shift in focus to selling higher margin products and a reduction in customer demand.

Costs of Products. Costs of products were comparable year over year. Consistent with sales, costs of products reflected the planned shift in focus to selling higher margin products and a reduction in customer demand for equipment. Costs of products were 88% of net operating revenues for each of the years ended December 31, 2004 and 2003.

Selling, General and Administrative Expense. SG&A expense was comparable year over year. Pension cost and stock-based compensation expense increased approximately $2 million each, but were offset by general cost controls. Bad debt expense as a percentage of net revenues was not significant in either year. The reserve for bad debt expense as a percent of outstanding third and related party accounts receivable was 5% at December 31, 2004 compared to 8% at December 31, 2003.

SG&A expense was 12% of net operating revenues for both 2004 and 2003.

Restructuring and Asset Impairment. For the year ended December 31, 2003, we recorded approximately $1 million of severance costs associated with the Sprint Nextel organizational realignment.

Nonoperating Items

Interest Expense

The effective interest rates in the following table reflect interest expense on long-term debt only. Interest costs on short-term borrowings and interest costs on deferred compensation plans have been excluded so as not to distort the effective interest rates on long-term debt.

Years ended December 31,	2005	2004	2003
Effective interest rate on long-term debt	7.7%	7.6%	7.6%

Our effective interest rate on long-term debt increased for the year ended December 31, 2005 primarily due to the retirement of debt with lower interest rates. Historical interest expense on long-term debt is not representative of anticipated interest expense that will be incurred after our spin-off from Sprint Nextel, as it does not reflect the level of borrowing that our business will assume upon the spin-off. For more information on our financing activities, see Liquidity and Capital Resources.

Premium on Early Retirement of Debt

There were no early retirements of debt in either 2005 or 2004. Premiums on the early retirement of debt of $5 million were incurred in 2003. See Note 6 of the Notes to Combined Financial Statements for more information.

Income Taxes

Our combined effective tax rate was 39.3% for the year ended December 31, 2005. The combined effective tax rate was 38.3% for the year ended December 31, 2004 and 38.2% for the year ended December 31, 2003. See Note 9 of the Notes to Combined Financial Statements for a reconciliation of the effective income tax rates to the statutory federal rate for income taxes related to continuing operations.

Discontinued Operations, Net

In 2002, Sprint Nextel signed a definitive agreement to sell its directory publishing business to R.H. Donnelley for $2.23 billion in cash. The sale, which closed in January 2003, included Centel Directories Company, or CDC, a wholly owned subsidiary of Centel, which is included in our company. In connection with the sale in 2003, we received $647 million in cash, recognized a pre-tax gain of $635 million ($375 million after tax) and, up to the date of sale, recognized $1 million after tax from the results of operations.

Cumulative Effect of Changes in Accounting Principle, Net

The Financial Accounting Standards Board, or FASB, Interpretation No. 47, or FIN 47, was issued in 2005, interpreting the application of SFAS No. 143 (see discussion of SFAS No. 143 below). FIN 47 requires the

Table of Contents

recognition of a liability for legal obligations to perform an asset retirement activity in which the timing and/or method of the settlement are conditioned on a future event. We adopted FIN 47 in the fourth quarter of 2005, which resulted in the recognition of an asset retirement obligation, or ARO, liability of $28 million, an ARO asset of $4 million and a cumulative effect of change in accounting principles, net of tax, of $16 million. The ARO liability is included in Other noncurrent liabilities and the ARO asset is included in Property, plant and equipment on the Combined Balance Sheets. An ARO liability was established for the estimated cost of removal and disposal of asbestos in company-owned buildings, removal and environmental clean-up of standby power supply system fuel storage tanks and decommissioning of leased buildings for which estimated settlement can be reasonably determined. An ARO liability was not recognized for easements and rights-of-way granted by the United States government, municipalities and private landowners used to route our above-ground and buried cable facilities because the estimated settlement dates of these obligations is indeterminable.

The following table, with comparable actual amounts for the years ended December 31, 2004 and 2003, sets forth the pro forma effects on net income and other noncurrent liabilities assuming we had adopted the provisions of FIN 47 during all periods affected.

	Years Ended December 31,	
	2004	**2003**
	(in millions)	
Net Income		
As reported	$ 917	$ 1,554
Pro forma amounts reflecting the accounting change applied retroactively	$ 915	$ 1,552
Other noncurrent liabilities		
As reported	$ 57	$ 65
Pro forma amounts reflecting the accounting change applied retroactively	$ 83	$ 90

Consistent with regulatory requirements and industry practice, we historically accrued costs of removal of telephone poles, conduit and cable in its depreciation reserve. Adoption of SFAS No. 143, Accounting for Asset Retirement Obligations, affected the cost we historically recorded as these costs of removal did not meet the standard s definition of an Asset Retirement Obligation. Upon adoption of SFAS No. 143, we recorded a reduction in our historical depreciation reserves of approximately $420 million to remove the accumulated excess cost of removal. This resulted in a cumulative effect of change in accounting principle credit, net of tax, of $258 million.

Financial Condition

Our combined assets of approximately $9.2 billion at December 31, 2005 reflected a decrease of $108 million from our combined assets at December 31, 2004. Cash and equivalents, which include net advance receivables from Sprint Nextel of $103 million and $113 million at December 31, 2005 and 2004, respectively, decreased $10 million as capital expenditures, debt payments and dividend payments to Sprint Nextel exceeded cash provided by operations. Inventories increased $8 million to support a new product distribution contract entered into in 2005. Net PP&E decreased $173 million at December 31, 2005 as depreciation expense exceeded capital expenditures.

Accounts payable, which includes $263 million and $140 million of related party payables at December 31, 2005 and 2004, respectively, increased $117 million, or 28%, due to the allocation of asset impairments and allocated merger integration and costs related to the spin-off. Long-term debt including current maturities decreased by $115 million due to the payment of regularly scheduled debt maturities. The deferred tax liability increased by $21 million primarily because of increases in the book to tax differences in PP&E. Postretirement and other benefit obligations decreased by $41 million due primarily to payments for benefits being greater than additional accrued costs.

51

Table of Contents

Our debt-to-total-capital ratio was 19% as of December 31, 2005 versus 20% at December 31, 2004. This decrease primarily reflects a decrease in total business equity of $108 million as dividend payments to Sprint Nextel exceeded net income for the period. Offsetting this was a decrease in debt of $115 million due to payments on scheduled maturities. Our historical debt to capital ratio is not representative of our anticipated ratio following the spin-off. For further discussion of our anticipated capital structure, see Liquidity and Capital Resources Liquidity below.

Liquidity and Capital Resources

We manage our liquidity and capital resource needs primarily through prioritizing the use of capital and timing and amount of capital expenditures.

Operating Activities

Net cash provided by operating activities of $1.9 billion decreased $160 million for the year ended December 31, 2005 compared to the year ended December 31, 2004 and was driven primarily by an increase in cash paid for taxes of $141 million.

Our cash flows provided by operating activities was approximately $2.1 billion for the year ended December 31, 2004 compared to approximately $1.8 billion for the year ended December 31, 2003, an increase of $260 million. Net income was $637 million higher in 2003 than in 2004, but was comparable when the non-operating items of $376 million for discontinued operations and $258 million for the cumulative effect of changes in accounting principle were removed. The 2004 operating cash flows increased primarily due to higher deferred income and a decrease in the inventory and other current assets balances.

Investing Activities

Net cash used in investing activities totaled $816 million, $962 million and $452 million for the years 2005, 2004 and 2003, respectively. Capital expenditures account for the majority of our investing activities. Capital expenditures were primarily incurred to accommodate voice grade equivalent growth, convert the network from circuit to packet switching, continue the build-out of high-speed Internet services and to meet regulatory requirements.

In 2003, investing activities included $647 million of proceeds related to the sale of our directory publishing business. The overall decrease in capital expenditures for the year ended December 31, 2004 compared to the year ended December 31, 2003 was driven by reduced expenditures for capacity, operational maintenance, major projects, and the partial delay of the conversion from circuit to packet switching. These decreases were slightly offset by increased expenditures in high-speed Internet services build-out.

Financing Activities

Our cash flows used by financing activities totalled $1.1 billion and $1.0 billion for the years ended December 31, 2005 and 2004, respectively. Debt payments and dividends to Sprint Nextel accounted for the majority of our financing activities. Dividend payments to Sprint Nextel increased by $118 million and payments of scheduled debt maturities decreased $37 million for the year ended December 31, 2005 compared to the year ended December 31, 2004.

Our cash flows used by financing activities totaled approximately $1.0 billion and $1.3 billion for the years ended December 31, 2004 and 2003, respectively. For the year ended December 31, 2004, financing activities included a $152 million reduction in debt compared with a net reduction of $640 million for the year ended December 31, 2003. The debt reduction during the year ended December 31, 2004 was due to payments of scheduled maturities. For the year ended December 31, 2003, debt payments were made for short-term

Table of Contents

borrowings, scheduled maturities and the early retirement of $84 million in callable bonds. In 2003, we moved from a net advance payable position, which is classified as short-term borrowings, to a net advance receivable position, which is classified as cash, because cash generated from operating activities combined with proceeds from the divestiture of the directory business was sufficient to fund our cash needs. Total borrowings, as presented in the historical combined financial statements, are not representative of the debt or cash that we expect to assume or incur upon the spin-off. Historically, Sprint Nextel has centrally managed its financing activities in order to optimize its costs of funding and financial flexibility at a corporate level. Consequently, the debt reflected in our historical combined financial statements does not necessarily reflect our debt capacity and financing requirements. For further discussion of our anticipated capital structure, see Liquidity below.

We paid dividends to Sprint Nextel of $983 million in 2005 and $865 million in 2004. We will establish our own dividend policy following the spin-off. For further discussion of our anticipated dividend policy, see Liquidity below.

Capital Requirements

Our investing activities are targeted primarily towards increased network capacity and include investments for growth in demand for high-speed Internet services, regulatory mandates and the phased transition from circuit to packet switching. Our anticipated 2006 capital expenditures will be approximately $960 million. This includes approximately $80 million of capital expenditures related to the spin-off. We expect capital expenditures before June 1, 2006 will be approximately $355 million. We continue to review closely capital expenditure requirements and will adjust spending and capital investment in response to customer demand.

Liquidity

We participate in Sprint Nextel s cash management program, whereby Sprint Nextel advances funds to and from its subsidiaries. Sprint Nextel has used the proceeds from operations, the long-term bond market as well as other financial markets to fund capital needs. Additionally, we have our own long-term debt totaling $1,125 million and $1,240 million as of December 31, 2005 and December 31, 2004, respectively, made up of first mortgage bonds, debentures and related party notes. Our ability to fund our capital needs will be impacted by our ongoing ability to generate cash from operations, overall capacity and terms of our bank notes, term debt and access to the equity markets, which will be limited by our tax sharing agreement with Sprint Nextel. Given the volatility in the markets, we continue to monitor the markets closely and take steps to maintain financial flexibility and a reasonable capital structure.

Current debt maturities as of December 31, 2005 and December 31, 2004 were $2 million and $115 million, respectively. Our cash flow from operations for the year ended December 31, 2005 and the year ended December 31, 2004 adequately funded these requirements.

We have a letter of credit facility that is currently guaranteed by Sprint Nextel for an amount not to exceed $11 million. At December 31, 2005, we had outstanding letters of credit under this arrangement of approximately $1 million. Sprint Nextel has other letters of credit with various financial institutions that are available to various Embarq companies. On completion of the spin-off, none of Embarq s letters of credit will be guaranteed by Sprint Nextel as they will be supported by the credit facility discussed below.

We are currently in compliance with all debt covenants associated with our borrowings.

Effective as of the distribution date, we will enter into a credit facility with certain financial institutions.

The credit facility is expected to consist of a revolving facility and a term loan, each with a term of five years. The credit facility is also expected to provide for the issuance of letters of credit within a sublimit.

The credit facility is expected to bear interest, at our option, at either (1) a fluctuating index rate plus the applicable margin or (2) a periodic fixed rate equal to LIBOR plus the applicable margin set forth in a pricing grid in the agreement. The applicable margin is expected to be based on our long-term senior unsecured non-credit-enhanced debt ratings. The credit facility is expected to include a facility fee and letter of credit fees, the amount of which will vary based on our debt ratings.

The credit facility is expected to include financial covenants requiring the maintenance of specified ratios of consolidated earnings before interest, taxes, depreciation and amortization, or EBITDA (as defined therein), to consolidated interest expense and consolidated debt to consolidated EBITDA. In addition, the credit facility is expected to contain customary affirmative and negative covenants, including covenants limiting our ability to:

- enter into transactions with affiliates;
- incur liens;
- incur debt at the subsidiary level;
- permit our subsidiaries to enter into agreements that limit their ability to declare or pay dividends, or to repay or prepay debt owed to, make loans or advances to, provide guaranties in respect of, transfer assets to or invest in, us or our subsidiaries; and
- engage in mergers, consolidations, asset sales or similar transactions.

The credit facility is also expected to contain customary events of default, including for failure to pay principal or interest when due, change of control, covenant defaults, cross-default and cross-acceleration with respect to other debt with a principal amount outstanding aggregating at least $100 million, the existence of unstayed or unsatisfied judgments or orders for payment of money in excess of $20 million individually or $100 million in the aggregate, certain events of bankruptcy and insolvency and certain events under ERISA.

Any downgrade in our credit ratings will increase our borrowing costs under the credit facility. Any downgrade could also restrict our access to the capital markets, increase our borrowing costs under new credit facilities and otherwise adversely affect the terms of future borrowings by, among other things, increasing the scope of our debt covenants and decreasing our financial or operating flexibility. The credit facility does not include any rating triggers that would allow the lenders involved to terminate the facility or accelerate maturity dates in the event of a credit rating downgrade.

We expect to transfer to Sprint Nextel approximately $6.6 billion in the form of cash and the notes being offered by Sprint Capital under this prospectus in partial consideration for, and as a condition to, Sprint Nextel s transfer to us of our business. Although the allocation of that consideration paid to Sprint Nextel may be adjusted, we currently expect that we will issue to Sprint Nextel notes in an aggregate initial principal amount of approximately $4.5 billion and transfer to Sprint Nextel approximately $2.1 billion in cash borrowed under our credit facility. The incurrence of this new indebtedness is conditioned on the completion of the spin-off. Including these borrowings and existing borrowings of our subsidiaries, we will have approximately $7.25 billion of indebtedness on the distribution date. We anticipate that immediately following the distribution date, we will have combined cash and equivalents of $200 million and available liquidity under the credit facility of $1 billion. To the extent permitted, we may also incur additional indebtedness from time to time for general corporate purposes, including working capital requirements, capital expenditures and future acquisitions. Regulatory restrictions and the terms of our indebtedness, however, 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. In the separation and distribution agreement, we and Sprint Nextel have set a target of approximately $183 million for working capital (as defined in the separation and distribution agreement) on our opening balance sheet. See Agreements with Sprint Nextel Separation and Distribution Agreement Further Action.

Table of Contents

We expect to pay a regular quarterly dividend beginning in the third quarter of 2006. We currently expect the dividend to be in the aggregate amount of approximately $75 million in each full quarter. Our ability to fund a regular quarterly dividend will be impacted by our ongoing ability to generate cash from operations. Following the spin-off, payments on approximately $7.25 billion of indebtedness and our quarterly dividends will account for the majority of our financing activities. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our board of directors, and will depend upon many factors, including our financial condition, earnings, growth prospects, funding requirements, applicable law and other factors our board of directors deems relevant. See Unaudited Pro Forma Combined Financial Information.

The following information presents the significant estimated changes in both recurring and non-recurring sources and uses of cash anticipated as a result of our spin-off. The recurring sources and uses presented below reflect the estimated annual impact, commencing from the actual spin-off date.

These estimates represent our management s judgment based on currently available information and involve a number of risks and uncertainties that could cause our actual results to differ materially. See Cautionary Statement Regarding Forward-Looking Statements.

	Estimated Changes in Sources (Uses) (millions)
Recurring:	
Elimination of dividend payment to Sprint Nextel	$ 983
Elimination of payments to Sprint Nextel for use of capital and consumption of shared PP&E	147
Operating cost of corporate support functions	(100)
Interest expense, net of interest savings on related-party notes	(437)
Dividend payment to our stockholders	(300)
Non-recurring separation costs expected to be incurred in 2006:	
Operating costs	($ 100)
Capital expenditures	(76)

Although the significant estimated changes resulting from the spin-off as outlined above provide incremental cash to the business, our overall cash position in 2006 is expected to decline as a result of the key business factors identified above under Overview. We do not believe that such decline will adversely affect our operations or our ability to make our anticipated capital expenditures, pay interest on indebtedness or make our anticipated dividend payments.

Our contractual obligations as of December 31, 2005 are summarized below and are disclosed in further detail in Notes 3, 6 and 11 of the Notes to Combined Financial Statements.

Payments due by Period as of December 31, 2005

	Total	2006	2007	2008	2009	2010	After 2010
	(millions)						
Related party notes	$ 460	$	$ 120	$	$	$ 255	$ 85
First mortgage bonds and debentures	665	2	37	99	2	2	523
Estimated future interest payments	865	88	84	75	69	60	489
Operating leases	67	14	12	8	8	6	19
Unconditional purchase obligations	33	25	6	2			
Total contractual obligations	$ 2,090	$ 129	$ 259	$ 184	$ 79	$ 323	$ 1,116

Table of Contents

Long term debt obligations reflected above reflect our historical debt level, which is not representative of the debt repayments that will actually be due under our new capital structure.

The following table presents our pro forma contractual obligations and assumes the delivery to Sprint Nextel of approximately $4.5 billion of notes and the transfer to Sprint Nextel of cash proceeds of approximately $2.1 billion from borrowings under our credit facility. The pro forma amounts assume this transaction occurred on January 1, 2005.

	Pro Forma Payments due by Period as of December 31, 2005						
	Total	**2006**	**2007**	**2008**	**2009**	**2010**	**After 2010**
	(millions)						
Notes issued to Sprint Nextel (1)	$ 4,485	$	$	$	$	$	$ 4,485
Credit facility (1)	2,100						2,100
First mortgage bonds and debentures	665	2	37	99	2	2	523
Estimated future interest payments	6,482	515	514	509	505	505	3,934
Operating leases	67	14	12	8	8	6	19
Unconditional purchase obligations	33	25	6	2			
Total contractual obligations	$ 13,832	$ 556	$ 569	$ 618	$ 515	$ 513	$ 11,061

(1) The amounts set forth in the table above with respect to the notes and credit facility assume that we issue to Sprint Nextel the notes in an aggregate initial principal amount of approximately $4.5 billion and transfer to Sprint Nextel approximately $2.1 billion of cash borrowed under our credit facility. The allocation between the principal amount of the notes and amounts borrowed under the credit facility could change but will not exceed $6.6 billion in the aggregate.

Unconditional Purchase Obligations

We have minimum purchase commitments with various vendors through 2008. These outstanding commitments represent non-cancelable commitments to purchase goods and services, consisting primarily of network maintenance and equipment, information technology services, customer support provided by third parties and other expenses related to normal business operations. Some of these commitments are shared with Sprint Nextel. When possible, estimates have been made to identify the portion of the commitment that relates to us. Outstanding commitments including estimations of shared commitments as of December 31, 2005 were approximately $33 million.

Expected pension contributions are disclosed in Note 7 of the Notes to Combined Financial Statements and have not been included in unconditional purchase obligations.

Off-Balance Sheet Financing

We do not participate in, secure or finance any unconsolidated, special purpose entities.

Financial Strategies

Derivatives

We selectively enter into interest rate swap agreements to manage exposure to interest rate changes on our debt. We also control exposure to market risk by regularly monitoring interest rate positions under normal and stress conditions to ensure they do not exceed established limits.

Table of Contents

At the distribution date, we plan to issue approximately $4.5 billion of notes to Sprint Nextel. Our interest rate on this debt is expected to be determined based on the prevailing market conditions at the time of issuance. Given the historical low interest rate environment and volatility in interest rates, we sought to limit our interest rate risk associated with our expected incurrence of new debt by entering into hedge transactions with external counterparties.

During the fourth quarter 2005, we executed swaption derivative contracts for a cumulative notional amount of $600 million. These swaption contracts will mitigate the interest rate variability of the first ten years semi-annual interest payments on the first $600 million of our anticipated debt issuance.

Also during the fourth quarter 2005, we entered into Treasury collars for a cumulative notional amount of $2.4 billion. These interest rate collars will mitigate the interest rate variability of the first ten years semi-annual interest payments on the next $2.4 billion of our anticipated debt issuance.

Both the swaption derivative contracts and the Treasury collars are cash flow hedges.

At the inception of each cash flow hedge, each hedge was tested for effectiveness in mitigating the interest rate variability risk and all were deemed effective. At December 31, 2005, we tested the effectiveness of each cash flow hedge, both prospectively and retrospectively, and determined the swaption contracts were no longer effective hedges resulting in a pretax charge of $3 million and a liability of $3 million. The Treasury collars were accounted for as cash flow hedges resulting in a $1 million pretax charge for their ineffectiveness and a $9 million unrealized holding loss, net of tax, and a liability of $15 million.

We expect to terminate the hedge on or about the date that the debt is issued or shortly thereafter, if it has not already matured. On termination, the accumulated other comprehensive income (loss) will be amortized as interest expense over the life of the debt. See Note 3 of the Notes to Combined Financial Statements for additional information regarding derivative investment activity.

Recently Issued Accounting Pronouncements

In December 2004, FASB issued SFAS No. 123R, Share-Based Payment. This statement requires an entity to recognize the cost of employee services received in share-based payment transactions, through the use of fair-value-based methods. This statement became effective for us as of January 1, 2006.

Sprint Nextel voluntarily adopted fair value accounting for share-based payments effective January 1, 2003, under SFAS No. 123, as amended by SFAS No. 148, using the prospective method. Upon adoption, we began recognizing our allocated share of the fair value of stock-based compensation for all grants, modifications or settlements made on or after January 1, 2003. Further, in connection with the tracking stock recombination (see Note 2 of the Notes to Combined Financial Statements), as required by SFAS No. 123, we recognized our allocated share of compensation cost resulting from the conversion of PCS stock options to FON stock options. Sprint Nextel accounted for this conversion as a modification and accordingly applied stock option expensing to FON stock options resulting from the conversion of PCS stock options granted before January 1, 2003.

The revised standard will require us to begin to recognize allocated compensation cost for unvested FON stock options granted before January 1, 2003, which were outstanding as of January 1, 2006. This requirement to recognize expense on additional unvested grants will not be significant to our combined financial statements.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4. This statement requires that items such as idle facility expense, excessive spoilage, double freight, and rehandling costs be recognized as current-period charges regardless of whether they meet the definition of abnormal provided in ARB 43, Chapter 4, Inventory Pricing. The statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this standard will not have a material impact on our combined financial statements.

Table of Contents

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. This statement eliminates the exception to fair value measurement in the exchange of similar productive assets and replaces it with a general exception for exchange transactions that do not have commercial substance. That standard indicates that an exchange does not have commercial substance if it is not expected to significantly change the cash flows of the reporting entity. This statement is effective for nonmonetary exchanges occurring in fiscal periods beginning after June 15, 2005. The adoption of this standard did not have a material impact on our combined financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, or FIN 47. FIN 47 requires an entity to recognize a liability for a legal obligation to perform an asset retirement activity in which the timing and/or method of the settlement are conditional on a future event. The liability must be recognized if the fair value of the liability can be reasonably estimated. This interpretation of SFAS No. 143, Accounting for Asset Retirement Obligation, is effective no later than the end of the first fiscal year ending after December 15, 2005. We adopted FIN 47 in the 2005 fourth quarter resulting in recognition of an ARO liability of $28 million, an ARO asset of $4 million and a cumulative effect of change in accounting principle, net, of $16 million, and an adjustment was recorded in the fourth quarter ended December 31, 2005 related to the interpretation. The adjustment will increase the asset retirement obligation by approximately $28 million.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 requires retrospective application to prior periods financial statements for changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 also requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. We were required to adopt SFAS No. 154 as of January 1, 2006. The adoption of this standard will not have a material impact on our combined financial statements.

Quantitative and Qualitative Disclosures about Market Risk

The risk inherent in our market risk sensitive instruments and positions is the potential loss arising from adverse changes in those factors. We are susceptible to market risks related to changes in interest rates and do not purchase or hold any derivative financial instruments for trading purposes.

We are subject to interest rate risk primarily associated with our borrowings. We selectively enter into swap and other agreements to manage our exposure to interest rate changes on our debt.

All our outstanding debt at December 31, 2005 is fixed-rate debt. While changes in interest rates impact the fair value of this debt, there is no impact on earnings and cash flows because we intend to hold these obligations to maturity unless market conditions are favorable.

Because we carried no variable rate debt during 2005, an interest rate sensitivity analysis is not necessary. Accordingly, a 1% change in interest rates would not impact the Combined Statements of Operations and Combined Statements of Cash Flows at December 31, 2005.

We also perform a sensitivity analysis on the fair market value of our outstanding debt. A 10% decrease in market interest rates would cause a $37 million increase in fair market value of our outstanding debt to $1.3 billion as of December 31, 2005.

58

Table of Contents

BUSINESS

Overview

We offer regulated local communications services as an ILEC to roughly 5% of U.S. households, with approximately 7.26 million consumer and business access lines, as of March 31, 2006. Following the spin-off, we will provide a suite of communications services, consisting of local and long distance voice and data services, including high-speed Internet access. We also expect to provide access to our local network and other wholesale communications services for other carriers, communications equipment for business markets, and other communications-related services. Following the spin-off, we expect to provide CDMA-based wireless voice and data services in most of our local service territories to consumers and small business customers through a non-exclusive wholesale arrangement involving an MVNO relationship with Sprint Nextel. Small business customers for purposes of the MVNO relationship are defined as businesses with less than 80 lines of wireless services. We also expect to offer certain wireline voice and data, wireless and video services through sales agency and other wholesale agreements.

Following the spin-off, our assets and business will consist largely of those that Sprint Nextel attributes to its incumbent local communications operations and that are reported as its Local segment in its financial statements. Following the distribution, we will be an independent, publicly traded company and we expect to be included in the *Fortune* 500 list based on our historic revenues and those of other companies included in the most recent version of that list.

We will continue to serve our local service territories, which are located in 18 states. We have a significant presence in Florida, North Carolina, Nevada and Ohio (these four states represent nearly two-thirds of all of our access lines). The remaining states (in order of number of access lines) are: Virginia, Pennsylvania, Texas, Indiana, Missouri, Tennessee, New Jersey, Minnesota, Kansas, South Carolina, Washington, Oregon, Nebraska and Wyoming. We are the carrier of last resort and, therefore, are entitled to receive funding under universal service programs in our local service territories.

The following map shows the location of our service territories:

We were incorporated in Delaware in 2005; however, our roots trace back to 1899 and the Brown Telephone Company in Abilene, Kansas. Over that period, we have invested substantial resources to improve and expand our network infrastructure to provide quality communications services and customer care. This capital investment and an effective sales effort have historically allowed us to achieve reasonably stable operating results, revenue and cash flow.

Following the spin-off, as part of our overall business strategy, and consistent with the limitations under the tax sharing agreement, we expect to regularly evaluate business opportunities. These may include investments in current or new business lines and both acquisitions that complement our business and divestitures. At any time we may be discussing or negotiating a transaction that, if consummated, could have a material effect on our business, financial condition, liquidity or results of operations. Our board of directors will evaluate our historic strategies and may decide to adopt new strategies in the future.

Following the spin-off, we expect to have total indebtedness of approximately $7.25 billion. A portion of this debt is currently outstanding and the remainder, approximately $6.6 billion, will be incurred and payable to Sprint Nextel and one or more third parties in connection with the spin-off. We intend to incur the new indebtedness and use the cash proceeds in partial consideration for, and as a condition to, the transfer of the assets to us by Sprint Nextel in the spin-off.

Our Strengths

We believe our strengths will enable us to continue to generate cash flow and to grow new streams of revenue by diversifying our offerings, such as high-speed Internet services, while also allowing us to focus our efforts on minimizing the loss of access lines in our traditional local wireline business. Our principal strengths include:

Longstanding customer relationships

As the incumbent provider of communications services in our local service territories, we have developed longstanding customer relationships. Based on our estimates, we provide communications services to approximately 85% of the total potential customers in our local service territories. We manage our service offerings at the local level to serve the needs of each community effectively and efficiently. As a provider of traditional and new wireline services in our local service territories, our infrastructure is readily available to meet our customers evolving needs and we strive to be their preferred choice as they seek additional services. To become the preferred choice of our customers and prospective customers, we continually aim to improve the quality of the customer experience for all products, at all touch points, in all our markets. The separation of our company from Sprint Nextel will allow our local customers to be served by a company whose primary strategic focus is providing services in the local service territories where those customers are located. We strive to continuously improve our current products and service offerings and we also plan to expand our product portfolio, both by internal development and external partnering efforts, in order to meet demand for broader communications services. Our dedicated sales and customer service representatives have local market knowledge and we offer bundled services that are designed to meet our customers needs, while also simplifying their selection and use of our services.

Pre-existing network infrastructure

As the incumbent provider of communications services in our local service territories, we have a network infrastructure already in place to serve our customers current needs and that can also serve as the foundation for offering new services to meet our customers evolving needs. One example is our offering of high-speed Internet services, which, as of December 31, 2005, are available to approximately 74% of our local communications customers. By having a pre-existing wireline network with significant traffic that is capable of high-speed Internet services, we have been able to efficiently deploy these services without incurring the capital costs

Table of Contents

associated with creating new wireline connections to the customers premises. As a result, these high-speed Internet services have generated reasonably consistent cash flow.

Ability to offer a wide array of bundled services

We believe that following the spin-off, we will be among the few communications service providers in many of the markets we serve that can provide a suite of services to both consumers and business customers that includes wireline voice services, high-speed data, consumer video entertainment services, and communications equipment for business customers. We plan to expand our service offerings by providing CDMA-based wireless voice and data services to our consumers and business customers in our local service territories through our MVNO and sales agency relationships with Sprint Nextel. We also expect to offer certain wireline voice and data, wireless, and video services through sales agency and other wholesale agreements. We seek to maximize profitable communications services revenue per customer through the convenience and cost savings of using a single provider for a broad suite of services. By offering a bundled package of products and services, we have improved our long distance and high-speed Internet services penetration, resulting in increased revenue and lower customer churn, which have helped to offset revenue decreases driven by continuing declines in access lines and product substitution. Since we introduced our high-speed Internet access service in 1999, we have successfully grown our high-speed Internet base to approximately 693,000 lines at December 31, 2005, which represents approximately 9.4% penetration of our access lines. Going forward, we expect to go beyond merely bundling services by offering truly integrated or converged services and we believe that, combined with the modernization of our networks (such as by circuit to packet migration) and support systems, this will allow us to be more competitive and thereby achieve a greater market share.

Favorable demographics

The annual growth in number of households in our local service territories has averaged approximately 1.8% over the three years ended December 31, 2005, compared to the national average over that period of approximately 1.3%. Our local service territories cover all or part of six of the 20 fastest growing MSAs based on the 2000 census. Approximately 29% of our access lines as of December 31, 2005 were in those MSAs.

Service and product expertise

We believe that our strong heritage provides a solid foundation for the continued development and delivery of cost-effective products and services. For over 100 years, our business has focused on providing high quality communications products and services to meet the evolving needs of our customers. We intend to build on the core strengths of our business to fulfill our mission of providing high quality, cost-effective products and services and innovations that address our customers communications needs. We believe that our experienced employee base will help us to fulfill this mission. In particular, many of our dedicated sales and customer service representatives have local market knowledge.

Experienced management team

We have a senior management team with experience managing the expansion of communications companies, including experience at Sprint. Our management team has, to a large extent, been operating in its current composition since August 2005.

Table of Contents

Business Strategy

Our strategy is to maximize profitable communications services revenue per customer by selling integrated and bundled products and services and meeting the needs of our consumers and business and wholesale customers within our local service territories. Four key goals will support this strategy:

Provide Useful Products and Solutions to Attract and Retain Customers:

- actively market integrated service offerings featuring local and long distance voice, high-speed data, video and wireless services and customer premises equipment, or CPE, that are designed to serve the customers communications needs;
- expand high-speed Internet coverage, deliver faster Internet services and enhance the product to increase market penetration and customer retention;
- offer video services through our direct broadcast satellite, or DBS, arrangement;
- deliver attractive wireless voice and data services in a large portion of our markets, through agency and MVNO arrangements with Sprint Nextel and possibly others;
- deliver products and services that meet targeted customer needs and provide product and service simplification; and
- over time convert our backbone and distribution networks to an IP structure, including VoIP, to expand our ability to provide value enhanced services.

Improve Customer Experience and Perception of Service and Product Offerings:

- provide our customers a simple, accurate, easy-to-understand bill;
- maintain quality and reliability of our wireline services;
- be the preferred hometown communications company capitalizing on and continuing our long-term customer relationships and involvement in the communities we serve;
- expand convenient and innovative distribution channels; for example, by increasing the number of retail stores to increase our local presence;
- offer services at competitive prices; and

serve our customers with knowledgeable, motivated, enabled and accountable sales and customer support associates, and effectively resolve customer issues in a single service call.

Manage Costs:

- implement process improvements to increase operational efficiency;
- establish network investment priorities consistent with our business strategies, including to support enhanced service offerings:
  - invest in high-speed network facilities;
  - minimize investment in legacy copper network; and
  - deploy packet switching where it is economically justified;
- improve our systems to provide support to e-commerce sales and improve the effectiveness of our customer support operations; and
- simplify legacy IT support systems.

Table of Contents

Maintain a Customer-Focused Culture that Encourages High Performance and Employee Satisfaction:

- maintain our strong commitment of service to the local communities in which we operate;
- be innovative and competitive in our approach to serving our customers;
- continue to deliver an exceptional customer experience;
- improve management focus, quality and communication;
- maintain a culture of success by aligning management and employee incentives to performance;
- be a great place to work; and
- deploy sales compensation plans that support our objectives and are easy to administer and understand.

Our New Brand

On February 1, 2006 we announced our new brand name, EMBARQ, and unveiled our new logo. Embarq Corporation is our holding company name, and EMBARQ will be the brand of our local communications operations, products and services. In addition, we expect to associate our EMBARQ brand with products that we resell to our customers, including long distance and wireless services. We expect that we will use the EMBARQ brand with the sale of our long distance services as early as late April 2006 and in conjunction with the rest of our services on or shortly after the distribution date. We plan to invest significant resources to develop and build awareness of our new brand in our local service territories. We believe that having strong brand recognition, built on a consistent message, will help us grow as an independent company.

Our Services and Product Offerings

We currently operate our business in two segments: Local and Product Distribution.

Through our Local segment, we offer three general categories of products and services: voice, data and other. We currently provide a wide range of products and services through these categories, including the following:

Voice:

local calling services;

access services to long distance carriers, wireless carriers and CLECs; and

wholesale services.

Data:

high-speed Internet access services; and

special access services.

Other:

long distance voice and data services;

wireless services;

video services and pay per view;

communications equipment; and

engineering and customer support services.

Through our Product Distribution segment, we provide:

wholesale product distribution;

logistics; and

configuration services.

After the spin-off, in addition to or in place of certain current offerings (for example, we will no longer sell wireless services to the consumer market as a Sprint Nextel agent), we expect to provide our own branded wireless voice and data services to consumers and small business customers in most of our local service territories through wholesale arrangements, such as the MVNO relationship with Sprint Nextel. However, we expect to offer Sprint Nextel-branded wireless services to certain medium and large business customers through a sales agency agreement with Sprint Nextel. We also expect to offer our own branded long distance voice and data services, primarily through a wholesale relationship with Sprint Nextel. We plan to provide certain other Sprint Nextel-branded wireline voice and data services to large business customers, including data networks that extend out of our local service territories, through a sales agency arrangement with Sprint Nextel. See Agreements with Sprint Nextel Commercial Service Agreements.

The following chart summarizes the components of our revenue sources during each of the last three years in the period ended December 31, 2005:

Revenue Source	Years Ended December 31, 2005	2004	2003
		(millions)	
Local segment:			
Voice	$ 4,003	$ 4,157	$ 4,268
Data	983	833	730
Other	705	749	806
Product Distribution segment:			
Third Party	509	341	290
Related Party	54	59	65

See Management s Discussion and Analysis of Financial Condition and Results of Operations.

Local segment

Voice

Local Services. We provide local calling services to consumers and business customers within our local service territories, generally for a fixed monthly charge. In the vast majority of our local service territories, the amount that we can charge a customer for local calling services is governed by state and/or federal regulatory authorities. We also provide a number of enhanced calling features, such as call forwarding, caller identification, voicemail and call waiting, for which we generally charge an additional monthly fee. We also generate revenue from non-recurring services, such as service activation and reactivation. As of March 31, 2006, we had approximately 5.0 million consumer and 2.1 million business access lines. In the consumer category, as of March 31, 2006, approximately 73% of our customers purchased at least one additional service from our portfolio of services that also included Sprint Nextel long distance and wireless services, and approximately 43% of our customers purchased two or more of those additional services.

Table of Contents

Access Services. Long distance carriers, wireless carriers and CLECs purchase various forms of switched access services thereby enabling connectivity with their networks and facilitating our local customers ability to make or receive long distance calls. Access charges for interstate and international calls are regulated by the FCC, while access charges for intrastate calls are regulated by the state public utility commissions, or PUCs.

Wholesale Services. In addition to access services, FCC regulations require us to offer certain of our network facilities to CLECs on an unbundled basis (i.e., UNEs) and to allow them to collocate some of their equipment in our central offices. The FCC sets general guidelines for pricing of UNEs and collocation and state PUCs set the actual prices charged. As of March 31, 2006, we had approximately 219,000 wholesale access lines, including UNE lines and resold access lines.

Data

High-speed Internet Access Services. As of March 31, 2006, we provided high-speed Internet access services for a monthly fee over approximately 777,000 lines in service. Our primary high-speed Internet offering features a download and upload speed of up to 1.5 Mbps, but we also offer download speeds ranging from 256 Kbps to 5.0 Mbps. Our high-speed Internet services are offered primarily using a DSL service delivery platform.

Special Access Services. In addition, large businesses, long distance carriers, wireless carriers and CLECs purchase special access facilities, which consist of dedicated circuits used to connect their business sites or their networks to ours, to connect their networks directly to their customers locations, or, in the case of wireless carriers, to connect their cell sites with their mobile switching centers. Although the traffic through special access facilities may include voice as well as data, we have historically reported revenues associated with special access as data revenue.

Other

Long Distance Voice and Data Services. Currently, we offer long distance voice and data services through a sales agency arrangement with Sprint Nextel. Following the spin-off, we plan to offer to our consumer customers long distance voice calling services either based on usage or pursuant to flat-rate calling plans. These services include traditional switched long distance, toll free calling, international, calling card and operator services. We also expect to offer long distance voice and data services to business customers. Voice services will include traditional switched and dedicated long distance, toll free calling, international, calling card and operator services. In connection with the spin-off, we expect that Sprint Nextel s switched long distance consumer customers, and certain of its switched long distance business customers, that reside or are headquartered in our local service territories will, subject to federal and state regulatory approvals, be transferred by Sprint Nextel to one of our subsidiaries. Certain IP data customers may also be transferred if all of their locations are within our local service territories. Data services offered to business customers will include dedicated IP circuits, frame relay over IP and multi-protocol label switching, or MPLS, over IP. We anticipate that the primary underlying network provider for the long distance services we provide will continue to be Sprint Nextel after the distribution. We plan to purchase long distance services from Sprint Nextel and other providers at wholesale and then sell them to our customers under our new brand. Following the distribution, revenues associated with these services will be reported in the voice category. We also expect to sell some long distance voice and data services to large business customers as an agent of Sprint Nextel. See Agreements with Sprint Nextel Commercial Service Agreements. As of March 31, 2006, of our access lines on which a primary interexchange, or long distance carrier, is selected, we had an approximately 63% share of consumer lines and approximately 51% of business lines for which long distance services are provided through our offering of Sprint Nextel long distance services.

Wireless. We currently offer wireless services through a sales agency relationship with Sprint Nextel. Following the distribution, our consumer and small business wireless services are expected to be sold primarily as our own branded wireless services in most of our local service territories through wholesale arrangements with

65

third parties, including the MVNO relationship with Sprint Nextel. We are entering into the MVNO relationship with Sprint Nextel to facilitate our ability to develop our own branded CDMA-based wireless services and product bundles in order to leverage our wireline assets. We expect to begin providing these services as early as June 2006. The MVNO relationship with Sprint Nextel is a seven year agreement, with price points driven by volume, type of service (i.e., voice or data) and customization. Through the MVNO relationship with Sprint Nextel, we will have access to a nationwide network that will mirror Sprint Nextel s CDMA coverage in our local service territories. Currently, Sprint Nextel s wireless network covers approximately 80% of our local service territories. We also will be able to take advantage of Sprint Nextel s investments in its core network infrastructure. For example, as Sprint Nextel deploys its own CDMA-based high speed digital data network, as part of its core network services, we expect to be able to offer a similar service. We also expect to enter into agreements with other third party vendors to provide some or all of the billing, customer care and handset distribution and logistics needed to support our wireless customers.

Our wireless strategy is to provide a unified communications solution by including wireless voice and data services as part of larger communications services bundles offered to customers in our local service territories. Although we expect to offer stand-alone wireless services, our market emphasis will be on the creation and sale of product and services bundles that have historically improved customer retention. See Agreements with Sprint Nextel Commercial Service Agreements.

Video. We currently sell video services and pay per view through a sales agency relationship with Echostar. As of March 31, 2006, approximately 112,000 of our customers purchased video services from us under this arrangement. We generally sell video services as part of a bundled products and services offering, with charges for all products and services appearing on a single bill provided by us to our customer. Over time, our video service offering may include an approach that utilizes owned facilities in certain markets and sales agency arrangements involving satellite-based services. While there are many relevant considerations, population density would be a critical factor in deciding which technologies to pursue and in which markets.

Equipment and Professional Services. We sell and service a range of CPE, which is communications equipment that resides at a business customer s location for the management of voice and data networks and applications. We provide CPE to our customers through sales, engineering, and distribution relationships with a small number of primary vendors and logistics support from our Product Distribution segment. We also provide inside wiring services at consumer and business customer locations to install, maintain or upgrade equipment. We also offer engineering and customer support services to our customers, remote management and monitoring of CPE, remote security services to protect customer information and networks, and maintenance of equipment under contract.

Product Distribution segment

Through our Product Distribution segment, we procure, configure and distribute equipment, materials and supplies to the communications and cable industries. The products that we offer include outside plant, business communication systems, telephones and accessories and network access equipment from leading manufacturers across multiple markets. With approximately 1,000 employees, including experts in logistics, engineering, integration and deployment, and communications equipment, Product Distribution offers supply chain solutions that are recognized for their innovation, effectiveness and efficiency. Product Distribution operates six distribution centers throughout the U.S. The group currently stocks more than 20,000 items from more than 1,300 manufacturers. Product Distribution will serve in a supply chain management function within our company, which will help to create scale and reduce costs. See Management s Discussion and Analysis of Financial Condition and Results of Operations.

Table of Contents

Sales and Marketing

We plan to market and sell our products and services through four main marketing groups: Consumer Markets, Business Markets, Wholesale Markets and Product Distribution, each of which is described below. Our sales and marketing functions, including product development, product management, research, advertising and promotions, will be managed individually by each marketing group.

To foster long-term relationships with our consumers and business customers, we have undertaken many initiatives to provide quality customer service. We operate approximately 20 retail and two wholesale call centers, located mainly in our local service territories, staffed with customer service representatives who are knowledgeable about the local markets we serve. In addition, we have automated many of our customer service functions, including Internet e-commerce systems, so that our customers can receive answers to many frequently asked questions regarding their communications services without speaking to a customer service representative. We continue to consolidate our service plans and simplify our invoices to better meet our customers needs.

We locally manage our service offerings in an effort to serve the needs of each customer effectively and efficiently. We are committed to a high standard of service and have sales representatives with market knowledge of the local service territories in which we operate. Based on our understanding of our customers needs, we offer bundled services that are designed to simplify the customer s selection and ability to use our services. Offering bundled services allows us to capitalize on our network infrastructure by offering a suite of communications services in local voice, high-speed Internet access, and long distance services, as well as wireless and video. We believe that offering bundled services improves customer retention and gives us the opportunity to offset declining access lines due to wireless substitution and competition from cable operators and CLECs.

Consumer Markets

Consumer Markets provides a portfolio of bundled wireline and video services to consumers in our local service territories. Consumer Markets historically has also sold Sprint Nextel-branded wireless services and long distance services under a sales agency agreement with Sprint Nextel. Following the spin-off, Consumer Markets will continue to focus on selling bundled wireline services and video services, but will also sell wireless services and long distance services under our new brand. The group offers products and services through a variety of channels, including call centers, the Internet, retail stores and third-party channels.

Consumer Markets has had success in the sale of high-speed Internet service with a growth rate of over 41% in 2005. While we anticipate continued growth, we expect the percentage growth rate to decline. At December 31, 2005 and March 31, 2006, we had over 552,000 and 625,000, respectively, consumer high-speed Internet lines in service.

Our consumer retail marketing approach emphasizes customer-oriented sales, marketing and service with a local presence. We market our retail products and services primarily through our customer service representatives, direct sales representatives, local retail stores and telemarketing. We support our distribution with direct mail, bill inserts, newspaper advertising, website promotions, public relations activities and sponsorship of community events. In our local service territories, we operate retail stores that allow our customers the opportunity to pay their bills directly or meet personally with our customer service and sales representatives to purchase additional services and, in some locations, customer premises equipment. Our customer service and sales representatives promote sales of services to meet the unique needs of our customers. Sales channels are being expanded to increase the visibility of our products and services in third-party retailers and on websites that are co-branded with our business partners. At December 31, 2005, we had 29 retail stores, and we expect to have between 55 to 60 stores by the end of 2006.

The number of households in our local service territories, which include portions of the Southeastern U.S. and Las Vegas, is growing faster than the national average. In fact, our local service territories cover all or part of

Table of Contents

six of the top 20 fastest growing MSAs, based on the 2000 census. These include Las Vegas (#1), Naples (#2), Raleigh-Durham (#12), Orlando (#16), Ocala (#18) and Fort Myers (#20). In an effort to maximize our growth, we are expanding our approach to consumer marketing and sales in these areas. Our broadened strategy includes new product offerings that we expect will appeal to households in which wireless phones are becoming the primary means of communication. We are also actively working with property developers to provide the right infrastructure and services to support technology needs of new home owners.

Consumer Markets strategy includes improving market penetration and maximizing profitable communications services revenue per household through cross-selling, up-selling, and selling a full bundle of services to meet customers communications needs. Consumer Markets strategy also includes expansion of the entertainment components of its portfolio and integrating video with wireline services to deliver competitively priced integrated product bundles for our customers.

Business Markets

Business Markets provides a broad portfolio of local, wireless, long distance and equipment products and services designed to meet the needs of business customers. Key products include high-speed data, wireless and long distance voice services as well as traditional local wireline and CPE. The group offers products and services through a variety of channels, including call centers, the Internet, retail stores, direct sales and third-party channels. Following the spin-off, we expect to sell our own branded wireline and wireless services to small business customers. We also expect to use the sales agency agreement with Sprint Nextel to sell Sprint Nextel-branded wireline and wireless services to medium and large business customers. However, wireless customer relationships that exist at the time of the spin-off will remain with Sprint Nextel after the spin-off. See Agreements with Sprint Nextel Commercial Service Agreements.

Our business customer retail marketing approach focuses on end-to-end customer communications solutions from small businesses to large enterprise customers. We market our retail products and services to business customers through several channels, including direct sales forces located in each of the areas we serve, call center sales and service representatives, telemarketing programs, third party agents and local retail stores. Our direct sales force calls on prospective and existing business customers to provide a reliable and complete communications solution that best fits the needs of our customers based on our communications knowledge and the information we gain about the customers needs. Our network engineers design services, products and applications that help our customers operate their businesses. Our technicians survey customer premises to assess building entry, power and space requirements for communications equipment and coordinate delivery, installation and testing of equipment. We utilize many advertising and promotional programs, including direct mail, bill inserts, media advertising, newspaper advertising, website promotions, public relations activities and sponsorship of community events. In 2006, we plan to continue expanding our selling channels by growing our business presence in our retail stores, utilizing third party retailers and leveraging value added resellers.

Business Markets strategy includes a commitment to deliver communications solutions that meet existing and future business customer needs through bundles of services, integrated service offerings and the development of innovative products and services.

Wholesale Markets

Wholesale Markets offers a variety of network-based products and database services to local, long distance and wireless carriers. Carriers utilize these wholesale products as part of their infrastructure and support systems in providing end-user retail services. Key products for this group include switched and special access, UNEs, collocation, database, directory assistance, operator services, high-speed data and access to network signaling systems. With the growth in wireless voice and data services, wireless carriers operating within our local service territories are increasingly purchasing wholesale services to link their towers and to interconnect with our wireline networks. As of December 31, 2005, Wholesale Markets also provided public access services to approximately 24,500 pay telephone units in 43 states. Further, through 22 account relationships, Wholesale Markets provides communications services to inmates at 161 state and county correctional institutions.

Our wholesale marketing approach includes direct sales calls to our carrier customers in the interexchange long distance, wireless, CLEC, and Internet Service Provider, or ISP, market segments. Wholesale revenues are derived primarily from switched access for originating and terminating long distance calls, special access to provide dedicated links between customer premises and carrier networks, intelligent network database services and interconnection services to link networks between carriers. Approximately 80% of our wholesale revenues come from 20 carriers. Our associates work closely with these customers to develop products and services that address their specific needs and to help ensure that we continue to be the wholesale provider of choice within our local service areas. In addition, our dedicated account managers and supporting sales engineers consult with these customers on network design and application needs.

Wholesale customers have access to the majority of our products and services through our wholesale website and through tariffs that are filed with state and federal regulatory agencies. We are working to improve our wholesale website both to enhance the customer experience and to reduce calls to wholesale service centers.

Wholesale Markets strategy is focused on providing superior network service quality and products tailored specifically to its customers business needs.

Product Distribution

Product Distribution s sales and marketing approach emphasizes providing cost competitive communications products through, what we believe to be, a world class logistics organization. We service our network service provider and reseller customer base through a direct sales organization, centralized call center operations and e-commerce activities. We support these channels with direct mail, bill inserts, trade advertising, website promotions, public relations activities and participation in key industry trade shows. Our sales and service organization helps customers design advanced supply chain solutions by providing engineering and installation services to help improve the operational efficiency of their businesses.

Product Distribution s strategy is to achieve economies of scale in purchasing and to provide customers with a reliable infrastructure to meet a wide variety of supply chain needs through its logistics network, which is comprised of best-in-class information technology systems and strategically located distribution centers.

Network Architecture and Customer Support

Our network consists of host and remote central office digital switches and digital loop carriers interconnected with copper, microwave and fiber facilities. Our equipment typically operates on the most current software in generally available release. The outside plant infrastructure connecting the customer with the core network also consists of a mix of copper and fiber optic cables. As of December 31, 2005, we maintained over 330,000 miles of copper plant. Our network also includes approximately 37,000 miles of local and long-haul fiber optic cables typically powered with synchronous optical network, or SONET, terminals, which are the primary transport technology between our 318 host and 1,605 remote central offices and interconnection points with other ILECs. We have a robust SONET-based transport architecture utilizing over 3,000 survivable rings. This architecture increases reliability to both consumers and business customers. Our network also contains 12 Signaling

System 7, or SS7, pairs, or 24 transfer points, to provide call control and signaling. We also have approximately 900,000 access lines converted to packet switching infrastructure and we were the first ILEC to launch a conversion to packet switching. In addition, we have deployed approximately 33% of the call servers needed to support a soft switch network architecture. This packet infrastructure positions us for new services and products.

Table of Contents

In our markets, high-speed Internet-enabled integrated access technologies are being deployed to provide significant broadband capacity to our customers. We continue to modify the network to offer high-speed Internet service to more customers; as of December 31, 2005, approximately 74% of our access lines were capable of providing high-speed Internet service to our customers. We continue to evaluate new high-speed Internet technologies, fixed wireless and other Internet high-speed enhancements that could expand the coverage and data speeds of our high-speed Internet offerings.

Rapid and significant changes in technology are expected in the communications industry. Our future success will depend, in part, on our ability to anticipate and adapt to technological changes. We believe that our network architecture and management expertise will enable us to respond efficiently to these technological changes.

In addition to the equipment noted above, our integrated communications network includes asynchronous transport mode, or ATM, switches, IP routers, frame relay switches, Ethernet switches/routers and multi-service switches capable of handling voice, data and dedicated circuits. We currently own or lease all of our network facilities and have not booked any revenues from swaps of indefeasible rights to use.

We support our network with a customer support team of approximately 6,000 technicians who install network components and CPE and maintain and repair the network. Our technicians are highly skilled professionals trained to handle a wide range of communications elements. We have network operations centers to provide surveillance and remote maintenance of all communications products and services.

History and Development

Our company has over 100 years of experience in providing local communications services to our customers. Our earliest predecessor company, Brown Telephone Company, was founded in 1899 in Abilene, Kansas. Over the next six decades, the company grew dramatically through a series of acquisitions, and by 1976 the diversified company known as United Telecommunications had approximately $1 billion in revenues and 3.5 million local access lines. By the early 1990s, United Telecommunications had more than 4.0 million access lines and was providing advanced consumer products, such as caller identification and call screening, to its customers. In 1992, United Telecommunications changed its name to Sprint Corporation and began selling our products and services under the Sprint brand. In 1993, Sprint s merger with Centel Corporation increased the number of Sprint s access lines by 1.7 million.

In 1998, Sprint reorganized its local communications business from regional operations to a single national organization focused on three key customer sets: businesses, consumers and carriers. A year later, Sprint began offering high-speed Internet services to its customers. In 2003, Sprint s local business became the first major communications business to begin the conversion from a circuit-switched local communications network to a simplified, next-generation packet network. In December 2004, Sprint announced plans to merge with Nextel and its intention to subsequently spin-off the local communications business into a stand-alone company, thereby creating Embarq. The merger with Nextel was completed in August 2005.

Competition

There is widespread competition among communications services providers. The traditional dividing lines between local, long distance, wireless, video and Internet services are increasingly becoming blurred. Through mergers, joint ventures and various service expansion strategies, major providers are striving to provide integrated services in many of the markets we serve. This trend is also reflected in changes in the regulatory environment that have encouraged competition and the offering of integrated services. We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products and services.

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.

ILECs increasingly face competition from alternate communication systems constructed by facilities-based providers, including CLECs, long distance carriers, large customers, alternative access vendors, cities and local governments, rural over-builders and other entities. Some of these systems, which have become more prevalent as a result of the Telecommunications Act of 1996, which we refer to as the Telecom Act, and recent technological developments, are capable of originating or terminating calls without use of the ILECs networks or switching services. Other providers, including VoIP carriers, make use of the high-speed Internet access services that we provide to our customers and may displace the local, long distance, calling features and switched access revenues that we formerly obtained from conventional forms of voice services. We anticipate that all these trends will continue and will lead to increased competition with our services.

Much of the local competition that arose after the passage of the Telecom Act took the form of resale of ILEC services or use of the ILECs UNEs, either as a total package of service capabilities (generally referred to as the unbundled network element platform or UNE-P), or in combination with facilities owned by the CLEC. We have traditionally been less subject to these forms of competition than larger ILECs serving more urban areas, and recent regulatory decisions have relieved ILECs of the obligation to make UNE-P available to competitors. See Legislative and Regulatory Developments. We intend to actively monitor these developments, to observe the effect of emerging competitive trends in larger markets and to develop appropriate competitive responses. Going forward, we do not believe these forms of competition will be an increasing threat to us.

We also face increasing competition from cable operators providing high-speed Internet services, which can be used as a platform to support voice services utilizing VoIP technology. For example, in 2003, only approximately 2% of households in our local service territories had cable telephony capability. At December 31, 2005, this percentage was approximately 40%, and it is expected to reach approximately 88% by the end of 2006. As voice services using VoIP technology become more robust and widely available and as the performance and quality of these services are more widely accepted by customers, cable competitors are expected to become more formidable.

Furthermore, wireless communications services increasingly constitute a significant source of competition for local communications services, especially as wireless carriers expand and improve their network coverage and continue to lower their prices. As a result, some customers have chosen to completely forego use of traditional wireline phone service and instead rely solely on wireless services. Our access line losses are escalating as an increasing number of households become wireless only. We anticipate that the trend toward 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, broadband over powerline, local multipoint distribution services, meshed WiFi and other wired and wireless technologies permit the further development of alternatives to traditional wireline services. Changes in technology generally result in new entrants into the communications services marketplace. See Risk Factors Risk Factors Relating to 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.

Many of our current and potential competitors have market presence, engineering, technical and marketing capabilities and financial, personnel and other resources greater than ours. 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 may be able to charge lower prices for their products and services, develop and expand their communications and network infrastructures more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, and devote greater resources to the marketing and sale of their products and services than we can.

Despite the various challenges facing our business, our numerous strengths, such as our established customer relationships, existing network architecture, extensive product and service expertise and wide array of bundled offerings, are helping us in our efforts to reduce access line losses and grow our customer base. We intend to continue challenging the competition with:

- innovative bundled offerings that not only respond to but anticipate our customers changing needs;
- new product offerings, such as continued roll-out of high-speed Internet access;
- effective customer care and simplified billing; and
- attractive and simplified pricing.

Legislative and Regulatory Developments

The communications industry has been and remains the subject of legislative and regulatory oversight at both the federal and state levels. The Telecom Act was the first comprehensive update of the Communications Act of 1934. Among other things, the Telecom Act provided a framework for local competition, but required the adoption of implementing rules by the FCC and the states. These rules have been the subject of numerous court appeals, as well as lobbying efforts before Congress. In virtually every session of Congress since the adoption of the Telecom Act, legislation has been proposed to amend it, and there is growing interest in Congress in undertaking another update of the Communications Act of 1934. In addition, members of Congress use Congressional hearings and letters to emphasize points to regulators. Congressional participation in the development of regulatory policy and enforcement makes the regulatory process less predictable and potentially adverse to our interests. Various state legislatures also engage in regulatory policy matters that affect our business.

As an ILEC we are subject to pervasive regulation by both state and federal regulatory bodies. While the amount of regulation is diminishing, we remain subject to more regulation over communications services than many of our competitors and competition is increasing at a faster rate than regulation is decreasing. The following summary of the regulatory environment in which our business operates does not describe all present and proposed federal, state and local legislation and regulations affecting the communications industry. Some legislation and regulations are currently the subject of judicial proceedings, legislative hearings and administrative proceedings that could change the manner in which our industry operates. We cannot predict the outcome of any of these matters or their potential impact on our business. Regulation in the communications industry is subject to rapid change and any change may have an adverse effect on us in the future. The following discussion describes some of the major communications-related regulations that affect us, but numerous other substantive areas of regulation not discussed here may also influence our business.

State Communications Regulation

The major areas of ILEC regulation and the environment of regulatory change we face at the state level include:

Carrier of last resort. As an ILEC, in our local service territories we have an ongoing requirement to provide service to all those who request service and are willing to pay tariff rates. In a competitive environment this constitutes a competitive disadvantage because the competitors can choose not to provide service to customers who are credit risks or whom it would be uneconomic to serve. Relaxation of this requirement is provided in some of our states where we are relieved of providing service to developments served by a CLEC or cable operator. Additionally, relative to customers who are especially expensive to serve, we are seeking authority to deploy service using alternative, less costly technologies, such as fixed wireless. In addition, our costs are partially offset by payments from the universal service programs. See Universal Service Programs.

Rate regulation. Traditionally, ILEC local service prices and company earnings were regulated based on the rate of return. We are subject to this method of regulation in four of the states in which we operate: Washington, Oregon, New Jersey and Wyoming. In the remaining states, we have entered into alternative regulation, or price cap plans, that typically limits our ability to increase rates for local services by a predetermined formula, but relieves us from the requirement to meet certain earnings tests. Additionally, in most of the states in which we operate, we have growing flexibility to set prices for non-basic services, such as caller identification, and the price for bundled services that include basic local service. In nine of the states in which we operate, we are able to price bundles of services on an exchange-specific basis, instead of state-wide pricing, in response to competition.

Service quality regulation. Most of the states in which we operate impose exacting service requirements, which dictate the achievement of certain standards, including call center answer time and intervals for new service installation and service restoration when there are outages. We are making some progress in gaining relief from costly, inflexible, traditional standards, but many commissions have been slow to permit ILECs to adopt self-enforced, market-driven service standards despite the acceleration of competition.

Federal Communications Regulation

At the federal level, as an ILEC, we are subject to the FCC s most extensive communications regulation. Federal regulation not only covers rates and service terms, but also the terms on which ILECs provide connections and network elements to potential competitors the CLECs. Long distance providers are subject to less regulation, but still must comply with various statutory requirements and regulations. Commercial mobile radio service, or CMRS, providers are not regulated from a retail pricing standpoint, but are subject to various licensing and technical requirements imposed by the FCC, including provisions related to the acquisition, assignment or transfer of radio licenses, and mandates, such as enhanced 911, or E-911, and wireless local number portability.

Competitive Local Service

The Telecom Act was designed to promote competition in all aspects of communications. It eliminated legal and regulatory barriers to entry into local and long distance communications markets. It also required ILECs to allow local resale at wholesale rates, negotiate interconnection agreements, provide nondiscriminatory access to UNEs and allow collocation of interconnection equipment by competitors. The rules implementing the Telecom Act remain subject to legal challenges.

On February 5, 2005, the FCC issued an order, which became effective on March 11, 2005, revising rules on UNEs in response to a March 2004 decision of the D.C. Circuit Court of Appeals vacating significant portions of the FCC s earlier UNE rules. The order terminates the ILECs obligation to offer unbundled local switching and UNE-P after a one-year transition period, during which there will be some increases in the rates ILECs are permitted to charge for UNE-P, and restricts, to some extent, the availability of high-capacity loop and transport UNEs. The four largest local communications companies and an ILEC trade association have challenged this order as not fully complying with the March 2004 court decision, while CLECs have filed appeals claiming that the order improperly restricts the availability of UNEs. We benefit from the UNE-P ruling, although our competitors have not made extensive use of UNE-P in our service territories. The new restrictions on the availability of high-capacity loop and transport facilities as UNEs will not have a material effect on our competition. A court reversal of the FCC order could affect our future UNE obligations.

Table of Contents

Separately, the FCC is considering whether it should establish performance measures for ILEC provision of UNEs and special access services and whether to revise the methodology the states must use to establish prices for UNEs.

Universal Service Programs

The FCC and many states have established universal service programs to ensure affordable, quality local communications services for all U.S. residents. Our 2005 combined federal and state universal service fund receipts were $200 million, which represents approximately 3.2% of our $6.3 billion in revenues in 2005. Of this amount, $126 million came from federal support and $74 million came from state support. We expect that our combined federal and state universal service fund receipts will be slightly less in 2006.

The federal universal service programs provide funding for services provided in high-cost areas, for reduced-rate services to low-income consumers, and for discounted communications and Internet services for schools, libraries and rural health care facilities. These programs are funded largely from assessments on communications carriers, who must make contributions that are based on an FCC-prescribed percentage (currently 10.9% of revenues from interstate and international revenues from communications services). These contributions are generally recovered from customers through surcharges. This contribution mechanism subjects us to competitive disadvantages in at least two respects. First, companies that offer competing services that they characterize as information, rather than telecommunications, services, including some providers of VoIP services, do not contribute to federal universal service funding and, therefore, are able to charge their customers less for the competing services. Second, the FCC has classified the cable modem broadband Internet access service offered by cable companies (in competition with our high-speed Internet access service) as an information service which is not subject to universal service fund contributions, while requiring ILECs to make universal service contributions on a portion of their high-speed Internet access revenues. A recent FCC order, discussed under High-speed Internet Access Services below, will put high-speed Internet access service on an equal footing with cable modem service after a transition period. The FCC is considering whether to replace this revenue-based assessment in whole or in part with an assessment based on telephone numbers or connections to the public network. An assessment mechanism based on numbers or network connections could increase our contributions to federal universal service funds, but at the same time could eliminate the competitive disadvantages we face under the current system.

Of the federal universal service programs funding, in 2005 we received $126 million from federal universal service funds to support our service in high-cost areas. A portion of this support is based on average loop costs. Our loop costs exceed the nationwide average in many of our local service territories. The FCC has proceedings underway to reexamine contribution levels to the funds and the distribution of high-cost support and to consider expanding the fund to include support for broadband deployment. FCC decisions in those proceedings could affect the amount of high-cost support we receive in the future.

The current state universal service fund receipts, which totaled $74 million in 2005, flowed from programs in seven states: Kansas, Nebraska, Oregon, Pennsylvania, South Carolina, Texas and Wyoming. Of these states, only Texas is undergoing a review of its universal service fund program, with a report and recommendation by the Texas Public Utilities Commission due to the legislature in the fourth quarter of 2006.

Intercarrier Compensation and Access Charges

Intercarrier compensation includes interstate and intrastate switched access charges that we and other ILECs are entitled to receive from long distance carriers for their origination and termination of long distance calls, and reciprocal compensation that interconnected local carriers pay to each other for terminating interconnected local and wireless calls. In addition, we and other ILECs receive special access charges for providing dedicated facilities to other carriers and businesses. On average, intrastate switched access charges, which are currently

Table of Contents

regulated by state PUCs, are substantially higher than interstate switched access charges, which are regulated by the FCC, and in turn interstate switched access charges are substantially higher than reciprocal compensation.

In 2001, the FCC launched a proceeding to determine whether access charges, as well as reciprocal compensation for local interconnected calls, should be replaced either by a bill-and-keep system (under which intercarrier compensation would be eliminated and all carriers would recover their costs solely from end-user customers) or by a unified intercarrier compensation system in which the same rates would apply to all forms of intercarrier compensation, i.e., interstate and intrastate switched access and reciprocal compensation. This proceeding remains pending with the FCC and it is difficult to predict the changes that might result or their timing and impact. In the meantime, the existing disparities in the rates for different forms of intercarrier compensation, and regulatory uncertainties as to which forms of intercarrier compensation VoIP is subject (see VoIP below), have led to attempts by other carriers to mislabel the nature of the calls they are sending to us for termination, with a resulting diminution in our switched access revenues.

In January 2005, the FCC initiated a proceeding to examine the appropriate regulatory framework for the rates charged for special access services. The FCC is considering reforms to modify or eliminate pricing flexibility policies, and additional reforms to the price cap rules affecting special access pricing. The outcome of the FCC s proceeding is uncertain, but it could result in significant changes to the way in which we receive compensation from other carriers and our end users for special access services. At this time, we cannot estimate whether the FCC will reform the current special access rules or, if so, whether and to what extent any changes will affect our special access revenues.

The higher, above cost, intrastate access rates have been reduced in recent years pursuant to state regulatory commission-initiated rate rebalancing programs that lowered access rates while simultaneously increasing basic local rates to offset the displaced access revenues. Efforts to reduce intrastate access rates have been most significant in recent years in Florida, Missouri and Pennsylvania. Further efforts to reduce state access rates or rate rebalancing could take place as part of the intercarrier compensation system reform, impacting both state and federal rates, referenced above. However, competitive market forces may limit sustainable, significant basic local rate increases. Accordingly, there may be limited opportunity to fully rebalance a future intrastate access rate reduction, which targets interstate access rate levels or costs, with increases to basic local rates.

VoIP

With the growing use of VoIP, the FCC is considering the regulatory status of various forms of VoIP. The outcome of these proceedings will determine whether and how retail VoIP offerings should be regulated, as well as whether VoIP providers should pay access charges and should contribute to the federal universal service fund. In February 2004, the FCC issued an order finding that one form of VoIP, involving a specific form of computer-to-computer services for which no charge is assessed and conventional numbers are not used, is an unregulated information service, rather than a communications service, and preempting any attempts by state regulatory authorities to regulate this service. In April 2004, the FCC ruled that long distance offerings in which calls begin and end on the ordinary public switched telephone network, but are transmitted in part through the use of IP, are telecommunications services, thereby rendering the services subject to all the regulatory obligations of ordinary long-distance services, including payment of access charges and contributions to universal service funds. In November 2004, the FCC preempted states from exercising entry and related economic regulation of certain other forms of VoIP that originate through the use of broadband connections and specialized customer premises equipment. An appeal of this ruling is pending in the courts.

A June 2005 FCC order, which is also the subject of a pending appeal in the courts, directed providers of certain VoIP services to offer E-911 emergency calling capabilities to their subscribers. A September 2005 FCC order ruled that the Communications Assistance for Law Enforcement Act, or CALEA, applies to certain VoIP providers and to facilities-based high-speed Internet access service providers and set an 18-month deadline for compliance, but left the technical details of compliance to a future order. This order, too, is the subject of a

Table of Contents

pending appeal in the courts. CALEA was enacted in 1994 to preserve electronic surveillance capabilities authorized by federal and state law in light of emerging technologies that might be more difficult for law enforcement officials to monitor.

Other issues regarding VoIP, such as whether various forms of VoIP are information services or telecommunications services, or what regulatory obligations, such as intercarrier compensation and universal service contributions and taxes, should apply to the providers of these services, remain pending in a rulemaking proceeding the FCC initiated in March 2004.

High-speed Internet Access Services

Following a June 2005 U.S. Supreme Court decision affirming the FCC s classification of cable modem Internet access service as an information service and declining to impose mandatory common carrier regulation on cable providers, the FCC issued an order in September 2005 declaring the high-speed Internet access services that we and other ILECs provide to be information services. This order will relieve ILECs, after a one-year transition period, of the obligation to provide the underlying broadband transmission to other Internet service providers, and will relieve ILECs, after a 270-day transition period that may be subject to further change, of the obligation to make federal universal service contributions on revenues from high-speed Internet access services. Upon completion of these transition periods, the ILECs high-speed Internet access services will be on an equal regulatory footing with cable modem Internet access services. The September 2005 FCC order also sought comment on whether all high-speed Internet access services, regardless of the technology used, should be subject to various FCC consumer protection regulations. That proceeding remains pending. In addition, as noted above, a separate FCC order, issued in September 2005 and subject to pending court appeals, ruled that facilities-based high-speed Internet access service providers are subject to CALEA and set an 18-month deadline for compliance, but left the technical details of compliance to a future order.

Video Services

Under current law, our ability to provide video services in competition with cable providers is subject to state and local laws that may require us to obtain franchise authority. Generally, these franchises have been awarded by local authorities and may subject cable operators to fees, build-out requirements and other conditions. Texas recently enacted legislation that allows ILECs to obtain cable franchises on a state-wide basis. Absent further changes in federal or state law, the time required to obtain franchises and the conditions attached to those franchises could materially impede our ability to offer competitive video services. Recently there have been some proposals that would reduce franchise requirements on a nationwide basis. We will continue to monitor, but cannot predict the outcome of, these proposals.

Our current video offerings through our sales agency relationship are not subject to the same laws and, therefore, we are not required to obtain franchise authority for these offerings.

Environmental Compliance

Sprint Nextel has identified seven sites, not currently owned or operated by either Sprint Nextel or us, that formerly contained manufactured gas plants that may have been owned or operated by entities acquired by our subsidiary, Centel Corporation, before Sprint acquired Centel. We and the current land owner of the site in Columbus, Nebraska are working with the Environmental Protection Agency, or EPA, pursuant to an administrative consent order. Amounts expended pursuant to the order are not expected to be material. We are negotiating with the EPA as to whether clean up is required at two additional sites. In addition, Centel has entered into agreements with another potentially responsible party to share costs in connection with four of the sites, including two of those where the EPA is involved. We are working to assess the scope and nature of these sites and our potential responsibility and Sprint Nextel has agreed to indemnify us for most of any eventual liability arising from these sites. Other environmental compliance and remediation expenditures mainly result from the operation of standby power

Table of Contents

generators for our communications equipment. The expenditures arise in connection with standards compliance, permits or occasional remediation, which are usually related to generators, batteries or fuel storage. Although we cannot assess with certainty the impact of any future compliance and remediation obligations, we do not believe that future environmental compliance and remediation expenditures will have a material adverse effect on our financial condition or results of operations. For more information on our environmental obligations, see Notes 4 and 11 of the Notes to Combined Financial Statements.

Patents, Trademarks and Licenses

Following the spin-off, we will own several patents, patent applications, service marks and trademarks in the U.S. We will have a program to file applications for trademarks, service marks and patents where we believe this protection is appropriate. We have filed to register our EMBARQ trademark. Our services often use the intellectual property of others such as using licensed software. We also expect to license or otherwise obtain rights to use copyrights, patents and trademarks of others, possibly including Sprint Nextel. In total, these licenses, rights to use and our copyrights, patents, trademarks and service marks will be of material importance to our business. Generally, we expect that our trademarks, trademark licenses and service marks will have no limitation on duration.

On or before the distribution date, we will enter into a trademark license agreement with Sprint Nextel that will give us the right to use the Sprint brand name and logo in a limited capacity in conjunction with the transition to our new brand for up to 24 months following the distribution date. See Agreements with Sprint Nextel Intellectual Property Agreements.

Sprint Nextel occasionally licenses its intellectual property to others and has granted licenses to others to use its registered trademark Sprint in certain situations, including to R.H. Donnelley in connection with the provision of telephone directories in our local service territories. The agreement with R.H. Donnelley provides that we must replace the Sprint trademark with our own trademark.

We have received claims in the past, and may in the future receive claims, that we infringe on the intellectual property of others. These claims can be time-consuming and costly to defend and divert management resources. If these claims are successful, we could be forced to pay significant damages or stop selling certain products or services or utilizing certain service marks or trademarks. We also could enter into licenses with unfavorable terms, including royalty payments, which could adversely affect our business.

Backlog

Order backlog is not a significant consideration in our business.

Employees

At December 31, 2005, we had approximately 14,500 active employees. Approximately 7,000 employees were represented by one of two international unions. We expect 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. We believe that our employee relations are good.

Properties

We have property in each of the 18 states where we provide local communications services. Our property mainly consists of land, buildings, metallic cable and wire facilities, fiber-optic cable facilities, switching equipment and other electronics. We have been granted easements, rights-of-way and rights-of-occupancy, mainly by municipalities and private landowners. Most cable facilities are buried, but some metallic and fiber

Table of Contents

cable is above-ground on telephone poles. In addition to owning our own poles, we also contract with other utilities, including many electric companies, to connect cable and wire to their owned poles. Our gross property, plant and equipment at December 31, 2005 totaled $19.8 billion.

Our corporate headquarters are located in the Kansas City metropolitan area. Following the spin-off, we will own our 314,000 square foot executive office building and lease our 472,000 square foot Product Distribution operational center and approximately 250,000 square feet of additional office space in the Kansas City area. We will also sublease approximately 378,000 square feet of additional space from Sprint Nextel on its Overland Park, Kansas campus. The lease on our Product Distribution center can be renewed for 10 year terms through 2050. The term on the space subleased from Sprint Nextel is for two years beginning on the distribution date. We believe that our existing owned and occupied facilities are in good working condition and are suitable for their intended purposes.

Seasonality

Overall, our business is not significantly impacted by seasonality. However, in our Florida markets, we typically experience increased demand for new service orders in January and a decline in access lines at the end of the spring due to the seasonal population trends in the state. Additionally, weather related problems have resulted in increased costs to repair our network and respond to service calls in some of our service areas. The amount and timing of the costs are subject to the weather patterns of any given year, but have generally been highest during the third quarter and have been related to damage from severe storms, including wind damage and flooding, hurricanes and tornadoes in our local service territories in Florida, North Carolina, South Carolina and Texas.

Legal Proceedings

From time to time, we are involved in legal, regulatory and arbitration proceedings. While it is not possible to determine the ultimate disposition of these various proceedings and whether they will be resolved in our favor, we do not believe that the outcome of these proceedings, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Available Information

Our Internet address is *www.embarq.com*. Please note that information contained on our website is not incorporated by reference into this prospectus or the registration statement of which this prospectus is a part. We will make available free of charge most of our future SEC filings through our Internet website as soon as reasonably practicable after we electronically file them with the SEC. You will be able to access our future SEC filings on our website.

We will also make available on our website the charters of our Audit Committee, our Compensation Committee, and our Nominating and Corporate Governance Committee, as well as the corporate governance guidelines adopted by our board of directors and our Code of Business Conduct for employees and directors. We will also provide these documents, without charge, at the written request of any stockholder of record. Requests for copies should be mailed to the name and address listed under Where You Can Find More Information.

Table of Contents

MANAGEMENT

Directors and Executive Officers

The following table sets forth information as of March 31, 2006, regarding individuals who serve as our directors and executive officers, including their positions with our company following the spin-off.

All persons who serve as our executive officers currently are officers and employees of Sprint Nextel or its subsidiaries. After the spin-off, none of these individuals will be directors, officers or employees of Sprint Nextel or its subsidiaries. The Sprint Nextel Nominating and Corporate Governance Committee, with the assistance of an external director search firm and in consultation with the Sprint Nextel Chairman, the Sprint Nextel Chief Executive Officer and President, and Mr. Hesse, who is our President and Chief Executive Officer, selected our directors, except Mrs. Shern who was designated by Nextel before the completion of the Sprint Nextel merger. Upon the authorization of the Sprint Nextel board, our directors were presented to our sole stockholder, Sprint Nextel, for election effective on May 1, 2006. Our directors will serve for one year terms, as described in more detail under Board Structure below.

Name	Age	Position(s)
Daniel R. Hesse	52	Chairman of the Board, President and Chief Executive Officer
Peter C. Brown	47	Director
Steven A. Davis	50	Director
John P. Mullen	50	Director
William A. Owens	65	Director
Dinesh C. Paliwal	48	Director
Stephanie M. Shern	58	Director
Laurie A. Siegel	50	Director
Gene M. Betts	53	Chief Financial Officer
William R. Blessing	50	Senior Vice President Corporate Strategy & Development
Harrison S. Campbell	44	President Consumer Markets
William E. Cheek	50	President Wholesale Markets
Melanie K. Coleman	41	Controller
Michael B. Fuller	61	Chief Operating Officer
Thomas A. Gerke	49	General Counsel Law and External Affairs
E.J. Holland, Jr.	62	Senior Vice President Human Resources
Thomas J. McEvoy	47	President Business Markets
Leslie H. Meredith	50	Treasurer

Mr. Hesse is our President and Chief Executive Officer and a member of our board of directors. Effective May 2, 2006, Mr. Hesse was elected by our board of directors as our Chairman of the Board. He served as Chief Executive Officer of Sprint Nextel s local telecommunications division from June 2005 until May 2006. From March 2000 to June 2004, he served as Chairman, President and Chief Executive Officer of Terabeam Corp., a Seattle-based communications company specializing in leading-edge wireless communications technologies. From 1997 until 2000, he served as President and Chief Executive Officer of AT&T Wireless Services. Mr. Hesse also serves as a director of Nokia Corporation and VF Corporation.

Mr. Brown is a member of our board of directors. Mr. Brown is Chairman of the Board, Chief Executive Officer and President of AMC Entertainment Inc., a theatrical exhibition company. He has served as Chairman and Chief Executive Officer since July 1999 and as President since January 1997. He began his career with AMC in 1990 and became Senior Vice President and Chief Financial Officer in 1991. He served as Co-Chairman of the Board from May 1998 through July 1999 and as Executive Vice President from August 1994 to January 1997. Mr. Brown is a Director of Midway Games, Inc., as well as National CineMedia, L.L.C. and MovieTickets.com, Inc.

Table of Contents

Mr. Davis is a member of our board of directors. Effective May 2, 2006, Mr. Davis was appointed Chief Executive Officer of Bob Evans Farms, Inc., a restaurant company. Mr. Davis will also serve on the board of directors of Bob Evans Farms. From October 2004 to May 2006, he served as President of the Long John Silvers and A&W Restaurants division and Multi-Branding for YUM! Brands, Inc., an international restaurant company. He held various positions of increasing responsibility with YUM! Brands companies from 1993, including President and Chief Operating Officer of the Long John Silvers and A&W restaurants and Senior Vice President of Pizza Hut.

Mr. Mullen is a member of our board of directors. Mr. Mullen has been Joint Chief Executive of DHL Express Inc., an international express delivery and logistics company, and a member of the Management Board of Deutsche Post World Net, the parent company of DHL, since January 1, 2005. Mr. Mullen served as Chief Executive Officer of DHL Express Asia Pacific from 2002 until 2005, and as an advisor to Deutsche Post Group from 1994 to 2002. He also served as Chief Executive Officer of TNT Express Worldwide, an international mail, express delivery and logistics company, from 1991 to 1994 and Chief Operating Officer of TNT Ltd. from 1990 to 1991.

Mr. Owens is a member of our board of directors. Mr. Owens served as Vice Chairman, President and Chief Executive Officer of Nortel Networks Corporation from 2004 to 2005, and as Chairman and Chief Executive Officer of Teledesic LLC from 1998 to 2003. He was President, Chief Operating Officer and Vice Chairman of Science Applications International Corporation from 1996 to 1998. He also served in the U.S. military from 1962 until 1996 holding various key leadership positions, including Vice Chairman of the Joint Chiefs of Staff. Mr. Owens is a Director of DaimlerChrysler AG, Polycom, Inc. and Wipro Limited.

Mr. Paliwal is a member of our board of directors. Mr. Paliwal is Chairman and Chief Executive Officer of ABB Inc., a power and automation technology company. Mr. Paliwal assumed this role in January 2004, and he also serves as President, Global Markets & Technology, ABB Ltd., a role he assumed in January 2006. He is also a member of the ABB Group Executive Committee, ABB Ltd., which he joined in January 2001. From October 2002 to December 2005, Mr. Paliwal was President, ABB Automation Technology Worldwide. From January 2001 to October 2002, Mr. Paliwal served as President, ABB Process Industries. Mr. Paliwal has been with ABB for over 20 years in various key management positions across several countries, including the U.S., Singapore, Australia, China and Switzerland. Mr. Paliwal sits on the boards of the US-China Business Council and the US-India Business Council and is a member of the Business Roundtable.

Mrs. Shern is a member of our board of directors. From 2001 to February 2002, Mrs. Shern served as Senior Vice President of Kurt Salmon Associates, a retail consulting and business advisory firm. From 1969 to 2001, Mrs. Shern held various positions with Ernst & Young, LLP, including Vice Chairman and Global Director of Retail and Consumer Products. Mrs. Shern also serves as a director of GameStop Corp., Royal Ahold NV and The Scotts Miracle Gro Company. Mrs. Shern served on the board of Sprint Nextel from August 2005 until May 2006.

Ms. Siegel is a member of our board of directors. Ms. Siegel is Senior Vice President of Human Resources for Tyco International Ltd., a global, diversified manufacturing and service company. Since joining Tyco in January 2003, Ms. Siegel has led an organization of approximately 2,000 human resources professionals who support a global employee base of approximately 250,000 employees. Before joining Tyco, she held various positions with Honeywell International Inc. from September 1994 to December 2002, including Vice President of Human Resources Specialty Materials.

Mr. Betts is our Chief Financial Officer. He served as Senior Vice President Finance at Sprint Nextel s local telecommunications division, a position he held from August 2005 until May 2006. He served as Senior Vice President Finance and Treasurer of Sprint from 1998 until August 2005.

Mr. Blessing is our Senior Vice President Corporate Strategy and Development. He served in this role at Sprint Nextel s local telecommunications division from August 2005 until May 2006. He served as Senior Vice

Table of Contents

President Strategic Planning and Corporate Development of Sprint from August 2003 until August 2005. He served as Vice President Strategic Planning and Business Development Sprint PCS for the Sprint PCS (Wireless) division of Sprint from November 1998 until August 2003.

Mr. Campbell is our President Consumer Markets. He served in this role at Sprint Nextel s local telecommunications division from August 2005 until May 2006. He served as President Emerging & Mid-Markets of the Sprint Business Solutions division of Sprint from October 2003 until August 2005. He served as President of the Mass Markets Organization of Sprint from May 2002 to October 2003. Before that, he had served as Vice President Sales and Marketing of the Mass Markets Organization of Sprint since April 2001. In 2000 and 2001, he served as Vice President of Marketing, then President and Chief Executive Officer of uclick.com, a developer, packager and distributor of branded comics and word games on the Internet.

Mr. Cheek is our President Wholesale Markets. He served in this role at Sprint Nextel s local telecommunications division from August 2005 until May 2006. He served as Assistant Vice President Strategic Sales and Account Management in Sprint Business Solutions from January 2004 until July 2005. From January 2002 until December 2003, he served as President Wholesale Markets in the Business and Wholesale Markets Group of Sprint s local telecommunications division. Mr. Cheek served as Vice President Sales and Account Management for the Carrier Markets Group of Sprint s local telecommunications division from January 1998 until December 2001.

Ms. Coleman is our Controller. She served as Vice President Finance of Sprint Nextel s local telecommunications division from August 2005 until May 2006. She served as Vice President and Corporate Controller at H&R Block from October 2002 until August 2005. Before joining H&R Block, she served as Assistant Vice President and Assistant Controller at Sprint from December 2000 until October 2002.

Mr. Fuller is our Chief Operating Officer. He served as President of Sprint s local telecommunications division from 1996 until May 2006.

Mr. Gerke is our General Counsel Law and External Affairs. He served in this role at Sprint Nextel s local telecommunications division from August 2005 until May 2006. He served as Executive Vice President General Counsel and External Affairs of Sprint from May 2003 until August 2005. Before that, he served as Vice President Global Markets Group Business Development of Sprint since June 2002. From September 2000 to June 2002, he served as Vice President Corporate Secretary and Associate General Counsel of Sprint. Previously, he served as Vice President Law, General Business and Technology of Sprint and as Assistant Vice President Law, Mergers, and Acquisitions.

Mr. Holland is our Senior Vice President Human Resources. He served as Vice President Human Resources and Labor Relations at Sprint Nextel s local telecommunications division from August 2005 until May 2006. From May 2000 to July 2005, he served as Vice President Compensation, Benefits Labor and Employee Relations for Sprint. From March 1999 to April 2000, he served as Assistant Vice President Benefits for Sprint.

Mr. McEvoy is our President Business Markets. He served in this role at Sprint Nextel s local telecommunications division from August 2005 until May 2006. Previously, he served as President of Sprint Business Solutions Enterprise Markets of Sprint from April 2004 until August 2005. He served as President LTD Consumer Markets of Sprint from July 2000 to April 2004. Before that, he held many positions within Sprint s local telecommunications division since 1980.

Mr. Meredith is our Treasurer. He served in this role at Sprint Nextel s local telecommunications division from August 2005 until May 2006. He served as Vice President Mergers and Acquisitions of Sprint from March 1997 to August 2005. During that time, Mr. Meredith was also responsible for Risk Management and Environmental Health and Safety for Sprint.

There are no known family relationships between any of the persons named above. Officers will be elected annually.

Table of Contents

Board Structure

Our bylaws provide that our board of directors will have a minimum of six members and a maximum of 14 members and that the number of members will be fixed by a majority vote of the directors then in office. Our certificate of incorporation and our bylaws provide that our board of directors will consist of one class, with our directors being elected each year at our annual meeting of stockholders. Our directors may be removed with or without cause by a majority vote of stockholders. Any vacancies in our board of directors caused by an increase in the authorized number of directors, death, resignation, retirement, disqualification or removal from office or other cause will be filled by a majority of the directors then in office. Directors so chosen will hold office until the stockholders elect a successor at the next annual meeting of stockholders. Most of our directors are independent, non-employee directors who meet the criteria for independence required by the New York Stock Exchange. Except for Mr. Hesse, none of our initial board members named above will have been or will be an employee of our company. We expect that membership on the Audit Committee, Compensation Committee and Nominating and Governance Committee will be limited to independent, non-employee directors. We will keep our board members informed about our business through discussions with management, materials we provide to them, visits to our offices and their participation in board and board committee meetings.

Our board of directors is expected to adopt *Corporate Governance Guidelines* that, along with the charters of our board committees and our Code of Conduct for employees and directors, will provide the framework for the governance of our company. The guidelines will require our directors to designate annually at least one individual to act as Lead Independent Director. The Lead Independent Director will act as the principal liaison between the independent directors and our Chairman and Chief Executive Officer. Our board of directors will determine the Lead Independent Director s duties, which are expected to include the following:

- provide direction to the Chairman and Chief Executive Officer regarding an appropriate schedule for board meetings, seeking to ensure that the non-employee directors can perform their duties responsibly while not interfering with the flow of the company s operations;

- provide direction to the Chairman and Chief Executive Officer on agendas for the board meetings, with the understanding that agenda items requested on behalf of the non-employee directors will be included on the agenda;

- provide direction to the Chairman and Chief Executive Officer on the quality, quantity, and timeliness of the flow of information from management that is necessary for the non-employee directors to perform their duties effectively and responsibly, with the understanding that the non-employee directors will receive any information requested on their behalf by the Lead Independent Director;

- coordinate, develop the agenda for, chair and moderate meetings of the non-employee directors;

- act as principal liaison between the non-employee directors and the Chairman and Chief Executive Officer on sensitive issues and, when necessary, ensure the full discussion of those issues at board meetings;

- provide input to the Compensation Committee regarding the Chairman and Chief Executive Officer s performance and meet, along with the chair of the Compensation Committee, with the Chairman and Chief Executive Officer to discuss the board s evaluation;

- assist the Nominating and Corporate Governance Committee, the board and the company s officers in assuring compliance with and implementation of these guidelines, and provide input to the Nominating and Corporate Governance Committee on revisions to these guidelines; and provide input to the Nominating and Corporate Governance Committee regarding the appointment of chairs and members of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

Table of Contents

Committees

Audit Committee

We expect that all members of our Audit Committee will be independent directors as required by the listing standards of the New York Stock Exchange, the Exchange Act and our future *Corporate Governance Guidelines*. We expect that our board will determine that at least one director meets the requirements for being an audit committee financial expert as defined by regulations of the SEC.

Our Audit Committee will assist our board of directors in its oversight of our financial reporting process. Our management will have primary responsibility for the financial statements and the reporting process, including systems of internal controls over financial reporting. Our independent auditors will be responsible for auditing our financial statements and expressing an opinion as to their conformity to accounting principles generally accepted in the U.S.

In the performance of its oversight function, our Audit Committee will review and discuss with management and the independent auditors our audited financial statements. Our Audit Committee will also discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 and Auditing Standard No. 2 relating to communications with audit committees. In addition, our Audit Committee will receive from the independent auditors the written disclosures and letter required by Independence Standards Board Standard No. 1 relating to independence discussions with audit committees. Our Audit Committee also will discuss with the independent auditors their independence from our company and our management, and will consider whether the independent auditor s provision of non-audit services to our company is compatible with maintaining the auditor s independence.

Our Audit Committee will discuss with our internal and independent auditors the overall scope and plans for their respective audits. Our Audit Committee will meet with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of our internal controls and the overall quality of our financial reporting. In addition, our Audit Committee will meet with our Chief Executive Officer and Chief Financial Officer to discuss the processes that they have undertaken to evaluate the accuracy and fair presentation of our financial statements and the effectiveness of our system of disclosure controls and procedures.

Compensation Committee

Our Compensation Committee will have oversight responsibility for the compensation and benefits programs for our executive officers and other employees. We expect that all members of our Compensation Committee will be independent directors as required by (1) the listing standards of the New York Stock Exchange, (2) relevant federal securities laws and regulations, (3) Section 162(m) of the Code, and (4) our future *Corporate Governance Guidelines*.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee will consider and recommend candidates for election to our board of directors and advise our board on corporate governance matters. We expect that all members of our Nominating and Corporate Governance Committee will be independent directors as required by the listing standards of the New York Stock Exchange and our future *Corporate Governance Guidelines*.

Director Nomination Process. Our Nominating and Corporate Governance Committee will consider and recommend candidates for election to our board. Each member of the Committee will participate in the review and discussion of director candidates. In addition, members of our board of directors who are not on the Committee may meet with and evaluate the suitability of candidates. In making its selections of candidates to recommend for election, the Committee will seek persons who have achieved prominence in their field and who

Table of Contents

possess significant experience in areas of importance to our company. The minimum qualifications that our Nominating and Corporate Governance Committee will require in any nominated candidate will include integrity, independence, forthrightness, analytical skills and the willingness to devote appropriate time and attention to our affairs. Candidates would also need to demonstrate a willingness to work as part of a team in an atmosphere of trust and a commitment to represent the interests of all our stockholders rather than those of a specific constituency. Successful candidates will also need to demonstrate significant experience in areas of importance to our company, such as general management, finance, marketing, technology or regulated activities.

Compensation of Directors

We expect to establish a director compensation program comparable to that of companies of similar size and complexity. It is expected that a committee of our board of directors will recommend director compensation levels to the full board, which will set the compensation based on those recommendations.

Our director compensation program is expected to include:

- an initial, at-hire equity grant; and
- cash compensation, including retainers for committee chairs and the Lead Independent Director.

It is expected that a committee of our board of directors will review and report to the board on the director compensation program on a regular basis, and may retain an outside advisor to assist in its review and report on the program.

Security Ownership of Directors and Executive Officers

Sprint Nextel currently owns all of our outstanding shares of common stock. Following the distribution, Sprint Nextel will not beneficially own any shares of our common stock. None of our directors or our executive officers currently owns any shares of our common stock, but those who own shares of Sprint Nextel common stock will be treated the same as other holders and, accordingly, will receive shares of our common stock in the distribution.

Table of Contents

The following table sets forth the Sprint Nextel common stock and options to purchase Sprint Nextel common stock held by directors, each of our Named Officers (as defined below) and all of our directors and executives as a group, as of December 31, 2005, and the number of shares of our common stock that will be held by such persons immediately upon completion of the distribution, assuming there are no changes in each person s holdings of Sprint Nextel common stock since December 31, 2005 and based on our estimates as of December 31, 2005 using an expected distribution ratio of one share of our common stock for every 20 shares of Sprint Nextel common stock, with no fractional shares:

Name	Shares of Sprint Nextel common stock Owned (1)	Right to Acquire Shares of Sprint Nextel common stock (2)	% of Class	Shares of Embarq common stock (3)
Daniel R. Hesse	0	0	0	0
Peter C. Brown	0	0	0	0
Steven A. Davis	0	0	0	0
John P. Mullen	0	0	0	0
William A. Owens	0	0	0	0
Dinesh C. Paliwal	0	0	0	0
Stephanie M. Shern	17,223	9,750	*	861
Laurie A. Siegel	0	0	0	0
Harrison S. Campbell	22,971	94,463	*	1,148
Michael B. Fuller	137,053	1,576,639	*	6,852
Thomas A. Gerke	54,740	288,286	*	2,737
Thomas J. McEvoy	34,361	328,975	*	1,718
All directors and executive officers (18 individuals)	499,429(4)	3,882,297	*	24,971

* Less than 1%.

(1) The individuals in the table held the following number of shares in employee benefit plan accounts as of December 31, 2005: Mr. Campbell 1,449, Mr. Fuller 48,150, Mr. Gerke 2,018 and Mr. McEvoy 4,745. The individuals in the table held the following number of shares of restricted stock as of December 31, 2005: Mr. Campbell 6,843, Mr. Fuller 45,000, Mr. Gerke 6,247 and Mr. McEvoy 7,761. As of December 31, 2005, the following individuals held RSUs that entitled them to acquire the following number of shares within 60 days: Mr. Campbell 8,438, Mr. Fuller 24,750, Mr. Gerke 12,000, and Mr. McEvoy 6,300. The numbers shown in this column exclude shares that named individuals have the right to acquire within 60 days upon the exercise of stock options that they hold. For information regarding the treatment of equity awards in connection with the spin-off, see Historical Compensation of Our Executive Officers Summary Compensation Table below.

(2) These are shares that the named individuals have the right to acquire within 60 days upon the exercise of stock options that they hold.

(3) Numbers shown do not include stock options.

(4) As of December 31, 2005, all directors and executive officers as a group held 173,009 shares in employee benefit plan accounts; 113,924 shares of restricted stock; and 66,609 RSUs that entitled them to acquire shares within 60 days. The numbers shown in this column exclude shares that all directors and executive officers as a group have the right to acquire within 60 days upon the exercise of stock options that they hold.

Corporate Governance Matters

We are committed to being a recognized leader in corporate governance and ethics and seek to demonstrate integrity in all our actions. We are also committed to maintaining strong and effective corporate governance policies and practices and a strong system of internal controls over financial reporting, and will foster transparent disclosure by providing our stockholders timely, accurate and clear information. We expect that our detailed corporate governance policies will be established by our board at its inaugural meeting after appropriate discussion.

Table of Contents

Independence of Directors

Most of our directors are independent, non-employee directors who meet the criteria for independence required by the New York Stock Exchange. Except for Mr. Hesse, none of our initial board members will have been or will be an employee of our company. We expect that our board will limit membership of the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee to independent, non-employee directors.

Certain Relationships and Other Transactions

Sprint Nextel engages a relocation company that, among other things, offers to purchase, based on two appraisals by third parties, the former residences of executive and professional level employees to facilitate relocations made at Sprint Nextel s request. If the employee accepts the offer, the relocation company markets and sells the former residence on Sprint Nextel s behalf, and Sprint Nextel receives any gain on the sale or reimburses the relocation company for any loss. If a buyer is identified before the employee accepts the offer, and the price equals or exceeds the relocation company s offer, then the relocation company purchases the home from the employee and resells it to the identified buyer at that price. Sprint Nextel is also responsible for costs associated with the maintenance and sale of the residence, including payment of a service fee to the relocation company. As an incentive for employees to assist in identifying buyers, thereby reducing the risk or potential costs associated with taking a home into inventory, Sprint Nextel had a long-standing policy of paying the employee an amount equal to 2% of the sale price of the residence if (1) the employee reaches an agreement with a buyer before accepting the relocation company s offer and (2) the agreed price equals or exceeds the relocation company s offer.

In mid-2005, Mr. Hesse relocated to the Kansas City area in connection with his employment by Sprint. The relocation company purchased his former residence for $2,140,000 and resold the residence for the same amount, which exceeded the relocation company s offer. Sprint reimbursed the relocation company approximately $224,000 for the brokerage, closing and other costs related to the sale of the home. Mr. Hesse received the incentive amount equal to 2% of the sale price. See Employment Contracts Employment Contract with Mr. Hesse.

For a description of commercial arrangements that we expect to enter into with Sprint Nextel, see Agreements with Sprint Nextel.

Table of Contents

Historical Compensation of Our Executive Officers

The following table contains compensation information for our Chief Executive Officer and four other persons who are our executive officers and who, based on employment with Sprint Nextel and its subsidiaries, were the most highly compensated for the year ended December 31, 2005. We refer to these persons collectively as our Named Officers. All of the information included in this table reflects compensation earned by the individuals for services with Sprint Nextel and its subsidiaries. All references in the following tables to stock and stock options relate to awards of stock and stock options granted by Sprint Nextel. These amounts do not necessarily reflect the compensation these persons will receive following the distribution, which could be higher or lower, because historical compensation was determined by Sprint Nextel and future compensation levels will be determined based on the compensation policies, programs and procedures to be established by our Compensation Committee. All quantities of Sprint Nextel securities below are stated after giving effect to the recombination of Sprint FON common stock and Sprint PCS common stock on April 23, 2004.

Summary Compensation Table

		Annual Compensation			Long-term Compensation Awards		
Name and Principal Position	**Year**	**Salary ($)(1)**	**Bonus ($)(1)**	**Other Annual Compensation ($)**	**Restricted Stock Award(s) ($)(2)**	**Securities Underlying Options(#)(3)**	**All Other Compensation ($)(4)**
Daniel R. Hesse (5)	2005	496,552	1,613,393	49,401	3,776,112	408,000	201,247
Chief Executive Officer Local Telecommunications Division							
Harrison S. Campbell	2005	345,230	515,191	1,438	957,090	61,341	3,487
	2004	335,193	191,101	7,589	612,000	66,000	513
President Consumer Markets Local Telecommunications Division	2003	259,180	185,377	4,579	118,869	61,050	7,957
Michael B. Fuller	2005	708,382	788,194	760	2,883,528	184,842	34,934
	2004	712,914	549,376	4,510	1,795,200	194,700	13,084
President Local Telecommunications Division	2003	641,705	581,034	7,339	750,750	387,000	19,816
Thomas A. Gerke	2005	422,675	684,468	5,968	1,429,147	121,166	3,780
	2004	415,464	376,353	10,445	870,400	94,500	676
General Counsel Law and External Affairs Local Telecommunications Division	2003	336,982	320,395	3,181	327,804	172,500	9,000
Thomas J. McEvoy	2005	354,740	520,683	8,899	976,239	62,568	4,162
	2004	339,165	206,350	4,266	456,960	49,500	551
President Business Markets Local Telecommunications Division	2003	279,072	292,992	3,468	160,875	82,500	9,068

(1) Includes all amounts earned for the respective years, even if deferred under Sprint Nextel s Executive Deferred Compensation Plan, and, with respect to Mr. Hesse only, a $600,000 sign-on bonus. Except for Mr. Hesse s sign-on bonus, all bonuses were paid under Sprint Nextel s short-term incentive compensation plans, as one-time awards for work performed in connection with the Sprint Nextel merger, or as the first payment due under the Sprint Retention Program.

(2) Shares of Sprint Nextel restricted stock outstanding at the time of the distribution, including those held by our employees, will be treated the same as other outstanding shares of Sprint Nextel common stock with the holder receiving

Table of Contents

a dividend of our common stock in the distribution that, in most cases, will be subject to the same restrictions as the related Sprint Nextel restricted stock.

Sprint Nextel restricted stock units, or RSUs, awarded pursuant to Sprint Nextel equity incentive plans and held by our employees (except Mr. Hesse) at the time of the distribution will continue to represent the right to receive shares of Sprint Nextel common stock and also the number of shares of our common stock equivalent to the number of shares of our common stock that would be received with respect to each share of Sprint Nextel common stock issuable under the RSU at the time of the distribution. RSUs held by Mr. Hesse will be converted entirely into RSUs of our company as provided under his employment agreement.

RSUs granted in February 2005 to each of the Named Officers (other than Mr. Hesse) included a performance adjustment component related to Sprint Nextel s 2005 performance. 2005 RSU amounts include additional RSUs (17,594 for Mr. Campbell, 53,017 for Mr. Fuller, 26,275 for Mr. Gerke and 17,946 for Mr. McEvoy) granted in February 2006 which relate to performance in 2005.

As of December 31, 2005, the Named Officers held restricted stock or RSUs as set forth in the following table. The market value of the shares is based on a value of $23.36 per share for Sprint Nextel common stock (the closing price on the New York Stock Exchange on December 30, 2005) multiplied by the number of shares of restricted stock or RSUs.

	Number of Shares		
	RSUs	**Restricted Stock**	**Value**
Daniel R. Hesse	157,010	0	$ 3,667,754
Harrison S. Campbell	56,889	6,843	1,488,780
Michael B. Fuller	192,463	45,000	5,547,136
Thomas A. Gerke	89,890	6,247	2,245,760
Thomas J. McEvoy	48,802	7,761	1,321,312

Except as described below, each of the Named Officers has the right to receive dividends on the restricted stock and the RSUs at the same rate as on unrestricted shares and to vote the restricted stock.

In connection with the closing of the Sprint Nextel merger, all employees (including each of the Named Officers) received a grant of 10 RSUs on August 12, 2005 that vest 100% on the first anniversary of the grant date, as to which no dividends will be paid. All other awards of RSUs to Named Officers in 2005 vest 100% on the third anniversary of the grant date.

The awards in 2004 were all RSUs granted on February 10, 2004 that vest 25% on the second anniversary of the grant date and 75% on the third anniversary of the grant date.

Awards in 2003 for Mr. Campbell and Mr. McEvoy were restricted stock granted on March 27, 2003 that vest one-third on each of the first, second and third anniversaries of the grant date.

In 2003, Mr. Gerke received 9,180 shares of restricted stock granted on March 27, 2003 that vest one-third on each of the first, second and third anniversaries of the grant date and he received 21,570 RSUs granted on April 8, 2003 that vest one-third on each of March 27, 2004, March 27, 2005 and March 27, 2006. Such RSUs accrued 422 additional RSUs as dividend equivalents in 2003 and 2004, which vest at the same time as the shares originally payable under the RSUs.

In 2003, Mr. Fuller received 69,300 RSUs granted on March 27, 2003 that vest one-third on each of the first, second and third anniversaries of the grant date. Such accrued 1,862 additional RSUs as dividend equivalents in 2003 and 2004, which vest at the same time as the shares originally payable under the RSUs.

(3) Options to purchase shares of Sprint Nextel common stock held by a Sprint Nextel employee who becomes our employee at the time of the spin-off will be replaced with new options to purchase shares of our common stock, effective as of the distribution date. The framework approved by the Human Capital and Compensation Committee of the Sprint Nextel board of directors contemplates that the number of shares of our common stock underlying the Embarq options and the exercise price of those options will be determined so that the intrinsic value of the Embarq options (i.e., the difference, at the time of the spin-off, between the value of the stock underlying the options and the aggregate exercise price of such options) will be approximately equal to that of the converted Sprint Nextel options before the distribution.

In order to avoid adverse tax treatment for option holders under the Code, the number of shares of our common stock subject to converted options will be rounded down to the nearest whole share, and the per-share exercise price will be rounded up to the nearest whole cent.

(4) Consists of amounts for 2005: (a) contributed by Sprint under the Sprint Retirement Savings Plan, (b) representing the portion of interest credits on deferred compensation accounts under Sprint s Executive Deferred Compensation Plan that are at above-market rates, (c) for Mr. Hesse, relocation expenses, which consisted of transit expenses (including use of the corporate aircraft), storage expenses, deed recording expenses and a payment based on the sale price of Mr. Hesse s

home described under Certain Relationships and Other Transactions, and (d) an incentive for completing a health risk assessment questionnaire, as follows:

	Savings Plan Contribution	Above-market Earnings	Relocation	Health Risk Assessment Incentive
Daniel R. Hesse	$ 0	$ 0	$ 201,247*	$ 0
Harrison S. Campbell	3,442	0	0	45
Michael B. Fuller	3,780	31,154	0	0
Thomas A. Gerke	3,780	0	0	0
Thomas J. McEvoy	3,780	382	0	0

* See footnote (6) below.

(5) Mr. Hesse became employed by Sprint on June 7, 2005. See Employment Contracts Employment Contract with Mr. Hesse.

(6) Does not include $49,369 in tax gross-up payments to Mr. Hesse in connection with his relocation, which are included in the Other Annual Compensation column pursuant to SEC rules.

Embarq Compensation Program

On December 12, 2005, the Human Capital and Compensation Committee of the board of directors of Sprint Nextel approved a compensation program for our designated employees, including the members of our senior management team at the time of the spin-off. Since this program does not include certain executive perquisites that previously had been provided to certain officers of Sprint Nextel, effective January 1, 2006, our Named Officers executive perquisites were eliminated and the value of these perquisites was added to their base salaries.

Table of Contents

Option Grants of Sprint Nextel to our Named Officers

The following table summarizes options granted to our Named Officers under Sprint Nextel s stock option plans during 2005. The options shown are options to purchase Sprint Nextel series 1 common stock.

Unless otherwise indicated, each option listed below has the following terms. Vesting is accelerated in the event of an employee s death or permanent disability. In addition, if an option has been outstanding for at least one year, vesting is accelerated upon the Named Officer s involuntary termination, other than a termination for cause, or upon the Named Officer s resignation for good reason following a change of control or the Named Officer s normal retirement at age 65 or older. A change of control is deemed to occur if (1) someone acquires 30% or more of the voting power of Sprint Nextel stock, (2) there is a change of a majority of the directors within a two-year period in certain circumstances, (3) there is a corporate business transaction in which Sprint Nextel voting securities outstanding immediately before the transaction represent less than 50% of the voting power of the surviving entity immediately after the transaction or (4) there is a liquidation or dissolution of Sprint Nextel. Sprint Nextel granted no stock appreciation rights during 2005. For other circumstances in which vesting may be accelerated, see the description of Sprint Nextel s retention program below under Sprint Nextel Retention Program.

Option Grants in Last Fiscal Year

Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees In Fiscal Year(1)	Exercise Or Base Price ($/Sh)	Expiration Date	Grant Date Present Value ($) (2)
Daniel R. Hesse	408,000(3)	5.8	24.05	6/7/15	3,802,560
Harrison S. Campbell	61,341(4)	0.9	26.7465	2/8/15	548,389
Michael B. Fuller	184,842(4)	2.6	26.7465	2/8/15	1,652,487
Thomas A. Gerke	91,603(4)	1.3	26.7465	2/8/15	818,931
	4,933(5)	0.1	25.88	2/19/12	72,170
	17,648(5)	0.2	25.88	3/27/13	258,190
	6,982(5)	0.1	22.75	3/27/13	90,138
Thomas J. McEvoy	62,568(4)	0.9	26.7465	2/8/15	559,358

(1) Total options granted to employees refers to all employees of Sprint Nextel and not our company on a stand-alone basis.
(2) The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions. Expected volatility was derived from historical share price fluctuations.

Date	Expected Stock Price Volatility	Risk-free Interest Rate	Expected Life in Years	Expected Dividend Yield
2/8/2005	44.90%	3.68%	6	2.06%
6/7/2005	44.30%	3.70%	6	2.08%
8/25/2005	58.80%	4.06%	6	0.39%

10/27/2005	58.80%	4.43%	6	0.44%

(3) This option vests 25% on each of June 7, 2006, June 7, 2007, June 7, 2008 and June 7, 2009.
(4) This option vests 25% on each of February 8, 2006, February 8, 2007, February 8, 2008 and February 8, 2009.

Table of Contents

(5) This option is a reload option. A reload option is an option granted when an optionee exercises a stock option and makes payment of the purchase price using shares of previously owned stock. A reload option grant is for the number of shares utilized in payment of the purchase price and tax withholding, if any. The exercise price for a reload option is equal to the market price of the common stock on the date the reload option is granted. A reload option becomes exercisable one year from the date the original option was exercised and does not have a reload feature. The reload feature was eliminated for option grants beginning in 2004.

Option Exercises and Fiscal Year-End Values

The following table summarizes the net value realized on the exercise of options in 2005, and the value of options outstanding at December 31, 2005, for our Named Officers. All options shown are options to purchase Sprint Nextel series 1 common stock.

Aggregated Option Exercises in 2005 and Year-end Option Values

			Number of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised In-the-Money Options at December 31, 2005	
	Shares Acquired on Exercise (#)	Value Received ($)	Exercisable (#)	Unexercisable (#)	Exercisable ($)(1)	Unexercisable ($)(1)
Daniel R. Hesse	0	0	0			