SPRINT CORP
Form 10-K/A
November 09, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission file number 1-04721

SPRINT CORPORATION

(Exact name of registrant as specified in its charter)

KANSAS	**48-0457967**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
P.O. Box 7997,	**66207-0997**

Shawnee Mission, Kansas	**(Zip Code)**
(Address of principal executive offices)	
Registrant s telephone number, including area code	**(913) 624-3000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
FON Common Stock, Series 1, $2.00 par value, and FON Group Rights	New York Stock Exchange
PCS Common Stock, Series 1, $1.00 par value, and PCS Group Rights	New York Stock Exchange
Guarantees of Sprint Capital Corporation 6.875% Notes due 2028	New York Stock Exchange
Corporate Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file these reports), and (2) has been subject to these filing requirements for the past 90 days. Yes __X__ No ______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act) Yes__X__ No ______

Aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 2003, was $18,863,514,730.

COMMON SHARES OUTSTANDING AT FEBRUARY 27, 2004:

FON COMMON STOCK	**906,584,815**
PCS COMMON STOCK	
Series 1	**851,849,701**
Series 2	**184,745,330**

Documents incorporated by reference.

Registrant s definitive proxy statement filed under Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, which definitive proxy statement is to be filed within 120 days after the end of Registrant s fiscal year ended December 31, 2003, is incorporated by reference in Part III hereof.

Explanatory Note

The purpose of this amendment on Form 10-K/A to the Annual Report on Form 10-K of Sprint Corporation for the fiscal year ended December 31, 2003 is to restate our consolidated financial statements for the years ended December 31, 2003, 2002 and 2001 and related disclosures, including the selected financial data included herein as of and for the years ended December 31, 2003, 2002, 2001, 2000 and 1999, as described in Note 2 to the Consolidated Financial Statements.

Generally, no attempt has been made in this Form 10-K/A to modify or update other disclosures presented in the original report on Form 10-K except as required to reflect the effects of the restatement. The Form 10-K/A generally does not reflect events occurring after the filing of the Form 10-K or modify or update those disclosures, including the exhibits to the Form 10-K, affected by subsequent events. Information not affected by the restatement is unchanged and reflects the disclosures made at the time of the original filing of the Form 10-K on March 9, 2004. Accordingly, this Form 10-K/A should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-K, including any amendments to those filings. The following items have been amended as a result of the restatement:

Part I Item 1 Business
Part I Item 2 Properties
Part II Item 6 Selected Financial Data
Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations
Part II Item 8 Financial Statements and Supplementary Data;
Part II Item 9 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure;
Part II Item 9A Controls and Procedures; and
Part IV Item 15 Exhibits, Financial Statement Schedules and Reports on Form 8-K

During a review of internal controls relating to our capital assets, we identified, in the 2004 third quarter, a calculation error that had resulted, since 1999, in the overstatement of interest capitalized during the construction of our Wireless capital assets, with a corresponding understatement of interest expense. The error subsequently resulted in an overstatement of depreciation expense after the associated capital assets were placed in service. This error resulted in a cumulative overstatement of capitalized interest costs and a corresponding understatement of interest expense of $265 million from 1999 through June 30, 2004, as well as a cumulative overstatement of depreciation expense of $99 million from 1999 through June 30, 2004. The cumulative impacts of this error as of June 30, 2004, including the related income tax effect, resulted in a $166 million overstatement of net property, plant and equipment, a $61 million overstatement of deferred income tax liability, and a $105 million overstatement of retained earnings.

While we believe the impacts of this calculation error are not material to any previously issued financial statement, we determined that the cumulative adjustment required to correct this calculation error was too large to record in 2004, and that the calculation error was most appropriately corrected through restatement of previously issued financial statements for the fiscal years ended December 31, 2003, 2002 and 2001 and interim financial statements for the quarters ended March 31, 2004 and June 30, 2004.

Our decision to restate previously issued financial statements was based on the impact of a cumulative correction on the 2004 financial statements rather than the impact on any previously issued financial statement.

Additionally, in the fourth quarter of 2003, in conjunction with our periodic review of the liability for medical coverage for participants in Sprint s long-term disability plan, we determined the liability on our balance sheet relating to costs incurred in periods prior to 2003 was understated by $114 million. The cumulative impacts of this error as of December 31, 2003, including the related income tax effect, resulted in a $114 million understatement of postretirement and other benefit obligations, a $42 million overstatement of deferred income tax liability, and a $72 million overstatement of retained earnings. Accordingly, in the fourth quarter of 2003, we recorded, and fully disclosed, an adjustment to appropriately state this long-term disability liability. Because we have restated our previously issued financial statements for the matter discussed above, we have also restated our previously issued financial statements to apply the long-term disability adjustment to the appropriate pre-2003 periods.

See Note 2 to the Consolidated Financial Statements for additional information.

SECURITIES AND EXCHANGE COMMISSION
ANNUAL REPORT ON FORM 10-K Sprint Corporation

Part I

Item 1. Business

The Corporation

Sprint Corporation, incorporated in 1938 under the laws of Kansas, is mainly a holding company, with its operations primarily conducted in its subsidiaries. Unless the context otherwise requires, references to Sprint, we, us, and our mean Sprint Corporation and its subsidiaries.

Sprint is a global communications company and a leader in integrating long-distance, local service, and wireless communications. Sprint is also one of the largest carriers of Internet traffic using its tier one Internet Protocol network, which provides connectivity to any point on the Internet either through its own network or via direct connections with other backbone providers. Sprint is the nation s third-largest provider of long distance services based on revenues, and operates nationwide, all-digital long distance and tier one Internet Protocol networks using fiber-optic and electronic technology. Sprint currently serves approximately 7.9 million access lines in its franchise territories in 18 states, and we provide local service using our facilities, leased facilities or unbundled network elements provided by other carriers in 36 states and the District of Columbia. Sprint is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities. Sprint also operates a 100% digital personal communications service, or PCS, wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. The PCS Group, together with third party affiliates, operates PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS Group s service, including third party affiliates, reaches a quarter billion people. The PCS Group, combined with our wholesale and affiliate partners, served more than 20 million customers at the end of 2003.

Sprint operates in an industry that has been and continues to be subject to consolidation and dynamic change. Therefore, Sprint routinely reassesses its business strategies. In light of events and specific changes in telecommunications, including bankruptcies, over-capacity and the current economic environment, Sprint continues to assess the implications on its operations. Any such assessment may impact the valuation of its long-lived assets. As part of its overall business strategy, Sprint regularly evaluates opportunities to expand and complement its operations and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on its business, financial condition, liquidity or results of operations.

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for $2.23 billion in cash. The sale closed on January 3, 2003.

In November 1998, Sprint s shareholders approved the allocation of all of Sprint s assets and liabilities into two groups, the FON Group and the PCS Group, as well as the creation of the FON stock and the PCS stock. FON common stock and PCS common stock are intended to reflect the financial results and economic value of the FON and PCS Groups. However, they are classes of common stock of Sprint, not of the group they are intended to track.

The FON Group is comprised of the global markets division, the local division and other businesses consisting primarily of wholesale distribution of telecommunications products. The PCS Group includes Sprint s wireless PCS operations.

On February 28, 2004, Sprint s board of directors decided to recombine the tracking stocks and return to a single common stock. As a result, each share of the PCS common stock will convert automatically into 0.50 shares of FON common stock on April 23, 2004. The FON stock will represent the only outstanding common stock of Sprint. After the recombination, Sprint will continue to present consolidated financial information, but will not include group level information. The recombination will not impact Sprint s current presentation of all required segment information.

Access to Public Filings and Board Committee Charters

Sprint provides public access to its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission (SEC) under the 1934 Act. These documents may be accessed free of charge on Sprint s website at the following address: http://www.sprint.com/sprint/ir. These documents are provided as soon as is practicable after filing with the SEC. These documents may also be found at the SEC s website at http://www.sec.gov.

Sprint also provides public access to its Code of Ethics and the charters of the following committees of its board of directors: the Audit Committee, the Capital Stock Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. The ethics code and committee charters may be viewed free of charge on Sprint s website at the following address: http://www.sprint.com/governance. They may also be obtained free of charge by writing to: Sprint Shareholder Relations, 6200 Sprint Parkway, Mailstop KSOPHF0302-3B206, Overland Park, Kansas 66251. If a provision of the ethics code required under the New York Stock Exchange corporate governance standards or the Sarbanes-Oxley Act is materially modified, or if a waiver of the ethics code is granted to a director or executive officer, the notice of such amendment or waiver will be posted on Sprint s website. While only the board of directors or the Audit Committee may consider a waiver for an executive officer or director, Sprint does not expect to grant waivers.

Business Transformation

Currently, Sprint s operations are divided into three segments: the global markets division, the local division and the PCS wireless telephony products and services business.

In an effort to enhance the focus on the needs and preferences of two distinct customer types businesses and consumers, Sprint s market-facing business units have been aligned into the Sprint Business Solutions (SBS) unit, Sprint Consumer Solutions (SCS) unit and the Sprint Local Consumer Solutions (SLCS) unit. This effort is expected to enable Sprint to more effectively and efficiently use its portfolio of assets to create customer-focused communications solutions.

During 2004, Sprint intends to continue to measure its activities using its current business segments, and begin to measure certain activities under this customer-focused approach. Throughout 2004, management anticipates continuing to make decisions using the current segmentation. However, part of the decision-making process will include viewing opportunities from a customer-centric perspective. Sprint intends to develop and deliver integrated products and services which will help our customers function more effectively in the workplace and in daily life.

In conjunction with these market-facing business unit realignments, Sprint is undertaking initiatives to improve productivity through:

Consolidating systems and eliminating redundancies

Application rationalization

Automation

Process re-engineering

E-enablement

Organizational redesign and streamlining

These efforts have resulted in restructuring charges and asset impairments in the fourth quarter of 2003 and will impact subsequent quarters. Ongoing efforts in these areas may have additional impacts in subsequent periods. See Note 6 of Notes to Consolidated Financial Statements for more information relating to these activities.

Sprint FON Group

General Overview of the Sprint FON Group

The FON Group is comprised of the global markets division, the local division and other businesses consisting primarily of wholesale distribution of telecommunications products. The main activities of the global markets division include domestic and international long distance communications (except for consumer long distance services used by customers within Sprint s local franchise territories), broadband fixed wireless services and certain other ventures. The global markets division is the nation s third-largest provider of long distance services based on revenues. The activities of the local division include local exchange communications and consumer long distance services used by customers within Sprint s local franchise territories.

The FON Group is implementing a metropolitan area network (MAN) strategy through the lease and purchase of dark-fiber and lit rings in key U.S. cities. This fiber-optic infrastructure enables Sprint to reduce local access costs.

The FON Group also includes other businesses consisting primarily of wholesale distribution of telecommunication products. Finally, the FON Group includes investments in EarthLink, Inc., an Internet service provider; Call-Net Enterprises, Inc., a long distance provider in Canada; and certain other telecommunications investments.

Global Markets Division

The global markets division s financial performance for 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
	(as restated)	(as restated)	(as restated)
		(millions)	
Net operating revenues	$ 7,992	$ 8,943	$ 9,916
Operating income (loss)[1]	$ (1,426)	$ (208)	$ (2,057)

(1) See Part II, Item 7 Segmental Results of Operations Global Markets Division for more information regarding division financial performance.

General

The global markets division provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as Internet Protocol and frame relay (a data service that transfers packets of data over Sprint s network), and managed network services. The global markets division also provides local service using Sprint s facilities, leased facilities or unbundled network elements provided by other carriers in 36 states and the District of Columbia. The global markets division is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities. In addition, the global markets division provides consulting services and international data communications.

The global markets division also includes the operating results of the wireless high speed data and cable TV service operations of the broadband fixed wireless companies. In 2001, Sprint announced it would halt further deployment of Multipoint Multichannel Distribution Services (MMDS) services using current line of sight technology. Current video and high speed data customers continue to receive service. In the third quarter of 2003, Sprint s ongoing evaluation of its business use for the MMDS spectrum resulted in a decision to end pursuit of a residential fixed wireless strategy and an impairment to spectrum value. Sprint is now focusing its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

In the 2003 second quarter, Sprint announced the wind-down of its web hosting business.

Competition

The division competes with AT&T, MCI (formerly WorldCom), the Regional Bell Operating Companies (RBOCs): Verizon, BellSouth, SBC Communications and Qwest, Level 3 and cable operators and other telecommunications providers in all segments of the long distance communications market. AT&T continues to have the largest market share of the domestic long distance communications market. Some competitors are targeting the high-end data market and are offering deeply discounted rates in exchange for high-volume traffic as they attempt to fill their networks with traffic volume. The RBOCs have received authority to provide in-region long distance service in 48 states and the District of Columbia, which has heightened competition. As the RBOCs have entered the long distance service market, they have proven to be formidable long distance competitors. In addition, long distance services provided by wireless service providers and Internet-based services are expected to continue to adversely affect the global markets division. Competition in long distance is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability. Sprint s ability to compete successfully will depend on its ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions, and pricing strategies. Many carriers are competing in the residential and small business markets by offering bundled packages of both local and long distance services.

Strategy

In order to achieve profitable market share growth in an increasingly competitive long distance communications environment, the global markets division intends to leverage its principal strategic assets: its high-capacity national fiber-optic network, its tier one Internet Protocol network, its base of business and residential customers, its established national brand, and offerings available from other Sprint operating entities and other relationships. The long distance operation will focus on expanding its presence in the data communications markets. The global markets division continues to deploy network and systems infrastructure which provides reliability, cost effectiveness and technological improvements.

Local Division

General

The local division consists mainly of regulated local phone companies serving approximately 7.9 million access lines in 18 states. The local division provides local voice and data services, including Digital Subscriber Line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local division s local network, nationwide long distance services to residential customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. The local division provides wireless services to customers in its franchise territories through agency relationships. DSL enables high speed transmission of data over existing copper telephone lines.

The local division s financial performance for 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
	(as restated)	(as restated)	(as restated)
		(millions)	
Net operating revenues	$ 6,143	$ 6,257	$ 6,294
Operating income (loss)[1]	$ 1,846	$ 1,816	$ 1,770

[1] See Part II, Item 7 Segmental Results of Operations Local Division for more information regarding division financial performance.

Competition

The local division s franchise territories are principally in suburban and rural markets. Competition in these markets is occurring more gradually than for the RBOCs. In urban areas there is already substantial competition and there is increasing competition in less urban areas. Cable companies selling cable modems continue to provide competition for high-speed data services for residential customers. In addition, the use of e-mail and wireless services have eroded the local division s access and long distance revenues. Cable companies are beginning to provide telecommunication services to the home. Certain mergers or other combinations involving competitors may increase competition. Competition in these services is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability.

Strategy

The local division s strategy is focused on growing its share of communications spending within its franchised service areas through broad-based product and service differentiation. To do so, the local division will bundle Sprint s entire portfolio of wireline and wireless services, expand DSL coverage, and add video capability in partnership with Echostar Communications Corp. In addition, the division plans to enhance its customers service experience by developing a single, clear invoice and integrating customer care for all bundled services.

Sprint PCS Group

General Overview of the Sprint PCS Group

The PCS Group includes Sprint s wireless PCS operations. It operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin

Islands, using a single frequency band and a single technology. The PCS Group, together with third party affiliates, operates PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS Group s service, including third party affiliates, reaches a quarter billion people. The PCS Group provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all speech bits, sending a scrambled transmission of the encoded speech over the air and reassembling the speech into its original format,
- affiliating with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- roaming on other providers digital networks that use CDMA, and
- roaming on other providers analog cellular networks using multi-mode and multi-band handsets.

Sprint PCS customers can use their phones through roaming agreements in countries other than the United States, including areas of:

- Asia Pacific, including China, Guam, Hong Kong and New Zealand,
- Canada and Mexico,
- Central and South America, including Argentina, Bolivia, Chile, Colombia, Ecuador, Guatemala, Paraguay and Uruguay, and
- Most major Caribbean Islands.

Sprint launched nationwide third generation (3G) capability in the 2002 third quarter. This capability allows more efficient utilization of the network when voice calls are made using 3G-enabled handsets. It also provides enhanced data services. The service, marketed as PCS Vision, allows consumer and business customers to use their Vision-enabled PCS devices to exchange personal and corporate e-mail, take, send and receive pictures, exchange instant messages, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds up to 144 kbps (with average speeds of 50 to 70 kbps).

The PCS Group supplements its own network through affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer PCS services using Sprint s spectrum under the Sprint brand name on CDMA networks built and operated at their own expense. Several of these affiliates are experiencing financial difficulties and are evaluating or have completed restructuring activities. Two affiliates have filed for bankruptcy protection and made claims against us in the bankruptcy courts. One other affiliate has filed suit against us. We are in negotiations with some of the affiliates regarding restructuring our relationship with them, and have reached agreement with several. Sprint has amended the existing agreements to provide for a simplified pricing mechanism, as well as refining and changing various business processes. The amended agreements cover approximately 40% of the customers served by all affiliates. For further discussion see Risk Factors Relating to Sprint.

The PCS Group also includes an investment in Virgin Mobile, USA, a joint venture to market wireless services, principally to youth and pre-pay segments. This investment is accounted for using the equity method.

The PCS Group also provides wireless services to companies that resell wireless service to their customers on a retail basis under their own brand. These companies bear the costs of acquisition, billing and customer service.

The financial performance for the PCS Group for 2003, 2002 and 2001 is summarized as follows:

	2003	2002	2001
	(as restated)	(as restated)	(as restated)
		(millions)	
Net operating revenues	$ 12,690	$ 12,074	$ 9,725
Operating income (loss)[1]	$ 592	$ 494	$ (634)

[1] *See Part II, Item 7 Segmental Results of Operations PCS Group for more information regarding division financial performance.*

Competition

The market for wireless services is highly competitive. Sprint s wireless PCS operations compete against a number of carriers including five national wireless companies: Verizon Wireless, Cingular Wireless, AT&T Wireless Services, Nextel Communications and T-Mobile. Each of the markets in which the PCS Group competes is served by other wireless service providers. A majority of the markets, including each of the top 50 metropolitan markets, have six or more wireless service providers including the PCS Group. Many of the PCS Group s competitors have been operating for a number of years and serve a substantial subscriber base. Competition may continue to increase to the extent that licenses are transferred from smaller stand-alone operators to larger, better capitalized, and more experienced wireless communications operators, or as new firms enter the market as additional radio spectrum is made available for commercial wireless services. Consolidation of the industry is occurring with the pending merger of Cingular Wireless and AT&T Wireless Services. The impact of this proposed merger is uncertain, but if completed, the new entity will emerge as the largest competitor. In January 2003, the Federal Communications Commission (FCC) rule imposing limits on the amount of spectrum that can be held by one provider in a specific market was lifted. Although the spectrum cap was lifted, the FCC still reviews the competitive impact of any license transfer, assignment or combination on a case by case basis.

Strategy

The PCS Group intends to increase capacity and enhance network coverage, and to increase market penetration by aggressively marketing competitively priced PCS products and services under the Sprint brand name, offering enhanced voice and data services and seeking to provide superior customer service. It also expects to increase market penetration through its investment in Virgin Mobile, USA, which targets the youth and pre-pay segments, and from its wholesale offerings. The principal elements of the PCS Group s strategy for achieving these goals are:

- using state-of-the-art technology,
- leveraging the operating scale of the PCS Group s national network to achieve significant cost advantages in purchasing power, operations, and marketing,
- delivering superior service to its customers,
- growing its customer base using multiple distribution channels,
- delivering innovative products and services,
- continuing to increase capacity and enhance coverage, and
- offering Sprint s entire product portfolio.

Legislative and Regulatory Developments

Telecommunications services are subject to regulation at the federal level by the FCC and at the state level by public utilities commissions. In general, incumbent local exchange carriers (ILECs) such as Sprint s local phone companies are subject to the most extensive regulation. Regulation not only covers rates and service terms, but also the terms on which ILECs provide connections and network elements to potential competitors known as competitive local exchange carriers (CLECs). Long distance providers such as the global markets division are subject to less regulation, but still must comply with various statutory requirements and regulations. Commercial mobile radio service (CMRS) providers such as Sprint s wireless operations 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 E-911 and wireless local number portability (WLNP). CMRS providers are also subject to state regulation over terms and conditions of service.

Telecommunications have been and remain the subject of legislative initiatives at both the federal and state levels. The Telecommunications Act of 1996 (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 passage of implementing rules by the FCC and the states. These rules have been the subject of numerous appeals to both the courts and to Congress. In virtually every session of Congress since the adoption of the Telecom Act, legislation has been proposed to amend it. 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 Sprint s interest. Similar legislative involvement occurs in various states.

Sprint FON Group Wireline Operations

Competitive Local Service

The Telecom Act was designed to promote competition in all aspects of telecommunications. It eliminated legal and regulatory barriers to entry into local phone markets. It also required ILECs to allow local resale at wholesale rates, negotiate interconnection agreements, provide nondiscriminatory access to unbundled network elements and allow colocation of interconnection equipment by competitors. The rules implementing the Telecom Act are the subject of legal challenges and uncertainty. Moreover, many of the CLECs that invested money to participate in local competition have filed for bankruptcy. Thus, the future of local competition remains unclear.

Sprint is impacted by local competition rules from two perspectives: primarily, as an ILEC serving approximately 4% of the access lines in the United States and, secondarily, as a potential CLEC for the remainder of the country s access lines. Sprint is engaged as a CLEC providing local service to residential customers and small and medium business customers utilizing its own facilities, leased facilities and a platform of unbundled network elements, referred to as UNE-P, provided by the ILEC.

In August 2003, the FCC issued revised rules on unbundled network elements, including UNE-P, broadband deregulation and high-capacity loops. Under the order, ILECs continue to be required to make available loop and transport elements such as those needed for the CLEC services being provided to medium and small business customers described above, but the order establishes a mechanism to require state regulatory commissions to remove the transport and high-capacity loop elements from the required list if certain competitive tests are met. The order further presumes that UNE-P should initially remain available for mass-market customers nationwide but requires state regulatory commissions to examine, on a market-by-market basis and using FCC-formulated criteria, whether UNE-P should continue to be available for mass-market customers. If a state should determine that UNE-P should no longer be required, the order establishes a 27 month phase-out period. Both RBOCs and CLECs appealed various aspects of this order. In March 2004, the D.C. Circuit Court of Appeals vacated significant aspects of the FCC s order. The court s decision will be subject to requests for stay of its effectiveness and to requests for rehearing and/or review by the Supreme Court. If allowed to take effect, the court s decision will foreclose the use of UNE-P unless or until the FCC adopts new rules reinstating UNE-P as an option for competitive local service. Such foreclosure would require Sprint to discontinue its use of UNE-P unless the RBOCs were to agree to allow continued use of UNE-P at negotiated prices. The court also vacated FCC rules requiring high-capacity transport to be made available as an unbundled element. This ruling would not have a material effect on the global markets division s current competitive local offerings to medium and large business customers.

Separately, the FCC is considering whether it should establish performance measures for ILEC provision of unbundled network elements and special access services, and it has convened a proceeding to determine the appropriate regulatory requirements for ILEC provision of domestic broadband telecommunications. In September 2003, the FCC also initiated a rulemaking proceeding to re-examine the methodology the states must use to establish prices for unbundled network elements.

Larger ILECs, including the local division, were required to provide intermodal WLNP in the 100 largest metropolitan statistical areas in November 2003. Intermodal WLNP allows customers to retain existing telephone numbers when switching from a wireline carrier to a wireless carrier, subject to certain limitations. The intermodal WLNP requirements impose increased operating costs on the local exchange service providers and are likely to result in some loss of customers to wireless carriers.

Universal Service Requirements and Access Reform

The FCC continues to address issues related to universal service and access reform. In 2000, the FCC adopted an access reform plan that substantially reduced switched access charges paid by long distance carriers to the large ILECs and created a new universal service fund that offsets a portion of this reduction in access charges. In connection with its advocacy of this plan, Sprint committed that it would flow through the reductions in switched access costs over the five-year life of the plan to both business and residential customers. Sprint also committed to certain other pricing actions, including eliminating charges to residential and single-line business customers which had been used to pass through certain access costs that were eliminated by this plan, and maintaining, for the duration of the plan, at least one pricing option that does not include a minimum usage charge. The FCC order adopting this access reform plan requires Sprint to adhere to these commitments.

The FCC and many states have established universal service programs to ensure affordable, quality local telecommunications services for all U.S. residents. Sprint s assessment to fund these programs is typically a percentage of interstate and international end-user revenues. The local division is also a recipient of support funds in several of its states.

In 2001, the FCC initiated a proceeding to determine whether the carrier assessment program described in the preceding paragraph should be changed. In a December 2002 decision, the FCC asked for further comment on whether to move from a carrier assessment based on revenues to a per-line or per-number assessment. This issue is still pending with the FCC. In addition, it revised the revenue-based assessment from one based on historical revenues to one based on projected revenues in order to better account for RBOC entry into long distance and the loss of market share by other long distance carriers. The FCC also increased, from 15% to 28.5%, the safe harbor estimate of the amount of wireless revenues that can be attributed to interstate and international services. This safe harbor can be used by wireless carriers in lieu of attempting to measure how much of their traffic and revenues are from interstate and international calls (and thus subject to federal universal service contributions). This increase in the safe harbor has increased the overall share of federal universal service funding borne by wireless carriers. At current funding levels, this FCC decision has slightly reduced the contributions of Sprint s wireline operations to the federal universal service funds.

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 (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.

With the growing use of Voice over Internet Protocol (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, is an unregulated information service, rather than a telecommunications service, and preempting any attempts by state regulatory authorities to regulate this service. The FCC also voted in February 2004 to initiate a rulemaking to consider other forms of VoIP and is considering a petition filed by AT&T regarding the status of a long distance offering in which calls that begin and end on the ordinary public switched telephone network are transmitted in part through the use of Internet Protocol.

Communications Assistance for Law Enforcement Act

The Communications Assistance for Law Enforcement Act (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. CALEA required telecommunications companies to meet certain assistance capability requirements by June 30, 2000. The local division agreed to a CALEA deployment schedule with the Department of Justice (DOJ) and obtained an extension for CALEA compliance from the FCC until June 30, 2002. The local division has timely filed a petition for further extension until June 30, 2004. This petition and similar petitions filed by other carriers have not been acted on, but based on past practice, no penalties are likely to be imposed for the period after the expiration of the previous extension.

Reallocation of Spectrum

The FCC has issued an order reallocating certain spectrum (the 2150-2162 MHz band) currently used by Sprint and others in the provisioning of MMDS for advanced wireless services. The order provides that incumbents such as Sprint will be relocated to a band that will be identified later and will be reimbursed for their relocation costs. The FCC is currently considering this issue.

MMDS License Conditions

The FCC auctioned certain MMDS licenses those licensed on a basic trading area (BTA) geographic basis in 1996 for a term of ten years. The licenses may be renewed by the FCC for additional ten year terms. The FCC rules require all licensees of auctioned MMDS spectrum to meet certain buildout requirements in order to retain their licenses of this spectrum. Before August 16, 2003, Sprint filed certifications for 62 of its 93 BTAs indicating that it has met the buildout requirements. However, it has not yet received confirmation from the FCC that the requirement has been met in any BTA. Sprint, other MMDS licensees and the MMDS trade association have asked the FCC to delay the buildout deadline and to amend its rules regarding the buildout obligation along with other rule changes affecting MMDS service. Those requests remain pending. Failure to comply with FCC requirements in a given market could result in the loss of the MMDS BTA license for that part of the service area in which the buildout requirements are not met.

Sprint PCS Group Wireless Operations

The FCC sets rules, regulations and policies to, among other things:

- grant licenses for PCS frequencies and license renewals,
- rule on assignments and transfers of control of PCS licenses,
- govern the interconnection of PCS networks with other wireless and wireline carriers,
- establish access and universal service funding provisions,
- impose fines and forfeitures for violations of any of the FCC s rules,
- regulate the technical standards governing wireless services, and
- impose other obligations that it determines to be in the public interest.

In January 2003, the FCC eliminated its spectrum cap rule prohibiting a single entity from having a combined attributable interest in broadband PCS, cellular and specialized mobile radio licenses totaling more than 55MHz in any geographic area. The FCC now analyzes transactions involving spectrum on a case-by-case basis and imposes limits on the amount of spectrum a single entity may hold in a geographic area only if market conditions warrant such restrictions. In certain instances sales or acquisitions of wireless systems are also subject to DOJ or Federal Trade Commission review.

In late 2003, the FCC adopted new rules that will allow CMRS licensees to lease spectrum to other parties. Under the new rules, which go into effect in early 2004, licensees will have more flexibility to use and potentially monetize spectrum assets. At this time it is unclear how this increased flexibility will impact the value of Sprint s PCS spectrum holdings or the highly competitive marketplace for wireless services.

In 2003, the FCC reallocated additional spectrum for 3G purposes. The FCC identified which spectrum bands should be used for advanced wireless services and is considering the technical parameters and service rules to govern operation in these frequencies. After this process is complete, the FCC will auction this spectrum. The amount of spectrum that will be reallocated and the cost of moving incumbent users cannot be determined at this time. In addition, the FCC plans to auction additional spectrum in the 700 MHz band which is currently used for analog broadcasting. It is not clear if the allocation of additional spectrum for 3G purposes and the auction of 700 MHz spectrum for mobile services will impact the value of Sprint s current spectrum licenses.

The FCC has initiated a number of proceedings to evaluate its rules and policies regarding spectrum licensing and usage. It is considering new harmful interference concepts that might permit unlicensed users to share licensed spectrum. These new uses could impact Sprint s utilization of its licensed spectrum.

PCS License Conditions

All PCS licenses are granted for ten-year terms if the FCC s construction requirements are met. Licenses may be revoked if the FCC s construction requirements are not met. The licenses are also subject to renewal. All 30 MHz broadband major trading area (MTA) licensees must build PCS networks offering coverage to $^{1}/3$ of the population within five years and $^{2}/3$ within 10 years. In 2000, Sprint met the five-year buildout requirement in all of its MTA markets. Sprint has already met the ten-year buildout requirement in the majority of its MTA markets and expects to meet the ten-year buildout requirements in all of its MTA markets before the June 2005 deadline. All 10 MHz and 15 MHz broadband PCS licensees must construct networks offering coverage to at least $^{1}/4$ of the population or make a showing of substantial service within five years of license grant. In 2002, Sprint met the 10/15 MHz five-year buildout requirement in all of its BTA markets.

PCS licenses may be renewed for additional ten-year terms. Renewal applications are not subject to auctions. If a renewal application is challenged, the FCC grants a preference commonly referred to as a license renewal expectancy to the applicant if it can demonstrate it has provided substantial service during the past license term and has substantially complied with the FCC s rules.

Other FCC Requirements

Sprint s PCS wireless operations began providing WLNP in the 100 largest metropolitan statistical areas (MSAs) in compliance with the FCC-mandated November 24, 2003 deadline. WLNP allows customers to retain existing telephone numbers when switching from one telecommunications carrier to another, subject to certain limitations.

We intend to implement WLNP beyond the largest 100 MSAs on May 24, 2004. The vast majority of PCS customers are resident in the 100 largest markets where WLNP is already available. The WLNP requirements impose increased operating costs on all CMRS carriers and are likely to result in higher subscriber churn.

Broadband PCS and other CMRS providers must implement enhanced emergency 911 capabilities in a two-tiered manner. In the first phase, wireless carriers must identify the base station from which a call originated. In the second phase, wireless carriers must provide location within a radius as small as fifty meters. Implementation of the second phase location requirements must generally begin within six months of a valid request by a public safety organization. Sprint has deployed system elements necessary to support Phase one and Phase two enhanced emergency 911 throughout its entire network. Actual availability of Phase one or Phase two enhanced emergency 911 services in any particular market is dependent upon receipt of a request for service and completion of necessary upgrades by local governments, and is not within Sprint s control. We file regular reports with the FCC outlining our compliance with these obligations. Failure to comply with the FCC s rules in this area may result in significant monetary penalties.

Communications Assistance for Law Enforcement Act

CALEA requires telecommunications carriers, including Sprint, to modify their equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Like other CMRS carriers, our wireless operations have sought certain extensions of CALEA deadlines for packet-mode data services and these requests remain pending. Sprint believes that the FCC will grant extensions of the deadlines; however, the law enforcement community, led by the DOJ, Federal Bureau of Investigation (FBI), and Drug Enforcement Administration (DEA) are actively participating in a number of FCC proceedings relating to packet-mode data services. DOJ, FBI, and DEA are seeking determinations from the FCC that providers of packet-mode services particularly Voice-Over-Packet communications must provide electronic interception capabilities. Determinations in these FCC proceedings could affect disposition of Sprint s CALEA extension requests for its wireless operations. If the extension requests are not granted, Sprint could be subject to fines if it is unable to comply with a surveillance request from a law enforcement agency. Sprint has also sought clarification from the FCC on the scope of telecommunications carriers obligation to intercept packet-mode data services.

Hearing Aid Compatibility

FCC rules require that telecommunications carriers make services accessible and usable to persons with disabilities. In August 2003, the FCC released an order lifting the exemption that cellular/PCS handsets had under the 1988 Hearing Aid Compatibility Act and imposed new obligations for wireless carriers and handset manufacturers. Among other requirements, by November 2005, 25% of all handset models that major CMRS providers sell must be hearing aid compatible by meeting certain technical requirements. Once finalized, these requirements will impose additional costs on Sprint.

Other Federal Regulations

Wireless systems must comply with certain FCC and Federal Aviation Administration (FAA) regulations about the siting, lighting and construction of transmitter towers and antennas. In addition, FCC rules subject certain cell site locations to National Environmental Policy Act (NEPA) and National Historic Preservation Act (NHPA) regulation. The FCC is currently evaluating modifications to its NEPA and NHPA rules that could result in additional land use and radio frequency requirements and might impact antenna siting efforts in certain areas.

Universal Service Requirements and Access Charges

The FCC and many states have established universal service programs to ensure affordable telecommunications services for all U.S. residents. As discussed above under Sprint FON Group Wireline Operations Universal Service Requirements and Access Reform, the FCC increased the safe harbor estimate of the amount of wireless revenues that can be attributed to interstate and international services. Although wireless carriers may still rely on their actual interstate traffic levels to determine universal service fund contributions, the FCC s modification of the safe harbor increased the overall share of federal universal service funding borne by wireless carriers, including Sprint s wireless operations.

In 2001, the FCC initiated a proceeding to consider a number of issues regarding compensation arrangements between carriers that exchange local and long distance traffic, including the issue of whether wireless carriers should be allowed to charge long distance carriers for terminating long distance calls to their wireless customers. Separately, in 2001, Sprint and AT&T filed petitions for a declaratory ruling with the FCC regarding the lawfulness of Sprint s practice of charging AT&T for terminating AT&T s long distance calls to Sprint s wireless customers. In July 2002, the FCC released a ruling affirming that nothing prohibited wireless carriers from imposing access charges for the use of their networks; however, the FCC also stated that inter-exchange carriers could not be unilaterally required to pay these charges without a contractual obligation to do so. This ruling was affirmed by the District of Columbia Circuit Court of Appeals. Sprint s claim against AT&T for wireless access charges is currently pending before the Federal District Court for the Western District of Missouri.

State and Local Regulation

The Telecom Act generally preempts state and local regulation of market entry or the rates charged by a CMRS provider. States may, however, regulate other terms and conditions of mobile service, such as billing practices and other consumer-related issues. Several states have commenced proceedings to implement consumer protection and service quality regulations that would impose substantial incremental costs across the industry.

The location and construction of radio towers and antennas are also subject to a variety of state and local zoning, land use and regulatory requirements. Therefore, the time needed to obtain zoning approvals for the construction of additional wireless facilities varies from market to market and state to state. The cost of constructing wireless antenna facilities also varies by market and state.

The potential impact on Sprint and its operations of material regulatory developments is discussed under Risk Factors Relating to Sprint.

Environmental Compliance

Sprint has identified seven former manufactured gas plants where it may have some obligation to contribute to cleanup costs. Sprint continues to evaluate whether and to what extent it has liability with respect to each site and has reserved for cleanup costs. The manufactured gas plants are not currently owned or operated by Sprint, but may have been owned or operated by entities acquired by Sprint s subsidiary, Centel Corporation, before Sprint acquired Centel Corporation. Other environmental compliance and remediation expenditures mainly result from the operation of standby power generators for its telecommunications equipment. The expenditures arise in connection with standards compliance, permits or occasional remediation, which are usually related to generators, batteries or fuel storage. Sprint s environmental compliance and remediation expenditures have not been material to its financial statements or to its operations and are not expected to have any future material adverse effects on its financial statements or its operations.

Patents, Trademarks and Licenses

Sprint owns numerous patents, patent applications, service marks and trademarks in the United States and other countries. Sprint expects to apply for and develop trademarks, service marks and patents for its benefit in the ordinary course of business. Sprint and Sprint PCS are registered trademarks of Sprint. Sprint is also licensed under domestic and foreign patents and trademarks owned by others. In total, these patents, patent applications, trademarks, service marks and licenses are of material importance to the business. Generally, Sprint s trademarks, trademark licenses and service marks have no limitation on duration; Sprint s patents and licensed patents have remaining terms generally ranging from one to 19 years.

Sprint 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 Sprint s local franchise territories and to Sprint s third party PCS affiliates.

Employee Relations

At year-end 2003, Sprint had approximately 41,200 FON Group and approximately 25,700 PCS Group active employees. Approximately 7,900 FON Group employees were represented by unions. During 2003, Sprint had a work stoppage in New Jersey. It did not have a material effect on financial results.

In the 2003 fourth quarter, Sprint recognized charges from its organizational redesign initiatives. The restructuring was a company-wide effort to create a more customer focused organization. These decisions included work force reductions in the FON Group, PCS Group and corporate functions supporting these two groups.

In the 2003 second quarter, Sprint announced the wind-down of its web hosting business. Restructurings of other global markets division operations also occurred in the continuing effort to create a more efficient cost structure. These decisions included work force reductions in the FON Group.

In the 2002 fourth quarter, Sprint announced plans to consolidate its Network, Information Technology, and Billing and Accounts Receivable organizations, as well as steps to reduce operating costs. These decisions included work force reductions in the FON Group, PCS Group and corporate functions supporting these two groups. Additionally, in a separate action, the PCS Group announced it would reduce operating expenses through a further work force reduction.

In the 2002 third quarter, Sprint announced a restructuring integrating its E|Solutions web hosting sales, mobile computing consulting, marketing, and product sales support capabilities into Sprint Business while integrating its customer service operations into Network Services. Additionally, Sprint announced that its global markets division will discontinue offering and supporting facilities-based DSL services to customers. These decisions included work force reductions in the FON Group.

In the 2002 first quarter, the PCS Group announced plans to close five PCS customer solution centers, as well as additional steps to reduce operating costs in its network, sales and distribution, and customer service business units. These decisions included work force reductions in the PCS Group.

In the 2001 fourth quarter, Sprint terminated its efforts to provide its Sprint ION offerings and announced plans to reduce operating costs. These decisions included work force reductions in the FON Group and corporate functions.

See Note 6 of Notes to Consolidated Financial Statements, Restructuring and Asset Impairments, for more information on the impacts of these decisions.

Management

For information concerning the executive officers of Sprint, see Executive Officers of the Registrant in this document.

Information as to Business Segments

For information required by this section, refer to Sprint s Management s Discussion and Analysis of Financial Condition and Results of Operations and also refer to Note 18 of Notes to Consolidated Financial Statements section of the Financial Statements filed as part of this document.

Considerations Relating to Tracking Stocks

On February 28, 2004, Sprint s board of directors decided to recombine the tracking stocks and return to a single common stock. As a result, each share of the PCS common stock will convert automatically into 0.50 shares of FON common stock on April 23, 2004. The FON stock will represent the only outstanding common stock of Sprint. After the recombination, Sprint will continue to present consolidated financial information, but will not include group level information. The recombination will not impact Sprint s current presentation of all required segment information.

Until the recombination, the FON common stock and the PCS common stock are intended to track the performance of the FON Group and the PCS Group, respectively. Because the FON common stock and the PCS common stock are classes of common stock of Sprint, not common stock of the group they are intended to track, the holders of the FON common stock and the PCS common stock are subject to the risks related to an equity investment in Sprint and all of Sprint s businesses, assets and liabilities. Therefore, the market prices of the FON common stock and the PCS common stock may not accurately reflect the performance of the group they are intended to track. Between the announcement and the completion of the recombination, the price of the tracking stocks may reflect the expectation that a single common stock will result from the recombination, rather than reflecting the performance of the groups.

Sprint has a single board of directors. Consequently, there is no board of directors that owes separate duties to the holders of either the FON common stock or the PCS common stock. Conflicts of interest between holders of FON common stock and PCS common stock in transactions between the FON Group and the PCS Group or in our dealings with third parties could be resolved by our board of directors to the detriment of the holders of one or the other class of common stock.

After the recombination of the tracking stocks, events that would have benefited the holders of only one of the tracking stocks will benefit all Sprint shareholders.

Risk Factors Relating to Sprint

Failure to satisfy our capital requirements could cause us to delay or abandon our expansion plans. If we incur significant additional indebtedness, it could cause a decline in our credit rating and could limit our ability to raise additional capital.

We continue to have substantial indebtedness and we will continue to require additional capital to expand our businesses. We intend to fund these capital requirements with cash flow generated from operations. If we do not generate sufficient cash flow from operations, we may need to rely on additional financing to expand our businesses. In connection with the execution of our business strategies, we are continually evaluating acquisition opportunities, and we may elect to finance acquisitions by incurring additional indebtedness. We may not be able to arrange additional financing to fund our requirements on terms acceptable to us. Our ability to arrange additional financing will depend on, among other factors, our financial performance, general economic conditions, and prevailing market conditions. Many of these factors are beyond our control. Failure to obtain suitable financing could, among other things, result in the inability to continue to expand our businesses and meet competitive challenges. If we incur significant additional indebtedness, our credit rating could be adversely affected. As a result, our future borrowing costs would likely increase and our access to capital could be adversely affected.

If our wireless PCS operations do not achieve and maintain profitability or if the global markets division and the local division cannot sustain operating revenues, our ability to grow and compete effectively and our credit rating will likely be adversely affected.

If our wireless PCS operations do not achieve and maintain profitability on a timely basis, we may be unable to make the capital expenditures necessary to implement our business plan, meet our debt service requirements, or otherwise conduct our business in an effective and competitive manner. This would require us to divert cash from other uses, which may not be possible or may detract from the growth of our other businesses. These events could limit our ability to increase revenues and net income or cause these amounts to decline.

The global markets division and the local division have experienced declining operating revenues. If the global markets division and the local division cannot sustain revenues, they may be unable to make the capital expenditures necessary to implement their business plans or otherwise conduct their businesses in an effective and competitive manner. This could further damage our ability to maintain or increase our revenues as a whole.

If our wireless PCS operations do not achieve and maintain profitability on a timely basis or if the global markets division and the local division cannot sustain operating revenues, our credit rating will likely be adversely affected. If our credit rating is adversely affected, our future borrowing costs would likely increase and our access to capital could be adversely affected.

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

There is intense competition in the telecommunications industry. The traditional dividing lines between long distance, local, wireless, cable and Internet services are increasingly becoming blurred. Through mergers, joint ventures and various service bundling strategies, major providers, including Sprint, are striving to provide integrated solutions both within and across all geographical markets.

We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products, and services. We cannot predict which of many possible future technologies, products, or services will be important to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on marketing, sales and service delivery, and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions, and discount pricing and other strategies by competitors. To the extent we do not keep pace with technological advances or fail to timely respond to changes in competitive factors in our industry, we could lose market share or experience a decline in revenue and net income.

PCS Group Wireless Operations. Our wireless PCS operations compete in markets served by other wireless service providers. A majority of the markets including each of the top 50 metropolitan markets have six or more wireless service providers. Many of these competitors have been operating for a number of years and serve a substantial subscriber base. In January 2003, the FCC rule imposing limits on the amount of spectrum that can be held by one provider in a specific market was lifted. Competition may continue to increase to the extent that there are mergers or other combinations involving our competitors or licenses are transferred from smaller stand-alone operators to larger, better capitalized, and more experienced wireless communications operators. These wireless communications operators may be able to offer customers network features or products not offered by us. The actions of these wireless communications operators could negatively affect our customer churn, ability to attract new customers, average revenue per user and operating costs.

We rely on agreements with competitors to provide automatic roaming capability to wireless customers in many of the areas of the United States not covered by our wireless network, which primarily serves metropolitan areas. Certain competitors may be able to offer coverage in areas not served by our wireless network or may be able to offer roaming rates that are lower than those offered by us. Certain competitors have sought to modify the FCC s rules to reduce access to their networks for automatic roaming in certain areas. We could incur additional costs to enable our customers to roam, or our customers could be unable to roam, in those markets where cellular operators do not make their network available for roaming or roaming is not technically feasible. Beginning in November 2003, all wireless service providers were required to offer a database solution for WLNP in the 100 largest metropolitan statistical areas. WLNP allows customers to retain, subject to certain geographical limitations, their existing telephone numbers when switching from one carrier to another. In addition to imposing increased costs on our wireless PCS operations, this enables our customers to move to other carriers without losing established telephone numbers and is therefore expected to increase churn during 2004.

Many wireless providers have been upgrading their systems and provide advanced and digital services which compete with our PCS services. Many of these wireless providers require their customers to enter into long term contracts, which may make it more difficult for us to attract customers away from these wireless providers.

We anticipate that market prices for wireless voice services and products generally will continue to decrease in the future as a result of continued competition. All of these developments may lead to greater choices for customers, possible consumer confusion, and increased industry churn.

FON Group Wireline Operations. The global markets division competes with AT&T, MCI (formerly WorldCom), the RBOCs and cable operators, as well as a host of smaller competitors in the provision of long distance and local services. Some of these companies have built high-capacity, Internet-based fiber-optic networks capable of supporting large amounts of bandwidth. These companies claim certain cost structure advantages which, among other factors, may position them well for the future. Increased competition and the significant increase in capacity resulting from new networks may drive already low prices down further.

The Telecom Act allows the RBOCs to provide long distance services in their respective regions if certain conditions are met. By year-end 2003, the RBOCs received authority to enter the long distance market in every state they serve. As the RBOCs have entered the market, they have proven to be formidable long distance competitors. In addition, long distance services provided by wireless, Internet-based and cable service providers are expected to continue to adversely affect sales of the global markets division. Inter-exchange and other carriers are allowed to compete for local services by resale, by using unbundled network elements, or through their own facilities.

The local division operates principally in suburban and rural markets. As a result, competition in the local division s markets is occurring more gradually than for the RBOCs. In urban areas where the local division operates there is already substantial competition by CLECs and there is increasing competition in less urban areas. Cable companies selling cable modems continue to provide competition for high-speed data services for residential customers. E-mail and wireless services will continue to grow as an alternative to wireline services. Larger ILECs, including the local division, were required to provide intermodal WLNP in the 100 largest metropolitan statistical areas in November 2003. Intermodal WLNP allows customers to retain existing telephone numbers when switching from a wireline carrier to a wireless carrier, subject to certain limitations. The WLNP requirements impose increased operating costs on the local exchange service providers and are likely to result in some loss of customers to wireless carriers.

Any failure by our PCS wireless operations to improve customer service and continue to enhance the quality of its network and meet capacity requirements of its customer growth will likely impair its financial performance and adversely affect our results of operations.

Our PCS wireless operations are working to improve customer service. Although improving customer service may increase the cost of supporting our subscribers, if we are unable to improve customer service, our subscribers may switch to other wireless providers.

Our PCS wireless operations must continue to enhance the quality of the wireless network. As we continue this enhancement, we must:

- obtain rights to a large number of cell sites,
- obtain zoning variances or other approvals or permits for network construction and expansion, and
- build and maintain additional network capacity to satisfy customer growth.

Network enhancements may not occur as scheduled or at the cost that we have estimated. Delays or failure to add network capacity, or increased costs of adding capacity, could limit our ability to satisfy our customers and retain or increase the revenues and operating margin of our PCS wireless operations or Sprint as a whole.

The financial difficulties being experienced by some of our wireless affiliates may force us to incur additional expenses and adversely affect our financial performance.

We supplement our wireless network buildout through affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer PCS services using Sprint s spectrum under the Sprint brand name on CDMA networks built and operated at their own expense. We pay these companies a fee based on billed or collected revenues for operating the network on our behalf. Several of these affiliates are experiencing financial difficulties and are evaluating or have completed restructuring activities. Two affiliates have filed for bankruptcy protection and made claims against us in the bankruptcy courts. One other affiliate has filed suit against us. Several of the affiliates are disputing and refusing to pay amounts owed to us. We are in negotiations with some of the affiliates regarding restructuring our relationship with them and have reached agreement with several. Sprint has amended the existing agreements to provide for a simplified pricing mechanism, as well as refining and changing various business processes. The amended agreements cover approximately 40% of the customers served by all affiliates. If any of the affiliates cease operations in all or part of their service area, we may incur roaming charges in areas where service was previously provided by the affiliates. We may also incur costs to meet FCC buildout and renewal requirements, as well as experience lower revenues. Failure to meet FCC buildout and renewal requirements could result in the loss of a PCS license or licenses depending on the service area.

Significant changes in the industry could cause a decline in demand for our services.

The wireless telecommunications industry is experiencing significant technological change, including improvements in the capacity and quality of digital technology such as the move to 3G wireless technology. This causes uncertainty about future customer demand for our wireless PCS services and the prices that we will be able to charge for these services. For example, the demands for our wireless data services may be affected by the proliferation of wireless local area networks using new technologies or the enactment of new laws or regulations restricting use of wireless handsets. The rapid change in technology may lead to the development of wireless telecommunications services or alternative services that consumers prefer over PCS. There is also uncertainty as to the extent to which airtime charges and monthly recurring charges may continue to decline.

The wireline industry is also experiencing significant technological change. Cable companies are beginning to provide telecommunications services to the home. Some carriers are providing local and long distance voice services over Internet Protocol

(VoIP), in the process avoiding access charges on long distance calls.

As a result of these changes, the future prospects of the wireless and wireline industry and the success of our services remain uncertain.

A high rate of customer churn would likely impair our financial performance.

A key element in the economic success of telecommunications carriers is the rate of customer churn. The implementation of WLNP in November 2003 could potentially increase churn. Current strategies to reduce customer churn may not be successful. A high rate of customer churn would impair our ability to increase the revenues of, or cause a deterioration in the operating margin of, our operating units or Sprint as a whole.

Government regulation could adversely affect our prospects and results of operations.

PCS Group Wireless Operations. The licensing, construction, operation, sale, and interconnection arrangements of wireless telecommunications systems are regulated by the FCC and, depending on the jurisdiction, state and local regulatory agencies. The Communications Act of 1934 preempts state and local regulation of market entry by, and the rates charged by, CMRS providers, except in limited circumstances. States may regulate such things as billing practices and consumer-related issues. California has rulemakings underway that propose rules designed to impose consumer protections and service quality regulations. Several other states appear to be considering similar initiatives. If imposed, these regulations could increase the costs of our wireless operations. The Federal Trade Commission also regulates how wireless services are marketed.

The FCC, together with the FAA, also regulates tower marking and lighting. In addition, tower construction is affected by federal, state and local statutes addressing zoning, environmental protection and historic preservation. The FCC is currently evaluating significant changes to its environmental rules which could make it more difficult to deploy antenna facilities. The FCC, the FAA, or other governmental authorities having jurisdiction over our business could adopt regulations or take other actions that would adversely affect our business prospects or results of operations.

FCC licenses to provide PCS services are subject to renewal and revocation. Our metropolitan trading area licenses expire in 2005, and our basic trading area licenses expire in 2007. Metropolitan trading areas and basic trading areas are areas defined by the FCC for the purpose of issuing licenses for PCS. Several basic trading areas make up each metropolitan trading area. The licenses may be renewed by the FCC for additional ten-year terms. FCC rules require all PCS licensees to meet certain buildout requirements to retain their licenses. Although we have met most of these buildout requirements, there is no guarantee that our licenses will be renewed. Failure to comply with FCC requirements in a given license area could result in revocation of the PCS license for that license area.

The FCC has initiated a number of proceedings to evaluate its rules and policies regarding spectrum licensing and usage. It is considering new harmful interference concepts that might permit unlicensed users to share licensed spectrum. These new uses could impact Sprint s utilization of its licensed spectrum.

CMRS providers must implement enhanced 911 capabilities in accordance with FCC rules. Failure to deploy 911 service consistent with FCC requirements could subject us to significant fines.

Failure by various regulatory bodies to make telephone numbers available in a timely fashion could result in our PCS operations not having enough local numbers to assign to new subscribers in certain markets. The FCC has adopted rules to promote the efficient use of numbering resources, including restrictions on the assignment of telephone numbers to carriers, including wireless carriers. The FCC has delegated to states the authority to assign, administer, and conserve telephone numbers. The FCC lifted its prohibition on area codes designated only for customers using a specific technology, such as an area code for only those using wireless technology, and now considers proposals submitted by state commissions seeking to implement this change on a case-by-case basis. Depending on the rules adopted by the states, the supply of available numbers could be adversely restricted. As a result, we:

- may be required to assign subscribers non-local telephone numbers, which may be a disincentive for potential customers to subscribe to PCS service,
- may incur significant costs to either acquire new numbers or reassign subscribers to new numbers, and
- may be unable to enroll new subscribers at projected rates.

FON Group Wireline Operations. FCC licenses associated with MMDS spectrum are subject to renewal and revocation. In 1996, the FCC auctioned certain MMDS licenses those licensed on a basic trading area geographic basis for terms of ten years. Those licenses expire in 2006. The licenses may be renewed by the FCC for additional ten-year terms. The FCC rules require all licensees of auctioned MMDS spectrum to meet certain buildout requirements in order to retain their licenses for this spectrum. Although we have met these requirements in a number of our MMDS markets, there is no guarantee that our licenses will be renewed. Failure to comply with FCC requirements in a given market could result in the loss of the MMDS license for that part of the service area in which the buildout requirements are not met.

In March 2003, at the request of Sprint and other MMDS licensees, the FCC initiated a proceeding proposing to change the service rules governing the MMDS band, to promote flexible use and commercial development of MMDS spectrum. The FCC is also considering relocation of certain MMDS Channels. There is no guarantee that any actions taken by the FCC will promote our business plans.

The pending court review of the FCC s August 2003 order on unbundled network elements and the FCC s pending reexamination of pricing guidelines for unbundled network elements could affect our ability to use unbundled elements to offer competing local services in areas outside the local division s franchise territories and could affect competition in the local division s franchise territories.

The regulatory uncertainty surrounding VoIP and the apparent use of VoIP by some long distance carriers as a strategy to minimize access charges may adversely affect both the local division s access revenues and the global markets division s competitive position to the extent it makes less use of VoIP than its competitors. Adoption by the FCC of intercarrier compensation reform could reduce or eliminate other opportunities for access charge arbitrage, but could also reduce the local division s revenues unless the plan provides a mechanism to replace those revenues with revenues from other sources.

Failure to complete development, testing and rollout of new technology could affect our ability to compete in the industry and the technology we use could place us at a competitive disadvantage.

On an ongoing basis, Sprint develops, tests and rolls out various new technologies and support systems intended to help us compete in the industry. Successful implementation of technology upgrades depends on the success of contract negotiations and vendors meeting their obligations in a timely manner. We may not successfully complete the development and rollout of new technology in a timely manner, and any new technology may not be widely accepted by customers. In either case, we may not be able to compete effectively in the industry. For example, the inability to develop the necessary technology contributed to the decision to end pursuit of a residential fixed wireless strategy using our MMDS licenses.

We use CDMA 2000 technology as our wireless air interface standard for our wireless PCS operations because we believe the technology is superior to the GSM family of air interface technologies. CDMA 2000 has a much smaller market share of global wireless subscribers compared to GSM. As a result, we have a risk of higher costs for handsets and network infrastructure than competitors who use GSM.

We have entered into outsourcing agreements related to business operations. Any difficulties experienced in these arrangements could result in additional expense, loss of customers and revenue, and interruption of our services.

We have entered into outsourcing agreements for the development and maintenance of certain software systems necessary for the operation of our business. We have also entered into agreements with third parties to provide customer service support to direct PCS customers. As a result, we must rely on third parties to execute our operational priorities and interface with our customers. In some cases, the policies of the United States, individual states and foreign countries could affect the provision of these services. If these third parties are unable to perform to our requirements, we would have to pursue alternative strategies to provide these services and that could result in delays, interruptions, additional expenses and loss of customers.

Item 2. Properties

Sprint s gross property, plant and equipment totaled $54.0 billion at year-end 2003. Of this amount, $19.0 billion relates to the FON Group s local division, $14.1 billion relates to the FON Group s global markets division, $18.5 billion relates to the PCS Group and the remainder relates to the FON Group s product distribution properties and general support assets.

The FON Group s gross property, plant and equipment totaled $35.5 billion at year-end 2003. These properties mainly consist of land, buildings, digital fiber-optic network, switching equipment, microwave radio and cable and wire facilities. Sprint leases certain switching equipment and several general office facilities. The long distance operation has been granted easements, rights-of-way and rights-of-occupancy, mainly by railroads and other private landowners, for its fiber-optic network. Under various long-term lease and services agreements, MCI (formerly WorldCom) provides Sprint access to network facilities that compose approximately 17% of Sprint s long distance fiber network and a larger percentage of network traffic. These network facilities are also shared or utilized by MCI (formerly WorldCom).

The PCS Group s properties consist of network assets including base transceiver stations, switching equipment and towers, as well as leased and owned general office facilities and retail stores. The PCS Group leases space for base station towers and switch sites for its PCS network. At year-end 2003, the PCS Group had under lease (or options to lease) approximately 22,500 cell sites.

Sprint owns its corporate campus located in the greater Kansas City metropolitan area.

At December 2003, $960 million of Sprint s debt outstanding represents first mortgage debt and other capital lease obligations and is secured by $15.5 billion of gross property, plant and equipment.

For additional information, see Note 17 of the Notes to Consolidated Financial Statements.

Item 3. Legal Proceedings

In early March, 2004, six purported class action lawsuits relating to the recombination of the tracking stocks were filed against Sprint and its directors by PCS common stockholders. One suit was filed in the Supreme Court of the State of New York, which is that state s trial court; the remaining five were filed in the District Court of Johnson County, Kansas. The actions allege breach of fiduciary duty in connection with the approval of the recombination, and seek injunctive relief or monetary damages.

In December 2003, the respective courts approved the settlements in the derivative action filed in 2000 by Amalgamated Bank, an institutional shareholder, and in the securities class action filed in 2001 by New England Healthcare Employees Pension Fund and other institutional shareholders. The derivative complaint alleged that the individual defendants breached their fiduciary duties to Sprint and were unjustly enriched by making undisclosed amendments to Sprint s stock option plans, by failing to disclose certain information concerning regulatory approval of the proposed merger of Sprint and WorldCom, and by overstating Sprint s earnings for the first quarter of 2000. The class action lawsuit alleged violations of the federal securities laws based on similar allegations. The derivative settlement included the adoption of certain corporate governance enhancements, certain restrictions on stock and options by individual defendants, and an award of attorneys fees to plaintiff s counsel in the form of Sprint stock. The securities class action settlement provided for the payment of a total of $50 million to the plaintiff class. Sprint has recognized $40 million in insurance recoveries related to this action. Sprint does not expect to recover any additional insurance related to this action.

In April and May 2003, three putative class action lawsuits were filed in the U.S. District Court for the District of Kansas by individual participants in the Sprint Retirement Savings Plan and the Centel Retirement Savings Plan for Bargaining Unit Employees against Sprint, the plan committees, and various current and former officers of Sprint. In November 2003, a consolidated amended complaint was filed, naming additional officers and directors and Fidelity Management, the plan trustee, as defendants. In December, two additional complaints, making identical allegations, were filed and then also consolidated. The lawsuits allege that defendants breached their fiduciary duties to the plans and violated the ERISA statutes by including FON and PCS stock among the more than thirty investment options offered to plan participants, and seek to recover any decline in the value of FON and PCS stock during the class period.

We have been involved in legal proceedings in various states concerning the suspension of the processing or approval of permits for wireless telecommunications towers, the denial of applications for permits and other issues arising in connection with tower siting. There can be no assurance that such litigation and similar actions taken by others seeking to block the construction of individual cell sites of our PCS network will not, in the aggregate, significantly delay further expansion of our network coverage.

Various other suits, proceedings and claims, including purported class actions, typical for a business enterprise, are pending against Sprint.

While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with Sprint s beliefs, Sprint expects that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on the financial condition or results of operations of Sprint or its business segments.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 2003.

Item 10(b). Executive Officers of the Registrant

Office	Name	Age
Chairman and Chief Executive Officer	Gary D. Forsee(1)	53
President and Chief Operating Officer; President Sprint PCS	Len J. Lauer(2)	46
President Local Telecommunications Division	Michael B. Fuller(3)	59
President Global Markets Group	Howard E. Janzen(4)	49
Executive Vice President Chief Financial Officer	Robert J. Dellinger(5)	43
Executive Vice President General Counsel and External Affairs	Thomas A. Gerke(6)	47
Executive Vice President Chief Information Officer	Michael W. Stout(7)	57
Executive Vice President Network Services	Kathryn A. Walker(8)	44
Senior Vice President and Treasurer	Gene M. Betts(9)	51
Senior Vice President Strategic Planning and Corporate Development	William R. Blessing(10)	48
Senior Vice President Human Resources	James G. Kissinger(11)	47
Senior Vice President and Controller	John P. Meyer(12)	53

(1) *Mr. Forsee was elected Chief Executive Officer in March 2003 and Chairman in May 2003. Before joining Sprint, he had served as Vice Chairman Domestic Operations of BellSouth Corporation since January 2002, Chairman of Cingular Wireless since 2001 and President of BellSouth International since 2000. He had served as Executive Vice President and Chief Staff Officer of BellSouth Corporation since 1999. Before joining BellSouth, Mr. Forsee served as President and Chief Executive Officer of Global One, a joint venture of Sprint, Deutsche Telekom and France Telecom, beginning in 1998. Before joining Global One, he served as President and Chief Operating Officer of Sprint s long distance division beginning in 1995.*

(2) *Mr. Lauer was elected President and Chief Operating Officer in September 2003. He became President Sprint PCS in October 2002. He had served as President Global Markets Division since September 2000. He had been elected President Sprint Business in June 2000. Mr. Lauer served as President Consumer Services Group of Sprint/United Management Company, a subsidiary of Sprint, from 1999 to 2000. He joined Sprint in 1998 as Senior Vice President Quality, Development and Public Relations.*

(3) *Mr. Fuller was elected President Local Telecommunications Division in 1996.*

(4) *Mr. Janzen was elected President Global Markets Group in May 2003. Before joining Sprint, he served as Chairman, President and Chief Executive Officer of Williams Communications Group, Inc., a high technology company, from 2001 until October 2002 when it emerged from bankruptcy as WilTel Communications Group, Inc. Williams Communications Group, Inc., filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in April 2002. He became President and Chief Executive Officer of Williams Communications Group, Inc. in 1995.*

(5) *Mr. Dellinger was elected Executive Vice President Chief Financial Officer in June 2002. He had served as Executive Vice President Finance since April 2002. Before joining Sprint, he had served as President and Chief Executive Officer of GE Frankona Re based in Munich, Germany with responsibility for the European operations of General Electric s Employers Reinsurance Corporation, a global reinsurer, from 2000 to 2002. From 2001 to 2002, he also served as President and Chief Executive Officer of General Electric s Employers Reinsurance Corporation s Property and Casualty Reinsurance Business in Europe and Asia. From 1997 to 2000, he served as Executive Vice President and Chief Financial Officer of General Electric s Employers Reinsurance Corporation.*

(6) *Mr. Gerke became Executive Vice President General Counsel and External Affairs in April 2003. He had served as Vice President GMG Business Development of the global markets division since June 2002. From September 2000 to June 2002, he served as Vice President Corporate Secretary and Associate General Counsel of Sprint. He was elected Vice President Law, General Business and Technology in 1999 and Assistant Vice President Corporate Transactions in 1998.*

(7) *Mr. Stout was elected Executive Vice President Chief Information Officer in May 2003. Before joining Sprint, he served as Vice President and Chief Technology and Information Officer for GE Capital, a global financial services company, since 1998.*

(8) *Ms. Walker was elected Executive Vice President Network Services in October 2003. She had served as Senior Vice President Network Operations for Sprint Communications Company L.P., Sprint s long distance subsidiary, since 2002. She had served as a Vice President in the*

global markets division since 1998.

(9) *Mr. Betts was elected Senior Vice President in 1990. He was elected Treasurer in 1998.*

(10) *Mr. Blessing was elected Senior Vice President Strategic Planning and Corporate Development in October 2003. He had served as Vice President Strategic Planning and Business Development Sprint PCS for Sprint Spectrum L.P., a Sprint subsidiary, since 2000. He had been elected Vice President Strategic Planning Sprint PCS for Sprint/United Management Company in 1999. He was initially elected a Vice President of a Sprint subsidiary in 1986.*

(11) *Mr. Kissinger was elected Senior Vice President Human Resources in April 2003. He had served as Vice President HR Operations for Sprint/United Management Company since 1996.*

(12) *Mr. Meyer was elected Senior Vice President Controller in 1993.*

There are no known family relationships between any of the persons named above or between any of these persons and any outside directors of Sprint. Officers are elected annually.

Part II

Item 5. Market for Registrant s Common Equity and Related Stockholder Matters

Common Stock Data

	2003 Market Price		
	High	Low	End of Period
FON Stock, Series 1			
First quarter	$ 16.76	$ 11.06	$ 11.75
Second quarter	15.10	10.22	14.40
Third quarter	16.20	13.55	15.10
Fourth quarter	16.72	14.72	16.42
PCS Stock, Series 1			
First quarter	5.28	3.10	4.36
Second quarter	6.48	3.40	5.75
Third quarter	6.79	4.80	5.73
Fourth quarter	6.31	3.80	5.62

	2002 Market Price		
	High	Low	End of Period
FON Stock, Series 1			
First quarter	$ 20.47	$ 12.51	$ 15.29
Second quarter	17.53	8.80	10.61
Third quarter	13.15	6.65	9.12
Fourth quarter	15.40	7.96	14.48
PCS Stock, Series 1			
First quarter	25.20	7.22	10.29
Second quarter	13.45	3.50	4.47
Third quarter	6.93	1.75	1.96
Fourth quarter	6.38	1.77	4.38

As of February 27, 2004, Sprint had approximately 62,000 FON stock, Series 1 record holders, 56,000 PCS stock, Series 1 record holders and eight PCS stock, Series 2 record holders. The principal trading market for Sprint s FON stock, Series 1 and PCS stock, Series 1 is the New York Stock Exchange. The PCS stock, Series 2 is not publicly traded. Sprint paid a FON stock dividend of $0.125 per share in each of the quarters of 2003 and 2002. Sprint does not intend to pay dividends on the PCS stock.

Sale of Unregistered Equity Securities

In October 2003, Sprint issued to Kathryn Walker, Sprint s Executive Vice President-Network Services, 24,000 restricted stock units relating to shares of FON stock and 24,000 restricted stock units relating to shares of PCS stock. The restricted stock units were granted to Ms. Walker in connection with her promotion to Executive Vice President. Each restricted stock unit represents the right to one share of common stock once the unit vests. The restricted stock units also include dividend equivalent rights, which means that, when Sprint pays a dividend on the stock represented by the units, Ms. Walker is entitled to additional shares of the stock when the units vest. The units vest in 2006.

Neither the units nor the common stock issuable once the units vest were registered under the Securities Act of 1933. The issuance of the restricted stock units was exempt from registration under the Securities Act in reliance on the exemption provided by Section 4(2) of the Securities Act because the restricted stock units were issued in a transaction not involving a public offering. Sprint may in the future register the resale of the shares of stock to be received by Ms. Walker once the units vest.

Item 6. Selected Financial Data

Consolidated Selected Financial Data

	2003 (as restated)	2002 (as restated)	2001 (as restated)	2000 (as restated)	1999 (as restated)
			(millions, except per share data)		
Results of Operations					
Net operating revenues	$ 26,197	$ 26,679	$ 25,562	$ 23,166	$ 19,856
Operating income (loss)[(1),(5)]	1,007	2,096	(910)	280	(507)
Income (Loss) from continuing operations[(1),(2),(5)]	(292)	451	(1,599)	(788)	(975)
Earnings (Loss) per Share and Dividends					
Earnings (Loss) per common share from continuing operations:[(1),(2),(3),(4),(5)]					
Sprint FON Group (diluted)	$ 0.41	$ 1.17	$ (0.34)	$ 1.27	$ 1.78
Sprint FON Group (basic)	0.41	1.17	(0.34)	1.28	1.82
Sprint PCS Group (diluted and basic)	(0.65)	(0.59)	(1.32)	(1.99)	(2.78)
Dividends per FON common share	0.50	0.50	0.50	0.50	0.50
Financial Position					
Total assets	$ 42,675	$ 45,113	$ 45,619	$ 42,943	$ 39,656
Property, plant and equipment, gross	53,994	51,807	48,508	42,938	36,985
Property, plant and equipment, net	27,101	28,565	28,786	25,166	21,874
Total debt (including short-term and long-term borrowings, equity unit notes and redeemable preferred stock)	19,407	22,273	22,883	18,975	17,028
Shareholders equity	13,113	12,108	12,450	13,596	13,245
Cash Flow Data					
Net cash from operating activities continuing operations	$ 6,515	$ 6,178	$ 4,499	$ 4,028	$ 1,735
Capital expenditures	3,797	4,821	8,982	7,084	6,022

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders equity as previously reported. All prior period amounts have been restated to reflect the results of Sprint s directory publishing business, which was sold in January 2003, as a discontinued operation.

During a review of internal controls relating to its capital assets, Sprint identified, in the 2004 third quarter, a calculation error that had resulted, since 1999, in the overstatement of interest capitalized during the construction of its Wireless capital assets, with a corresponding understatement of interest expense. The error subsequently resulted in an overstatement of depreciation expense after the associated capital assets were placed in service. While Sprint believes the impacts of this calculation error are not material to any previously issued financial statement, Sprint determined that this calculation error was most appropriately corrected through restatement of previously issued financial statements.

Additionally, in the fourth quarter of 2003, in conjunction with Sprint s periodic review of the liability for medical coverage for participants in its long-term disability plan, Sprint determined the liability on its balance sheet relating to costs incurred in periods prior to 2003 was understated by $114 million. Accordingly, in the fourth quarter of 2003, Sprint recorded, and fully disclosed, an adjustment to appropriately state this long-term disability liability. Because Sprint has restated its previously issued financial statements for the matter discussed above, Sprint has also restated its previously issued financial statements to apply the long-term disability adjustment to the appropriate pre-2003 periods.

See footnotes following Consolidating Selected Financial Data.

Item 6. Selected Financial Data (continued)

Consolidating Selected Financial Data

	2003	2002	2001	2000	1999
	(as restated)	(as restated)	(as restated) *(millions)*	(as restated)	(as restated)
Results of Operations					
Net operating revenues					
Sprint FON Group	$ 14,185	$ 15,227	$ 16,415	$ 17,241	$ 16,750
Sprint PCS Group	12,690	12,074	9,725	6,341	3,373
Eliminations	(678)	(622)	(578)	(416)	(267)
Consolidated	$ 26,197	$ 26,679	$ 25,562	$ 23,166	$ 19,856
Operating income (loss)[(1),(5)]					
Sprint FON Group	$ 373	$ 1,569	$ (287)	$ 2,202	$ 2,731
Sprint PCS Group	592	494	(634)	(1,922)	(3,238)
Eliminations	42	33	11		
Consolidated	$ 1,007	$ 2,096	$ (910)	$ 280	$ (507)
Income (Loss) from continuing operations[(1),(2),(5)]					
Sprint FON Group	$ 360	$ 1,035	$ (311)	$ 1,122	$ 1,569
Sprint PCS Group	(652)	(584)	(1,288)	(1,910)	(2,544)
Consolidated	$ (292)	$ 451	$ (1,599)	$ (788)	$ (975)
Financial Position					
Total assets					
Sprint FON Group	$ 21,862	$ 23,133	$ 24,272	$ 24,190	$ 22,247
Sprint PCS Group	21,671	22,842	22,016	19,638	17,859
Eliminations	(858)	(862)	(669)	(885)	(450)
Consolidated	$ 42,675	$ 45,113	$ 45,619	$ 42,943	$ 39,656
Property, plant and equipment, gross					
Sprint FON Group	$ 35,515	$ 35,055	$ 34,072	$ 30,955	$ 27,640
Sprint PCS Group	18,479	16,752	14,436	11,983	9,345
Consolidated	$ 53,994	$ 51,807	$ 48,508	$ 42,938	$ 36,985
Property, plant and equipment, net					
Sprint FON Group	$ 16,050	$ 16,894	$ 17,491	$ 15,808	$ 13,972
Sprint PCS Group	11,098	11,717	11,342	9,397	7,931
Eliminations	(47)	(46)	(47)	(39)	(29)
Consolidated	$ 27,101	$ 28,565	$ 28,786	$ 25,166	$ 21,874
Total debt (including short-term and long-term borrowings, equity unit notes and redeemable preferred stock)					
Sprint FON Group	$ 1,745	$ 3,980	$ 5,324	$ 4,518	$ 5,443
Sprint PCS Group	17,941	18,573	17,839	14,906	12,015
Eliminations	(279)	(280)	(280)	(449)	(430)
Consolidated	$ 19,407	$ 22,273	$ 22,883	$ 18,975	$ 17,028
Shareholders equity					
Sprint FON Group	$ 13,372	$ 11,748	$ 11,652	$ 12,305	$ 10,489
Sprint PCS Group	(259)	360	798	1,284	2,751
Eliminations				7	5
Consolidated	$ 13,113	$ 12,108	$ 12,450	$ 13,596	$ 13,245

Cash Flow Data					
Net cash from operating activities continuing operations					
Sprint FON Group	$ 4,039	$ 4,176	$ 4,457	$ 4,104	$ 3,562
Sprint PCS Group	2,476	2,002	42	(76)	(1,758)
Eliminations					(69)
Consolidated	$ 6,515	$ 6,178	$ 4,499	$ 4,028	$ 1,735
Capital expenditures					
Sprint FON Group	$ 1,674	$ 2,181	$ 5,295	$ 4,105	$ 3,508
Sprint PCS Group	2,123	2,640	3,687	2,979	2,514
Consolidated	$ 3,797	$ 4,821	$ 8,982	$ 7,084	$ 6,022

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders equity as previously reported. All prior period amounts have been restated to reflect the results of Sprint s directory publishing business, which was sold in January 2003, as a discontinued operation.

Item 6. Selected Financial Data (continued)

During a review of internal controls relating to its capital assets, Sprint identified, in the 2004 third quarter, a calculation error that had resulted, since 1999, in the overstatement of interest capitalized during the construction of its Wireless capital assets, with a corresponding understatement of interest expense. The error subsequently resulted in an overstatement of depreciation expense after the associated capital assets were placed in service. While Sprint believes the impacts of this calculation error are not material to any previously issued financial statement, Sprint determined that this calculation error was most appropriately corrected through restatement of previously issued financial statements.

Additionally, in the fourth quarter of 2003, in conjunction with Sprint s periodic review of the liability for medical coverage for participants in its long-term disability plan, Sprint determined the liability on its balance sheet relating to costs incurred in periods prior to 2003 was understated by $114 million. Accordingly, in the fourth quarter of 2003, Sprint recorded, and fully disclosed, an adjustment to appropriately state this long-term disability liability. Because Sprint has restated its previously issued financial statements for the matter discussed above, Sprint has also restated its previously issued financial statements to apply the long-term disability adjustment to the appropriate pre-2003 periods.

See footnotes following Consolidating Selected Financial Data.

(1) In 2003, Sprint recorded net charges reducing Sprint s operating income by $1.9 billion and reducing income from continuing operations by $1.2 billion resulting in an overall loss from continuing operations. The FON Group recorded charges reducing operating income by $1.6 billion and reducing income from continuing operations by $1.0 billion. The charges taken by the FON Group related primarily to restructurings, asset impairments, and executive separation agreements, offset by recoveries of fully reserved MCI (formerly WorldCom) receivables. The PCS Group recorded charges reducing operating income by $381 million and increasing loss from continuing operations by $240 million. The PCS Group charges related primarily to restructurings, asset impairments, and executive separation agreements.

In 2002, Sprint recorded charges reducing Sprint s operating income by $402 million and reducing income from continuing operations by $253 million. The FON Group recorded charges reducing operating income by $281 million and reducing income from continuing operations by $176 million. The charges taken by the FON Group related primarily to restructurings, asset impairments and expected loss on WorldCom (now MCI) receivables. The PCS Group recorded charges reducing operating income by $121 million and increasing loss from continuing operations by $77 million. The PCS Group charges also related primarily to restructurings, asset impairments and expected loss on WorldCom (now MCI) receivables.

In 2001, Sprint recorded charges reducing Sprint s operating income by $1,837 million to an operating loss and increasing the loss from continuing operations by $1,151 million. The charge to the FON Group reduced operating income by $1,827 million and reduced income from continuing operations by $1,144 million. The charge to the PCS Group increased operating loss by $10 million and increased loss from continuing operations by $7 million. The charges taken by both the FON and PCS Groups related primarily to restructuring and asset impairments.

In 2000, Sprint recorded charges reducing Sprint s operating income by $425 million and increasing the loss from continuing operations by $273 million. The FON Group recorded charges that reduced operating income by $401 million and reduced income from continuing operations by $257 million. The PCS Group recorded charges that increased operating loss by $24 million and increased loss from continuing operations by $16 million. Charges relating to the terminated WorldCom (now MCI) merger were taken by both the FON and PCS Groups. Additional asset impairment charges were also taken by the FON Group.

(2) In 2003, Sprint recorded charges of $36 million in Other income (expense), net, for premiums paid on the early retirement of debt and for the settlement of a securities class action lawsuit relating to the failed merger with WorldCom (now MCI). Additionally, Sprint recorded a $49 million tax benefit for the recognition of certain income tax credits and adjustments for state tax apportionments. In total, these items reduced loss from continuing operations by $27 million. These items increased the FON Group s income from continuing operations by $27 million, and had no net effect on the PCS Group s loss from continuing operations.

In 2002, the PCS Group recorded in Other income (expense), net, a gain on the sale of its investment in Pegaso of $67 million with the same impact on loss from continuing operations. The FON Group recorded in Other income (expense), net, charges of $201 million which reduced income from continuing operations by $216 million. These amounts primarily included a write-down of an investment due to declining market value offset by a gain on the sale of customer contracts. In the 2002 third quarter, Sprint recognized a tax benefit related to capital losses not previously recognizable of $292 million. The benefit to the FON Group was $235 million. The benefit to the PCS Group was $57 million.

In 2001, the FON Group recorded in Other income (expense), net, charges of $48 million which increased the loss from continuing operations by $81 million. These amounts primarily included a write-down of an equity investment offset by a curtailment gain on the modification of certain retirement plan benefits and a gain on investment activities.

In 2000, Sprint recorded charges of $68 million, which increased the loss from continuing operations by $74 million. The FON Group recorded charges of $96 million relating primarily to write-downs of certain equity investments, which reduced income from continuing operations by $92 million. The PCS Group recorded a $28 million gain from the sale of customers and network infrastructure to a PCS third party affiliate, which reduced loss from continuing operations by $18 million.

In 1999, the FON Group recorded net gains of $54 million from investment activities which reduced the loss from continuing operations by $35 million.

(3) *In the 2000 first quarter, Sprint effected a two-for-one stock split of Sprint s PCS common stock. In the 1999 second quarter, Sprint effected a two-for-one stock split of its Sprint FON common stock. As a result, diluted and basic earnings per common share and dividends for Sprint FON common stock and diluted and basic loss per common share for Sprint PCS common stock have been restated for periods before these stock splits.*

(4) *As the effects of including the incremental shares associated with options, restricted stock units and Employees Stock Purchase Plan shares are antidilutive, both basic loss per share and diluted loss per share reflect the same calculation for all periods presented for the PCS Group and for the year ended December 31, 2001 for the FON Group.*

(5) *Sprint adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets on January 1, 2002. Accordingly, amortization of goodwill, spectrum licenses and trademarks ceased as of that date because they are indefinite life intangibles.*

Item 6. Selected Financial Data (continued)

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Information

Sprint includes certain estimates, projections and other forward-looking statements in its reports and in other publicly available material. Statements regarding expectations, including performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forward-looking statements.

These statements reflect management s judgments 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, management has made assumptions regarding, among other things, customer and network usage, customer growth and retention, pricing, operating costs and the economic environment.

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

extent and duration of any economic downturn;

the effects of vigorous competition in the markets in which Sprint operates;

the costs and business risks associated with providing new services and entering new markets;

adverse change in the ratings afforded our debt securities by ratings agencies;

the ability of our wireless operations and the global markets division to continue to grow a significant market presence;

the ability of Sprint s wireless operations to continue to improve profitability;

the ability of the global markets division and the local division to improve cash flow generation;

the effects of mergers and consolidations in the telecommunications industry and unexpected announcements or developments from others in the telecommunications industry;

the uncertainties related to the outcome of bankruptcies affecting the telecommunications industry;

- the impact of financial difficulties of third-party affiliates on Sprint s wireless network coverage;

- the uncertainties related to Sprint s investments in networks, systems, and other businesses;

- the uncertainties related to the implementation of Sprint s business strategies, including our initiative to realign services to enhance the focus on business and consumer customers;

- the impact of new, emerging and competing technologies on Sprint s business;

- unexpected results of litigation filed against Sprint;

- the impact of wireless local number portability (WLNP) on Sprint s wireless operation s growth and churn rates, revenues and expenses;

- the possibility of one or more of the markets in which Sprint competes being impacted by changes in political or other factors such as monetary policy, legal and regulatory changes, including the impact of the Telecommunications Act of 1996 (Telecom Act), or other external factors over which Sprint has no control; and

- other risks referenced from time to time in Sprint s filings with the Securities and Exchange Commission (SEC).

The words estimate, project, intend, expect, believe, target, and similar expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout Management s Discussion and Analysis. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Sprint is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report or unforeseen events. Sprint provides a detailed discussion of risk factors in various SEC filings, and you are encouraged to review these filings.

Overview

Business

Sprint is a global communications company and a leader in integrating long-distance, local service, and wireless communications. Sprint is also one of the largest carriers of Internet traffic using its tier one Internet Protocol network, which provides connectivity to any point on the Internet either through its own network or via direct connections with other backbone providers.

Sprint is the nation s third-largest provider of long distance services, based on revenues, and operates nationwide, all-digital long distance and tier one Internet Protocol networks. Sprint currently serves approximately 7.9 million access lines in its franchise territories in 18 states. Additionally, Sprint provides local service using its facilities, leased facilities or unbundled network elements provided by other carriers in a total of 36 states and the District of Columbia. Sprint is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities. Sprint also operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. The PCS Group, together with third party affiliates, operates PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS Group s service, including third party affiliates, reaches a quarter billion people. The PCS Group, combined with our wholesale and affiliate partners, served more than 20 million customers at the end of 2003.

Industry Environment

Sprint operates in industries that have been and continue to be subject to consolidation and dynamic change. Therefore, Sprint routinely reassesses its business strategies. Due to changes in the telecommunications industry, including bankruptcies, over-capacity and the current economic environment, Sprint continually assesses the implications on its operations. Any such assessment may impact the valuation of its long-lived assets.

As part of its overall business strategy, Sprint regularly evaluates opportunities to expand and complement its business and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on its business, financial condition, liquidity or results of operations.

In 2003, Sprint sold its directory publishing business to R.H. Donnelley for $2.23 billion in cash.

Business Transformation

Currently, Sprint s operations are divided into three segments: the global markets division, the local division, and the PCS wireless telephony products and services business.

In an effort to enhance the focus on the needs and preferences of two distinct customer types businesses and consumers, Sprint s market-facing business units have been aligned into the Sprint Business Solutions (SBS) unit, Sprint Consumer Solutions (SCS) unit and the Sprint Local Consumer Solutions (SLCS) unit. This effort is expected to enable Sprint to more effectively and efficiently use its portfolio of assets to create customer-focused communications solutions.

During 2004, Sprint intends to continue to measure its activities using its current business segments, and begin to measure certain activities under this customer-focused approach. Throughout 2004, management anticipates continuing to make decisions using the current segmentation. However, part of the decision-making process will include viewing opportunities from a customer-centric perspective. Sprint intends to develop and deliver integrated products and services which will help our customers function more effectively in the workplace and in daily life.

In conjunction with these market-facing business unit realignments, Sprint is undertaking initiatives to improve productivity through:

- Consolidating systems and eliminating redundancies
- Application rationalization
- Automation
- Process re-engineering
- E-enablement
- Organizational redesign and streamlining

These efforts have resulted in restructuring charges and asset impairments in the fourth quarter of 2003 and will continue to impact subsequent quarters. Ongoing efforts in these areas may have additional impacts in subsequent periods. See Note 6 of Notes to Consolidated Financial Statements for more information relating to these activities.

Tracking Stock Structure

In November 1998, Sprint s shareholders approved the allocation of all of Sprint s assets and liabilities into two groups, the FON Group and the PCS Group, as well as the creation of the FON stock and the PCS stock. FON common stock and PCS common stock are intended to reflect the financial results and economic value of the FON and PCS Groups. However, they are classes of common stock of Sprint, not of the group they are intended to track.

The FON Group is comprised of the global markets division, the local division and other businesses consisting primarily of wholesale distribution of telecommunications products. The global markets division is the nation s third-largest provider of long distance services based on revenues. The activities of the local division include local exchange communications and consumer long distance services used by customers within Sprint s local franchise territories. The FON Group also includes its investments in EarthLink, Inc. (EarthLink), an Internet Service provider, and Call-Net Enterprises, Inc. (Call-Net), a long distance provider in Canada.

The PCS Group includes Sprint s wireless PCS operations. The PCS Group also includes its investment in Virgin Mobile, USA, a joint venture to market wireless services, principally to youth and pre-pay segments.

Considerations Relating to Tracking Stocks

On February 28, 2004, Sprint s board of directors decided to recombine the tracking stocks and return to a single common stock. As a result, each share of the PCS common stock will convert automatically into 0.50 shares of FON common stock on April 23, 2004. The FON stock will represent the only outstanding common stock of Sprint. After the recombination, Sprint will continue to present consolidated financial information, but will not include group level information. The recombination will not impact Sprint s current presentation of all required segment information.

Until the recombination, the FON common stock and the PCS common stock are intended to track the performance of the FON Group and the PCS Group, respectively. Because the FON common stock and the PCS common stock are classes of common stock of Sprint, not common stock of the group they are intended to track, the holders of the FON common stock and the PCS common stock are subject to the risks related to an equity investment in Sprint and all of Sprint s businesses, assets and liabilities. Therefore, the market prices of the FON common stock and the PCS common stock may not accurately reflect the performance of the group they are intended to track. Between the announcement and the completion of the recombination, the price of the tracking stocks may reflect the expectation that a single common stock will result from the recombination, rather than reflecting the performance of the groups.

Sprint has a single board of directors. Consequently, there is no board of directors that owes separate duties to the holders of either the FON common stock or the PCS common stock. Conflicts of interest between holders of FON common stock and PCS common stock in transactions between the FON Group and the PCS Group or in our dealings with third parties could be resolved by our board of directors to the detriment of the holders of one or the other class of common stock.

After the recombination of the tracking stocks, events that would have benefited the holders of only one of the tracking stocks will benefit all Sprint shareholders.

Restatement of Previously Issued Financial Statements

During a review of internal controls relating to its capital assets, Sprint identified, in the 2004 third quarter, a calculation error that had resulted, since 1999, in the overstatement of interest capitalized during the construction of its Wireless capital assets, with a corresponding understatement of interest expense. The error subsequently resulted in an overstatement of depreciation expense after the associated capital assets were placed in service. While Sprint believes the impacts of this calculation error are not material to any previously issued financial statement, Sprint determined that this calculation error was most appropriately corrected through restatement of previously issued financial statements.

Additionally, in the fourth quarter of 2003, in conjunction with Sprint s periodic review of the liability for medical coverage for participants in its long-term disability plan, Sprint determined the liability on its balance sheet relating to costs incurred in periods prior to 2003 was understated by $114 million. Accordingly, in the fourth quarter of 2003, Sprint recorded, and fully disclosed, an adjustment to appropriately state this long-term disability liability. Because Sprint has restated its previously issued financial statements for the matter discussed above, Sprint has also restated its previously issued financial statements to apply the long-term disability adjustment to the appropriate pre-2003 periods.

The following discussion reflects the impacts of these restatements. See Note 2 of the Notes to Consolidated Financial Statements for additional information.

Consolidated Results of Operations

Total net operating revenues were as follows:

	2003	2002	2001
		(millions)	
FON Group	$ 14,185	$ 15,227	$ 16,415
PCS Group	12,690	12,074	9,725
Intergroup eliminations	(678)	(622)	(578)
Net operating revenues	$ 26,197	$ 26,679	$ 25,562

Income (Loss) from continuing operations was as follows:

	2003	2002	2001
	(as restated)	(as restated)	(as restated)
		(millions)	
FON Group	$ 360	$ 1,035	$ (311)
PCS Group	(652)	(584)	(1,288)
Income (Loss) from continuing operations	$ (292)	$ 451	$ (1,599)

Income (loss) from continuing operations as presented in the above table includes the after-tax impacts of the items discussed in the following paragraphs.

In 2003, Sprint recorded net restructuring charges and asset impairments of $1.2 billion. These charges were associated with the write-down to fair value of the FON Group s Multipoint Multichannel Distribution Services (MMDS) spectrum, other asset impairment charges, facilities and severance charges associated with the termination of the web hosting business, impairment charges associated with the termination of development of a new billing platform, impairment charges associated with the termination of software development projects, and severance costs associated with Sprint s transformation to a customer-focused organizational design, offset by the finalization of all 2001 and 2002 restructuring liabilities. Also included in 2003 was a $22 million charge in connection with the separation agreements agreed to by Sprint and three former executive officers, a $13 million charge mainly reflecting the premiums paid on a debt tender offer and the early retirement of local division debt, and a $9 million charge to settle a securities class action and derivative lawsuit relating to the failed merger with WorldCom (now MCI). These charges were partially offset by a $49 million tax benefit for recognition of certain income tax credits relating to various taxing jurisdictions and adjustments for state tax apportionments and a $31 million settlement of accounts receivable claims with MCI (formerly WorldCom) that had previously been fully reserved.

In the 2002 fourth quarter, Sprint recorded restructuring charges and asset impairments of $154 million representing consolidations in Sprint s Network, Information Technology, and Billing and Accounts Receivable organizations, impairment of a network asset, abandoned network project costs and additional steps to reduce overall operating costs. Also included in 2002 were the expected loss on receivables due to the bankruptcy declaration of WorldCom (now MCI) of $23 million, a net restructuring and asset impairment charge of $76 million, a gain on the sale of the PCS Group s investment in Pegaso Telecomunicaciones, S.A. de C.V. (Pegaso) of $67 million, a gain from the sale of customer contracts of $25 million, the write-down of an investment due to declining market value of $241 million, and a tax benefit related to capital losses not previously recognizable of $292 million.

In the 2001 fourth quarter, Sprint recorded a restructuring charge and asset impairment of $1,136 million representing the termination of Sprint ION, as well as additional steps to reduce overall operating costs. Additionally, in 2001, Sprint recorded a litigation charge of $15 million, a write-down of the FON Group s equity method investment in Intelig Telecommunicacoes, Ltda. (Intelig) of $157 million which had an other than temporary decline in market value, a loss on the sale of a portion of the FON Group s investment in EarthLink of $8 million, a benefit plan curtailment gain of $75 million and net gains from other investment activities of $9 million.

Critical Accounting Policies

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

Long-lived Asset Recovery A significant portion of Sprint s total assets consist of long-lived assets, consisting primarily of property, plant and equipment (PP&E) and definite life intangibles, as well as goodwill and indefinite life intangibles. Changes in technology or in Sprint s 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

Sprint performs 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 use in certain instances actuarially-determined probabilities to calculate remaining life of our asset base.

Sprint believes that the accounting estimate related to the establishment of asset depreciable lives is a critical accounting estimate because: (1) it requires Sprint 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 judgement 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 Sprint s studies had resulted in a depreciable rate that was 5% higher or lower than those used in the preparation of Sprint s consolidated financial statements, recorded depreciation expense would have been impacted by approximately $265 million. The impact to FON Group depreciation expense would have been approximately $135 million and the impact to PCS Group depreciation expense would have been approximately $130 million.

Property, Plant and Equipment and Definite Life Intangibles Impairment

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, Sprint 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.

Sprint believes that the accounting estimate related to asset impairment is a critical accounting estimate because: (1) it requires Sprint management to make assumptions about future revenues and costs of sales over the life of the asset, and (2) 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 judgement because 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.

When indicators are present, Sprint tests for impairment. This resulted in total PP&E impairments of $652 million, $198 million and $1,327 million in 2003, 2002 and 2001, respectively. In 2003, FON Group recorded

$303 million associated with the termination of its web hosting business and software development projects. PCS Group recorded $349 million associated with the terminated development of a new billing platform and a software development project. These impairments represent 2 percent of the December 31, 2003 consolidated net PP&E. In 2002, FON Group recorded $156 million for network asset impairments and PCS Group recorded $42 million for abandoned network projects. These impairments represent less than 1 percent of the December 31, 2002 consolidated net PP&E. In 2001, FON Group recorded $1,327 million with the termination of efforts to provide its Sprint ION consumer and business offerings. This impairment represents 4.6 percent of the December 31, 2001 consolidated net PP&E.

Goodwill and Indefinite Life Intangibles

Goodwill and indefinite life intangibles are reviewed at least annually for impairment, or more frequently if indicators of impairment exist. Goodwill is tested by comparing net book value of the reporting unit (identified as Sprint s operating segments) to fair value. Indefinite life intangibles are tested by comparing book value to estimated fair value.

Sprint believes that the accounting estimate related to goodwill and indefinite life intangibles is a critical accounting estimate because (1) it requires Sprint management to make assumptions about fair values, and (2) the impact of recognizing an impairment could be material to our financial position, as well as our results of operations. Management s assumptions about fair values require significant judgement because broad economic factors, industry factors and technology considerations can result in variable and volatile fair values.

Management completed impairment analyses on both goodwill and indefinite life intangibles in the 2003 fourth quarter. These tests were performed internally. As of December 31, 2003, no goodwill impairment existed. Similarly, wireless spectrum and trademark value were not impaired.

However, in the 2003 third quarter, the FON Group s global markets division decided to end pursuit of a residential fixed wireless strategy using its MMDS spectrum. This decision required an impairment analysis of the asset. Sprint FON Group recorded a pre-tax, non-cash charge of $1.2 billion related to the write-down in the fair value of its MMDS spectrum. Sprint is now focusing its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

Employee Benefit Plan Assumptions Retirement benefits are a significant cost of doing business for Sprint 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 approximate service period based on the terms of the plans and the investment and funding decisions made by Sprint. The accounting requires 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 by Sprint.

Sprint believes that the accounting estimate related to retirement benefit accounting is a critical accounting estimate because: (1) it requires Sprint management to make 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 benefit cost could be material.

In determining pension obligations assumptions are required concerning market performance. Market performance has fluctuated in the recent past and could have continued volatility in the future. In selecting its assumptions, Sprint uses historical experience, as well as objective indices, as benchmarks, and tests the benchmarks against historical industry data on these assumptions provided by an independent actuary. An increase in the discount rate would reduce the reported projected benefit obligation. In contrast, if the discount rate in 2003 used in determining the projected benefit obligation was 25 basis points lower, it would generate a $137 million increase in the projected benefit obligation reported on the balance sheet, and an $18 million increase in the benefit costs. Similarly, if the expected return on assets assumption was 25 basis points lower, it would generate an $8 million increase in current year benefit costs. This assumption is not used in calculation of the pension projected benefit obligation.

In determining post-retirement medical and life insurance benefit obligations, assumptions are made concerning the cost of health care. A one-percentage point increase in the assumed medical inflation rate would generate a $107 million increase in the accumulated postretirement benefit obligation reported on the balance sheet, and a $6 million increase in benefit expense. An increase in the discount rate would reduce the reported accumulated postretirement benefit obligation. In contrast, if the discount rate in 2003 used in determining the accumulated postretirement benefit obligation was 25 basis points lower, it would generate a $25 million increase in the reported year-end 2003 obligation and a $2 million increase in benefit expense.

Allocation Policies between Tracking Stocks As discussed previously, the FON common stock is intended to reflect the financial results and economic value of the FON Group and the PCS common stock is intended to reflect the financial results and economic value of the PCS Group. The FON common stock and the PCS common stock are both classes of the common stock of Sprint, and together, the groups reflect 100% of Sprint s business activities.

Sprint believes that the accounting estimate related to allocation policies is a critical accounting estimate because: (1) it requires Sprint management to make assumptions about market interest rates and group use of shared costs; and (2) the impact that recognizing a change in this allocation would have on the net assets, use of resources or operating results of either group could be material.

Allocation policies regarding shared activities impact the business results of the FON Group and the PCS Group. Sprint performs internal studies to confirm the appropriateness of assignment of costs when direct assignment is not possible or practical. The methods used for indirect assignment include time studies, and factors related to marketing or headcount studies.

Sprint manages the financing activities of the groups on a centralized basis. Debt incurred by Sprint on behalf of the groups is specifically allocated to and reflected in the financial statements of the applicable group. Interest expense is assigned to the PCS Group based on an estimated rate that is substantially equal to the rate it would be able to obtain from third parties as a direct or indirect wholly owned Sprint subsidiary, but without the benefit of any guarantee by Sprint or any member of the FON Group. Additionally, Sprint s centralized cash management program allows one group to advance funds to the other group. These advances are accounted for as short-term borrowings between the groups and bear interest at a rate that is substantially equal to the rate that group would be able to obtain from third parties on a short-term basis.

Management utilizes credit rating agencies and investment banks to provide an objective basis for determining appropriate assumptions concerning market interest rates. Sprint uses this information in arriving at the assumptions used to determine our allocations.

The allocation of assets, financial resources and certain expenses require judgement by management and the allocation methods used are subject to the discretion of the board of directors in its fulfillment of its fiduciary duties to all of Sprint s shareholders. Holders of FON stock and PCS stock may have interests that differ from or conflict with the interests of holders of the other stock. Our tracking stock policies provide that our board of directors, in resolving material matters in which holders of FON stock and PCS stock have potentially divergent interests, will act in the best interest of Sprint and all of its common stockholders after giving fair consideration to the potentially divergent interests of the holders of the separate classes of common stock.

Tax Valuation Allowances Sprint is required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in its financial statements or tax returns for each taxing jurisdiction in which it operates. This process requires Sprint s management to make assessments regarding the timing and probability of the ultimate tax impact. Sprint records valuation allowances on deferred tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which Sprint operates, Sprint s inability to generate sufficient future taxable income or unpredicted results from the final determination of each year s liability by taxing authorities. These changes can have a significant impact on the financial position of Sprint.

Sprint believes that the accounting estimate related to establishing tax valuation allowances is a critical accounting estimate because: (1) it requires Sprint 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 changes in actual performance versus these estimates could have on the realization of tax benefit as reported in our results of operations could be material. Management s assumptions require significant judgement because actual performance has fluctuated in the past and may continue to do so.

Sprint currently carries an income tax valuation allowance of $620 million on its books. This amount includes a valuation allowance for the total tax benefits related to net operating loss carryforwards which were acquired in connection with certain acquisitions. The remainder of the valuation allowance relates to state net operating loss and tax credit carryforwards. Assumption changes which result in a reduction of expected benefits from realization of state net operating loss and tax credit carryforwards by 10% would increase our valuation allowance by $30 million for PCS Group and $5 million for FON Group.

Revenue Recognition Policies Sprint recognizes 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 by Sprint.

Sprint believes that the accounting estimate related to the establishment of revenue and receivable reserves and the associated provisions in the results of operations is a critical accounting estimate because: (1) it requires Sprint 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 competitive local exchange carriers and inter-exchange carriers, as well as the future economic viability of our customer base; and (2) the impact of changes in actual performance versus 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, Sprint uses historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions which might impact the collectibility of accounts.

Segmental Results of Operations

Sprint s business is divided into three segments: the global markets division, the local division, and the PCS wireless telephony products and services business.

Global Markets Division

The global markets division provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice; data communications using various protocols such as Internet Protocol (IP) and frame relay (a data service that transfers packets of data over Sprint s network), and managed network services. Additionally, the global markets division provides local service using Sprint s facilities, leased facilities or unbundled network elements provided by other carriers in a total of 36 states and the District of Columbia. The global markets division is selling into the cable telephony market through arrangements with cable companies that resell Sprint long distance service and use Sprint back office systems and network assets in support of their local telephone service provided over cable facilities. In addition, the global markets division provides consulting services and international data communications.

The global markets division also includes the operating results of the wireless high speed data and cable TV service operations of the broadband fixed wireless companies. In 2001, Sprint announced it would halt further deployment of MMDS using current line of sight technology. In 2003, Sprint s ongoing evaluation of its business use for the MMDS spectrum resulted in a decision to end pursuit of a residential fixed wireless strategy. This decision required an impairment analysis of this asset, resulting in a pre-tax, non-cash charge of $1.2 billion. Sprint is now focusing its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum. In 2003, Sprint announced the wind-down of its web hosting business.

	2003	2002	2001
	(as restated)	(as restated) (millions)	(as restated)
Net operating revenues			
Voice	$ 4,994	$ 5,768	$ 6,610
Data	1,845	1,847	1,857
Internet	973	1,009	964
Other	180	319	485
Total net operating revenues	7,992	8,943	9,916
Operating expenses			
Costs of services and products	4,245	5,015	6,004
Selling, general and administrative	2,181	2,463	2,963
Depreciation and amortization	1,428	1,479	1,318
Restructuring and asset impairments	1,564	194	1,688
Total operating expenses	9,418	9,151	11,973
Operating income (loss)	$ (1,426)	$ (208)	$ (2,057)
Capital expenditures	$ 325	$ 733	$ 3,580

The global markets division continued to face significant challenges in 2003. The decline in voice revenues and loss of revenues from a low-margin wholesale customer contributed to an 11% decline in net operating revenues. This, along with the write-down in the MMDS spectrum, resulted in an operating loss for the year. Throughout 2003, the global markets division focused on cost management. In 2003, the global markets division achieved a double-digit reduction in costs of services and products and selling, general and administrative expenses. In 2003, Sprint undertook initiatives to improve operational efficiency and reduce costs. These actions, along with a pre-tax, non-cash charge of $1.2 billion related to the write-down to fair value of its MMDS spectrum, resulted in a $1,564 million net charge to the global markets division s operations.

Sprint expects revenues to decline in 2004 as the division continues to be impacted by intense competitive pressures. These declines are expected to be somewhat offset by growing contributions from sales of strategic products. In addition, Sprint expects the transformation to a customer-centric organization to allow us to offer competitive differentiation, in an effort to increase our customers loyalty.

Net Operating Revenues

Net operating revenues decreased 11% in 2003 and 10% in 2002. Loss of a major wholesale customer and a large prepaid customer drove a minute volume decline of 3% in 2003. Minute growth of 5% in 2002 was driven in part by an increase in business minutes sold to the PCS Group, which was partially offset by the highly competitive pricing pressures on voice services. The decrease in 2002 net operating revenues also reflects the loss of revenues from this major wholesale customer.

Voice Revenues

Voice revenues decreased 13% in both 2003 and 2002. The 2003 and 2002 decreases are the result of a decline in consumer voice revenue due to wireless and e-mail substitution, aggressive competition from Regional Bell Operating Companies for consumer and small business customers and lower business voice pricing. Results in 2003 and 2002 were also impacted by the loss of a single major wholesale customer.

Data Revenues

Data revenues reflect sales of current-generation data services including asynchronous transfer mode (ATM) and frame relay services. Data revenues were flat in both 2003 and 2002. In 2003, increases in frame relay were offset by a decline in both ATM and private line. In 2002, increases in frame relay and ATM were offset by a decline in private line.

Internet Revenues

Internet revenues decreased 4% in 2003 and increased 5% in 2002. The 2003 decrease is primarily the result of a decline in dial IP due to the final contractually-scheduled repricing of the America Online, Inc., dial IP agreement, partially offset by revenues from a fourth quarter partial buyout of a portion of a dial IP contract. The 2002 increase was due to growth in dedicated IP revenues partially offset by a decrease in dial IP due to repricing of contracts and growth in web hosting. While Sprint has made the decision to exit the web hosting business, the 2003 period still reflects the increased web hosting revenue in the 2003 first and second quarters.

Other Revenues

Other revenues decreased 44% in 2003 and 34% in 2002. The decreases are primarily due to the sale of our consulting services business, Paranet, in the third quarter of 2002 and declines in miscellaneous equipment sales.

During the 2002 and 2001 periods, cable capacity sales and sales of ownership rights to transoceanic cable represented less than 0.02% and 0.2% of global market division s net operating revenues, respectively. These transactions were executed primarily with Global One, and were in accordance with our transition services agreement. In 2003, the global markets division did not have any cable capacity sales.

Equipment sales completed in each of the periods discussed were routine in nature, were completed to support customer purchases of related telecommunications services, and represented less than 1.5%, 2%, and 3% of global market division s net operating revenues for the 2003, 2002, and 2001 periods, respectively.

Costs of Services and Products

Costs of services and products include interconnection costs paid to local phone companies, other domestic service providers and foreign phone companies to complete calls made by the division s domestic customers, costs to operate and maintain the long distance networks, and costs of equipment. Costs of services and products decreased 15% in 2003 and 16% in 2002. The 2003 decrease was due to volume declines, an improving product mix, initiatives to reduce access unit costs, favorable carrier access settlements and FCC-mandated access rate reductions. The 2002 decrease was a result of FCC-mandated access rate reductions, decreased network operating costs derived from Sprint s 2001 fourth quarter restructuring actions, and favorable carrier access settlements, as well as other cost containment efforts, partially offset by volume growth. The FCC-mandated access rate reductions took effect in July 2001, July 2002 and July 2003.

Total costs of services and products for the global markets division were 53.1% of net operating revenues in 2003, 56.1% in 2002, and 60.5% in 2001.

Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expense decreased 11% in 2003 and 17% in 2002. The 2003 decline was due to reduced bad debt expense including the MCI (formerly WorldCom) accounts receivable settlement, restructuring efforts, and general cost controls partially offset by the costs of the executive separation agreements recorded in the second quarter of 2003. The 2002 decrease is related to restructuring efforts and tight management of discretionary expenses.

The reserve for bad debts requires management s judgment and is based on customer specific indicators, as well as historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 1.4% in 2003, 3.5% in 2002, and 3.8% in 2001. These reductions reflect an improvement in collections, aging and recoveries of previously written-off accounts. Reserve for bad debt as a percentage of outstanding accounts receivable was 11.1% in 2003, 14.9% in 2002, and 12.7% in 2001.

Total SG&A expense for the global markets division was 27.3% of net operating revenues in 2003, 27.5% in 2002, and 29.9% in 2001.

Depreciation and Amortization Expense

Estimates and assumptions are used in setting depreciable lives. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense decreased 3% in 2003 and increased 12% in 2002. The 2003 decrease was due to asset impairments associated with the wind-down of the web hosting business and lower capital spending. The 2002 increase is attributable to an increased asset base to meet anticipated increases in demand for voice and data-related services and other growth initiatives. This increase was partially offset by the discontinuation of the amortization of goodwill and indefinite life intangibles due to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Depreciation and amortization expense was 17.9% of net operating revenues in 2003, 16.5% in 2002, and 13.3% in 2001.

Restructuring and Asset Impairments

In the 2003 fourth quarter, Sprint recorded restructuring charges representing severance costs associated with Sprint s transformation to a customer-focused organization offset by the finalization of all 2001 and 2002 restructuring liabilities. This resulted in an expense reduction of $33 million allocated to the global markets division.

In the 2003 third quarter, the FON Group recorded a pre-tax, non-cash charge of $1.2 billion related to the write-down in the fair value of its MMDS spectrum. Sprint s ongoing evaluation of its business use for this asset resulted in a decision to end pursuit of a residential fixed wireless strategy. This decision required an impairment analysis of the asset. Sprint is now focusing its efforts on a broad range of alternative strategies. Sprint is continuing to invest in the spectrum, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

In the 2003 second quarter, Sprint announced the wind-down of its web hosting business. Restructurings of other global markets division operations also occurred in the continuing effort to create a more efficient cost structure. These decisions resulted in pre-tax charges of $348 million in the 2003 second quarter, $2 million in the 2003 third quarter and $26 million in the 2003 fourth quarter. The charge for asset impairments was $316 million, the charge for employee terminations was $15 million and the remaining $45 million was accrued for facility lease terminations. Sprint will record additional wind-down related charges for facility lease terminations, customer migration, employee termination, and other wind-down costs in subsequent periods. Sprint expects the aggregate pre-tax charge associated with the wind-down of the web hosting business to be approximately $440 million.

In the 2002 fourth quarter, Sprint recorded a net restructuring charge of $57 million to the global markets division related to consolidations in Sprint s Network, Information Technology, and Billing and Accounts Receivable organizations as well as additional steps to reduce overall operating costs. Additionally, it recorded a network asset impairment related to the global markets division of $14 million. Sprint recorded a net restructuring charge and asset impairment of $123 million related to the global markets division in the 2002 third quarter. This consisted of a $202 million charge for the termination of high-speed data services, as well as additional steps to reduce operating costs. The charge was partially offset by a $79 million adjustment to finalize the restructuring charge taken in the 2001 fourth quarter to abandon the ION initiative and restructure operations in the global markets division. The 2001 fourth quarter actions, which resulted in a $1.7 billion charge to the global markets division, were taken in an effort to better focus on enterprise data and Internet services and to aggressively manage costs. For additional information see Note 6 of the Notes to Consolidated Financial Statements.

Local Division

The local division consists mainly of regulated local phone companies serving approximately 7.9 million access lines in 18 states. The local division provides local voice and data services, including digital subscriber line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local division s local network, nationwide long distance services to residential customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. The local division provides wireless services to customers in its franchise territories through agency relationships. DSL enables high speed transmission of data over existing copper telephone lines.

	2003	2002	2001
	(as restated)	(as restated)	(as restated)

		(millions)	
Net operating revenues			
Voice	$ 4,659	$ 4,810	$ 4,877
Data	737	646	569
Other	747	801	848
Total net operating revenues	6,143	6,257	6,294
Operating expenses			
Costs of services and products	1,950	1,945	2,002
Selling, general and administrative	1,238	1,283	1,293
Depreciation	1,085	1,157	1,120
Restructuring and asset impairments	24	56	109
Total operating expenses	4,297	4,441	4,524
Operating income (loss)	$ 1,846	$ 1,816	$ 1,770
Operating margin	30.1%	29.0%	28.1%
Capital expenditures	$ 1,240	$ 1,286	$ 1,337

In 2003, the local division continued to be impacted by the economic environment, broadband competition for high-speed data in the consumer market, competition and product substitution for business customers and wireless substitution resulting in a decline in access lines and minutes of use. In 2003, Sprint recorded restructuring charges associated with Sprint s transformation to a customer-focused organization offset by the finalization of 2001 and 2002 restructuring liabilities. These actions resulted in a $20 million charge to the local division s operations. Additionally, a $4 million asset impairment was recorded related to the termination of a partnership to provide video on-demand to hotels. The local division expects a small revenue decline in 2004. Increases in revenue associated with bundled services and broadband sales is expected to be offset by a modest decline in access lines.

Net Operating Revenues

Net operating revenues decreased 2% in 2003 and less than 1% in 2002. The slight decrease in both years was due to declines in long distance, fewer access lines and declines in equipment sales being partially offset by an increase in network-based services and DSL services. The local division ended 2003 with just over 7.9 million switched access lines, a decrease of 2.2% from the prior year. Access lines decreased 1.7% in 2002. The decreases in 2003 and 2002 were driven by wireless and broadband substitution, losses to competitive local providers, and the economic environment. The reduction in access lines is expected to continue although Sprint expects its ongoing rate of line loss to be less than loss rates experienced by other major carriers.

Voice Revenues

Voice revenues, derived from local exchange services, long distance revenue and switched access revenue decreased 3% in 2003 and 1% in 2002 due to lower long distance minutes of use and the decrease in access lines, partially offset by the demand for network-based services driven by the success of bundled offerings.

Data Revenues

Data revenues are mainly derived from DSL, local data transport services, and special access. Data revenues increased 14% in both 2003 and 2002 mainly as a result of strong growth in DSL services.

Other Revenues

Other revenues decreased 7% in 2003 and 6% in 2002. These decreases were driven by a decline in equipment sales of 10% in 2003 and 14% in 2002. The decreases in equipment sales were a result of both a planned shift in focus to selling higher margin products and a reduction in customer demand for equipment.

Costs of Services and Products

Costs of services and products include costs to operate and maintain the local network and costs of equipment sales. These costs were flat in 2003 and decreased 3% in 2002. In 2003, general expense controls and lower costs associated with long distance revenues were offset by higher pension costs. In 2002, the decrease was driven mainly by a reduction in reciprocal compensation expense, lower costs associated with long distance revenues, reduced volume of equipment sales, and a decline in other taxes due to changes in certain state tax laws. Costs of services and products were 31.7% of net operating revenues in 2003, 31.1% in 2002, and 31.8% in 2001.

Selling, General and Administrative Expense

SG&A expense decreased 4% in 2003. In 2002, SG&A decreased 1% despite increases in bad debt expense. The 2003 decrease is driven by general cost controls and lower bad debt expense partially offset by the executive separation agreements and higher pension costs. The reserve for bad debt requires management s judgment and is based on historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 0.9% in 2003, 2.6% in 2002, and 2.5% in 2001. Reserve for bad debt expense as a percent of outstanding accounts receivable was 8.6% in 2003, 13.9% in 2002, and 6.9% in 2001. In 2003, the local division experienced continued improvement in its bad debt experience with end user customers as well as recoveries from previously written off accounts, principally MCI (formerly WorldCom). In 2002, improved bad debt experience with end user customers was more than offset by the need to establish reserves for certain competitive local exchange carriers and long distance companies, including WorldCom (now MCI), with financial difficulties.

SG&A expense was 20.2% of net operating revenues in 2003, and 20.5% in both 2002 and 2001.

Depreciation and Amortization Expense

Estimates and assumptions are used in setting depreciable lives. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense decreased 6% in 2003 and increased 3% in 2002. The 2003 decrease was driven by the implementation of SFAS No. 143, *Accounting for Asset Retirement Obligations*, which eliminated the accrual for removal cost from the depreciable rate, as well as declines in circuit switching depreciation rates due to a revised schedule for converting from a digital to a packet network. For further information on the implementation of SFAS No. 143 see Note 5 of Notes to Consolidated Financial Statements. The 2002 increase reflects capital spending to support voice-grade equivalent growth, service improvements, and ongoing build out of DSL services. Depreciation and amortization expense was 17.7% of net operating revenues in 2003, 18.5% in 2002, and 17.8% in 2001.

Restructuring and Asset Impairment

In the 2003 fourth quarter, Sprint recorded restructuring charges representing severance costs associated with Sprint s transformation to a customer-focused organization offset by the finalization of all 2001 and 2002 restructuring liabilities. Net charges to the local division related to these items were $20 million. A $4 million asset impairment, also recorded by the local division, related to the termination of a partnership to provide video on-demand to hotels.

In the 2002 fourth quarter, Sprint recorded a restructuring charge representing consolidations in Sprint s Network, Information Technology, and Billing and Accounts Receivable organizations, as well as additional steps to reduce overall operating costs. This decision resulted in a charge of $53 million to the local division.

In the fourth quarter of 2001, Sprint announced plans to take steps to improve its competitive position and reduce operating costs in the business units that comprise its FON Group. These efforts included consolidation and streamlining of marketing and network operations, as well as streamlining of corporate support functions. This decision resulted in a charge of $109 million associated with the severance costs of the work force reductions and contractual obligations. In the 2002 third quarter, Sprint performed an analysis to finalize the restructuring estimates recorded in the 2001 fourth quarter. This analysis resulted in the recognition of an additional charge of $3 million being recorded in the 2002 third quarter. For additional information see Note 6 of the Notes to Consolidated Financial Statements.

Other

Other businesses consist primarily of wholesale sales of telecommunications equipment. Net operating revenues were $840 million in 2003, $863 million in 2002, and $1,206 million in 2001. Nonaffiliated revenues, which accounted for 35% of revenues in 2003, declined 5% as capital spending continued to decline in the telecommunications industry. Operating expenses decreased 2% in 2003 and 24% in 2002 driven by reduced cost of services and products. Operating loss for 2003 and 2002 was $31 million and $24 million, respectively, while operating income was $33 million in 2001. In 2004, Sprint plans to continue to leverage its web-enabled capabilities to improve revenues and expand value added services.

PCS Group

The PCS Group operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population, including Puerto Rico and the U.S. Virgin Islands, using a single frequency band and a single technology. The PCS Group, together with third party affiliates, operates PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS Group s service, including third party affiliates, reaches a quarter billion people. The PCS Group, combined with our wholesale and affiliate partners, served more than 20 million customers at the end of 2003. The PCS Group provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all speech bits, sending a scrambled transmission of the encoded speech over the air and reassembling the speech into its original format, affiliating with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,

roaming on other providers analog cellular networks using multi-mode and multi-band handsets, and

roaming on other providers digital networks that use CDMA.

Sprint PCS customers can use their phones through roaming agreements in countries other than the United States, including areas of:

Asia Pacific, including China, Guam, Hong Kong and New Zealand,

Canada and Mexico,

Central and South America, including Argentina, Bolivia, Chile, Colombia, Ecuador, Guatemala, Paraguay and Uruguay, and

Most major Caribbean Islands.

Sprint launched nationwide third generation (3G) capability in the 2002 third quarter. This capability allows more efficient utilization of the network when voice calls are made using 3G-enabled handsets. It also provides enhanced data services. The service, marketed as PCS Vision, allows consumer and business customers to use their Vision-enabled PCS devices to exchange instant messages, exchange personal and corporate e-mail, take, send and receive pictures, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds up to 144 kbps (with average speeds of 50 to 70 kbps).

The PCS Group supplements its own network through affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer PCS services using Sprint s spectrum under the Sprint brand name on CDMA networks built and operated at their own expense. Several of these affiliates are experiencing financial difficulties and are evaluating or have completed restructuring activities. Two affiliates have filed for bankruptcy protection and made claims against us in the bankruptcy courts. One other affiliate has filed suit against us. Several of the affiliates are disputing and refusing to pay amounts owed to Sprint. Reserves have been established that are expected to provide for the ultimate resolution of these disputes, and Sprint is in negotiations with some of the affiliates regarding restructuring its relationship with them.

Sprint has reached agreements with several of its affiliates, including two of the largest who have completed restructuring activities. Sprint has amended the existing agreements to provide for a simplified pricing mechanism, as well as refining and changing various business processes. The amended agreements cover approximately 40% of the customers served by all affiliates. The agreements provide simplified and predictable long-term pricing for service bureau fees and stability to the rates charged for inter-area service fees. In addition, Sprint and the companies settled all significant outstanding disputes. The revised terms under the agreements are expected to have an immaterial impact on future PCS Group results.

The PCS Group may incur additional expenses to ensure that service is available to its customers in the areas served by its affiliates. If any of the PCS Group affiliates cease operations, the PCS Group may incur roaming charges in areas where service was previously provided by the affiliates and costs to meet FCC buildout and renewal requirements, as well as experience lower revenues.

The PCS Group also provides wireless services to companies that resell wireless services to their customers on a retail basis under their own brand. These companies bear the costs of acquisition, billing and customer service. In the 2003 third quarter, Sprint executed a five year wholesale agreement with Qwest Communications (Qwest) whereby Qwest wireless subscribers will use Sprint s national PCS network and have access to Sprint branded Vision data services. Qwest will continue to provide sales and service support to its wireless customers, including the promotion and sale of handsets and price plans, as well as provide customer service, including billing and account information. Sprint will serve as the exclusive provider to Qwest of wireless services for resale in the markets served by the PCS Group. The transition of customers to the PCS network will begin in early 2004.

The wireless industry, including the PCS Group, typically generates a higher number of subscriber additions and handset sales in the fourth quarter of each year compared to the other quarters. This is due to the use of retail distribution, which is dependent on the holiday shopping season; the timing of new products and service introductions; and aggressive marketing and sales promotions.

	2003	2002	2001
	(as restated)	(as restated)	(as restated)
		(millions)	
Net operating revenues	$ 12,690	$ 12,074	$ 9,725
Operating expenses			
Costs of services and products	6,155	5,783	5,295
Selling, general and administrative	3,127	3,414	2,919
Depreciation and amortization	2,454	2,245	2,135
Restructuring and asset impairment	362	138	10
Total operating expenses	12,098	11,580	10,359
Operating income (loss)	$ 592	$ 494	$ (634)
Capital expenditures	$ 2,123	$ 2,640	$ 3,687

The PCS Group made progress in improving its operating and service measures in 2003. The PCS Group exited the year with a 5% increase in net operating revenues and a $98 million improvement in operating income.

In 2004, Sprint expects the PCS Group to grow its customer base, while continuing to make strides towards a customer-centric organization. Competitive pressure on price is expected to continue, but is expected to be partially offset by increased usage and revenues from PCS Vision services, including data, e-mail, instant messaging, taking, sending and receiving photographs, games and Internet browsing, and Ready Link, a two-way walkie-talkie-style communication.

Sprint is a leader in wireless data, with over one-third of our PCS customer base subscribing to our 3G network. We continue to evaluate next generation wireless high speed data network options to ensure we maintain a leadership position, as well as to support our integration strategies.

The PCS Group markets its products through multiple distribution channels, including its own retail stores as well as other retail outlets. Equipment sales to one retail chain and the subsequent service revenues generated by sales to its customers accounted for 21% of net operating revenues in 2003, 22% in 2002 and 24% in 2001.

Net Operating Revenues

	2003	2002	2001
Customers at year-end (millions)	15.9	14.8	13.6
Average monthly service revenue per user (ARPU)	$ 61	$ 62	$ 61

Average monthly service revenue per user (ARPU) is calculated by dividing wireless service revenues by weighted average monthly wireless subscribers. This is a measure which uses GAAP as the basis for the calculation. ARPU, which is used by most wireless companies, is a method of valuing the recurring activity by measuring revenue on a per user basis. Analysts and investors primarily use ARPU to compare relative value across the wireless industry.

Net operating revenues include service revenues and sales of handsets and accessory equipment. Service revenues consist of monthly recurring charges, usage charges, a pro rata portion of activation fees and miscellaneous fees such as directory assistance, operator-assisted calling, handset insurance and late payment charges. In 2003, Sprint saw increased pricing pressures and lower overage charges from usage-based plans, which were offset by customers subscribing to higher usage service plans, increased revenues from data services and increased fees. Average monthly usage in 2003 was 13 hours compared to 10 hours in 2002. At the end of the period more than one-third of the customer base was using data services compared to approximately 20% at the end of 2002.

The PCS Group had 1.1 million post-paid retail customer additions in 2003 to end the year with 15.9 million customers. Resellers added 1.2 million customers in 2003, increasing their customer base to 1.6 million from 415,000 in 2002, principally due to Virgin Mobile, USA. The PCS Group third party affiliates added more than 297,000 customers in 2003. This brings the total number of customers served on the PCS network, including post-paid retail, affiliate, and resale customers, to approximately 20.4 million in more than 300 metropolitan markets nationwide at the 2003 year-end. In 2003, nearly 37 percent of new post-paid retail customers chose to include PCS Vision in their service package.

Service revenues increased 6% in 2003 mainly reflecting an increase in the number of direct customers, increased revenue from wholesale and affiliate partners, and stable ARPU. Service revenues increased 27% in 2002 mainly reflecting an increase in the number of customers and stable ARPU. In 2002, increased pricing pressures were offset by customers subscribing to higher usage service plans, and increased miscellaneous fees in 2001 and late payment fees in 2002. The PCS Group had 1.2 million post-paid retail customer additions in 2002 to end the year with 14.8 million customers. Resellers added 196,000 customers in 2002, which increased their customer base to 415,000 from 219,000 in 2001, principally due to Virgin Mobile, USA. The PCS Group third party affiliates added more than 544,000 customers in 2002, bringing the total number of customers served on the PCS network, including post-paid retail, affiliates and resale customers, to more than 17.7 million.

Customer churn is calculated by dividing the customers who discontinued PCS service by the weighted average subscribers for the period. This is an operational measure which is used by most wireless companies as a method of estimating the life of the customer. Analysts and investors primarily use churn to compare relative value across the wireless industry.

In 2003, the customer churn rate decreased to 2.7% from 3.3% in 2002. This was a slight increase from 2.6% in 2001. The 2003 improvement was primarily due to a reduction in the involuntary churn rate as the PCS Group benefited from effective customer retention programs and credit management policies initiated in the 2002 fourth quarter. This improvement was partially offset by a slight increase in voluntary churn due in part to the institution of WLNP in the fourth quarter of 2003. The 2002 increase resulted primarily from company-initiated churn largely associated with the deactivation of Clear Pay customers, as well as a slight increase in the voluntary churn rate.

In November 2003, WLNP was instituted for the 100 largest markets across the United States. While the PCS Group experienced an increase in churn in December following WLNP implementation, the fourth quarter impact on net additions was immaterial. We intend to implement WLNP beyond the 100 largest markets in May 2004. The vast majority of PCS customers are resident in the 100 largest markets where WLNP is already available.

Revenues from sales of handsets and accessories, including new customers and upgrades, were approximately 9.0% of net operating revenues in 2003, 10.0% in 2002 and 11.8% in 2001. These declines were mainly due to higher rebates and lower gross additions. As part of the PCS Group s marketing plans, handsets, net of rebates, are usually sold at prices below cost.

Other service revenues consist of net fees collected from affiliates for network operation and customer maintenance and also include revenues from the wholesale of PCS services to companies that resell to their customers on a retail basis. Other revenues represented 2.6% of net operating revenues in 2003, 1.8% in 2002 and 2.9% in 2001. The 2003 increase mainly reflects net additions to the affiliate base and the wholesale customer base through Virgin Mobile, USA. The 2002 decrease is primarily due to discontinuation of a specific reseller program.

The PCS Group assesses access charges to long distance carriers for the termination of landline originated calls. Though regulations generally entitle a carrier that terminates a call on behalf of another to be compensated for providing that service, these regulations were developed in a period where services of this nature were provided exclusively by local exchange carriers. Many long distance carriers have disputed the PCS Group s assessment of these charges, as well as the corresponding rate at which the charges were determined. In July 2002, the FCC released a ruling affirming that nothing prohibited wireless carriers from imposing access charges for the use of their networks; however, the FCC also stated that inter-exchange carriers could not be unilaterally required to pay these charges without a contractual obligation to do so. The FCC referred the dispute back to the Federal District Court for the Western District of Missouri for a determination whether the PCS Group has stated a claim under Missouri State law where the case is still pending. The FCC ruling was affirmed by the D.C. Circuit Court of Appeals. In light of this ruling, in the 2002 second quarter the PCS Group recorded an additional provision for outstanding receivables related to amounts previously billed.

Cost of Services and Products

The PCS Group s costs of services and products mainly include handset and accessory costs, switch and cell site expenses, customer service costs and other network-related costs. These costs increased 6% in 2003 and 9% in 2002. The increases are primarily due to network support of a larger customer base, higher minutes of use, expanded market coverage and increased handset unit costs. These increases are somewhat offset by decreases in customer service expense. Handset and equipment costs were 39% of total costs of services and products in 2003 and 2002 and 37% in 2001. Costs of services and products were 48.5% of net operating revenue in 2003, 47.9% in 2002 and 54.4% in 2001.

Selling, General and Administrative Expense

SG&A expense mainly includes marketing costs to promote products and services as well as salary and benefit costs. SG&A expense decreased 8% in 2003 compared to an increase of 17% in 2002. The 2003 decrease was primarily due to a decline in bad debt expense due to a better credit class mix, leading to lower write-offs and higher recovery. This decrease was partially offset by increases in other sales and marketing costs due to more competitive market conditions and expanded direct sales presence and the executive separation agreements. The 2002 increase reflects increased marketing and selling costs associated with the PCS Vision launch and increased bad debt expense. SG&A expense was 24.6% of net operating revenues in 2003, 28.3% in 2002 and 30.0% in 2001. Bad debt expense as a percentage of net operating revenues was 2.3% in 2003, 5.1% in 2002 and 3.9% in 2001. Reserve for bad debt as a percent of outstanding accounts receivable was 7.3% in 2003, 9.4% in 2002, and 9.1% in 2001. The 2003 improvements were mainly driven by credit management policies initiated in the 2002 fourth quarter resulting in lower involuntary churn and improved receivables aging.

Depreciation and Amortization Expense

Estimates and assumptions are used in setting depreciable lives. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense consists mainly of depreciation of network assets and amortization of intangible assets. The definite life intangible assets include various customer bases, which became fully amortized in August 2002.

Depreciation and amortization expense increased 9% in 2003 and 5% in 2002 mainly reflecting depreciation of the network assets placed in service during 2002 and 2003. Amortization of goodwill and indefinite life intangibles ceased upon adoption of SFAS No. 142 at January 1, 2002. Depreciation and amortization expense was 19.3% of net operating revenues in 2003, 18.6% in 2002, and 22.0% in 2001.

Restructuring and Asset Impairment

In 2003, the PCS Group recorded asset impairments of $349 million primarily related to the termination of development of a new billing platform. The PCS Group also recorded a restructuring charge of $13 million for severance costs associated with Sprint s transformation to a customer-focused organization and contractual obligations related to the terminated development of a new billing platform, offset by the finalization of all 2001 and 2002 restructuring activities.

In 2002, the PCS Group recorded a restructuring charge of $78 million representing the consolidations in Sprint s Network, Information Technology, and Billing and Accounts Receivable organizations, as well as other reductions to create a more competitive cost structure by reducing operating expenses. Additionally, the PCS Group recorded an asset impairment of $42 million representing abandoned network projects.

In 2002, the PCS Group incurred an $18 million charge associated with the closing of five PCS customer solution centers, as well as additional steps to reduce operating costs in the PCS business units.

In 2001, Sprint consolidated and streamlined marketing and network operations, as well as streamlined corporate support functions. This resulted in a charge of $10 million to the PCS Group associated with severance costs and termination of contractual obligations. For additional information see Note 6 of the Notes to Consolidated Financial Statements.

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. See Liquidity and Capital Resources for more information on Sprint s financing activities.

	2003	2002	2001
Effective interest rate on long-term debt	7.0%	6.9%	6.7%

41

The effective interest rate includes the effect of interest rate swap agreements. See Note 4 in the Notes to Consolidated Financial Statements for more details regarding interest rate swaps. Sprint s effective interest rate on long-term debt increased in 2003 due to the retirement of fixed-rate debt with lower interest rates. The effective interest rate increased in 2002 due to additional fixed-rate debt with higher interest rates.

Allocation of Group Financing

Financing activities for the groups are managed by Sprint on a centralized basis. Debt incurred by Sprint on behalf of the groups is specifically allocated to and reflected in the financial statements of the applicable group. Interest expense is allocated to the PCS Group based on an interest rate that is substantially equal to the rate it would be able to obtain from third parties as a direct or indirect wholly owned Sprint subsidiary, but without the benefit of any guarantee by Sprint or any member of the FON Group. That interest rate is higher than the rate Sprint obtains on borrowings. The difference between Sprint s actual interest rate and the rate charged to the PCS Group is reflected as a reduction in the FON Group s interest expense and totaled $374 million in 2003, $336 million in 2002, and $288 million in 2001. These amounts are reflected in the Intergroup interest charge on the Consolidated Statements of Operations.

The FON Group earned intergroup interest income and the PCS Group incurred intergroup interest expense of $15 million in 2001 primarily related to the FON Group s ownership of PCS Group debt securities. Sprint redeemed these securities in the 2001 fourth quarter. As a result of this redemption, the FON Group recognized an $11 million pre-tax gain to other non-operating income and the PCS Group recorded an $11 million pre-tax loss to premium on early retirement of debt.

Under Sprint s centralized cash management program, one group may advance funds to the other group. These advances are accounted for as short-term borrowings between the groups and bear interest at a market rate that is substantially equal to the rate that group would be able to obtain from third parties on a short-term basis.

The allocation of group financing activities may change at the discretion of the Sprint board and does not require shareholder approval.

Discount (Premium) on Early Retirement of Debt

In the third quarter of 2003, Sprint recorded a net premium of $2 million due to the early retirement of $118 million of debt primarily consisting of the local division s first mortgage bonds. This debt had interest rates ranging from 5.7% to 9.3% and maturity dates ranging from 2003 to 2021.

In March 2003, Sprint completed a tender offer to purchase $442 million principal amount of current senior notes before their scheduled maturity. The notes had an interest rate of 5.7% and a maturity date of November 15, 2003. A premium of $6 million was paid as part of the tender offer.

Also in March 2003, Sprint completed a tender offer to purchase $635 million principal amount of its long-term senior notes before their scheduled maturity. The notes had an interest rate of 5.9% and a maturity date of May 1, 2004. A premium of $13 million was paid as part of the tender offer.

In 2002, Sprint repurchased, before scheduled maturities, $67 million of debt allocated to the FON Group. These borrowings had interest rates ranging from 6.0% to 7.1%. This resulted in a discount for Sprint of $4 million.

In 2001, Sprint redeemed, before scheduled maturities, $18 million of debt allocated to the FON Group and $558 million of debt allocated to the PCS Group. These borrowings had interest rates ranging from 9.9% to 12.5%. This resulted in a discount of $6 million for Sprint.

Other Income (Expense), Net

Other income (expense), net consisted of the following:

	2003	2002	2001
		(millions)	
Dividend and interest income	$ 51	$ 31	$ 33
Royalties	13	9	
Equity in net losses of affiliates	(77)	(117)	(157)
Net losses from investments	(3)	(258)	(188)
Gains (losses) on sales of other assets		117	10
Amortization of debt costs	(35)	(36)	(20)
Losses from disposal of PP&E	(9)	(13)	(4)
Benefit plan curtailment gain			120
Foreign currency transactions	(5)	7	
Litigation settlement	(15)		
Other, net	(9)	(5)	4
Total	$ (89)	$ (265)	$ (202)

42

Dividend and interest income for all years reflects dividends earned on cost method investments and interest earned on temporary investments.

Beginning in January 2002, Call-Net began making a royalty payment of 2.5% of revenues to Sprint. Currently, this is approximately $3 million per quarter.

Equity in net losses of affiliates in 2003 was primarily driven by the PCS Group s investment in Virgin Mobile, USA. Sprint made an additional investment of $20 million in Virgin Mobile, USA in 2003 and immediately recognized an equal amount of losses associated with this additional investment. The 2003 decrease was primarily lower equity loss pick-ups related to Pegaso due to the 2002 sale of this investment, offset by equity losses of Virgin Mobile, USA.

In 2002, equity in net losses of affiliates was driven by the PCS Group s investment in Virgin Mobile, USA and Pegaso, and the FON Group s investment in Call-Net. Sprint made an additional investment of $16 million in Call-Net in the 2002 second quarter and immediately recognized an equal amount of losses associated with the investment. The 2002 decrease was due to a reduction in equity losses following the write-down of the investment in Intelig and the sale of Pegaso, partially offset by Virgin Mobile, USA and Call-Net losses.

In 2001, equity in net losses of affiliates was driven by the PCS Group s investment in Pegaso and the FON Group s investment in Intelig. In the first quarter of 2001, Sprint modified its relationship with EarthLink which resulted in its investment in common stock no longer being accounted for using the equity method.

Net losses from investments in 2003 are driven by a loss on sale of EarthLink shares. The 2002 losses mainly consist of the write-down of EarthLink preferred shares to market value. Net losses from investments in 2001 mainly include a $162 million write-down of an equity investment in Intelig and a $25 million loss on the partial sale of EarthLink shares.

Gains on sales of other assets in 2002 were driven by the sale of Sprint s investment in Pegaso, certain customer contracts and stock received during a company s demutualization. Gains on sales of other assets in 2001 resulted from the sale of PCS customers to a PCS third party affiliate.

The benefit plan curtailment gain in 2001 resulted from an amendment of certain medical retirement plan benefits.

In the 2003 first quarter, Sprint recorded a $50 million net charge to settle shareholder litigation. In the 2003 third and fourth quarters, Sprint recorded a $17 million and $18 million credit, respectively, from insurance settlements related to this action. See Note 17 of Notes to Consolidated Financial Statements for additional information.

Income Taxes

Sprint s consolidated effective tax rates were 42.1% in 2003, (12.5)% in 2002, and 32.0% in 2001. See Note 15 of Notes to Consolidated Financial Statements for information about the differences that caused the effective income tax rates to vary from the statutory federal rate for income taxes related to continuing operations.

Discontinued Operations, Net

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for $2.23 billion in cash. The sale closed on January 3, 2003. The pretax gain recognized in 2003 was $2.14 billion, $1.32 billion after tax.

Financial Condition

	2003	2002
	(as restated)	(as restated)
	(millions)	
FON Group	$ 21,862	$ 23,133
PCS Group	21,671	22,842
Intergroup eliminations	(858)	(862)
Consolidated assets	$ 42,675	$ 45,113

Sprint s consolidated assets decreased $2.4 billion in 2003. Cash and equivalents increased $1.4 billion due to improved operating cash flows, reduced capital expenditures and the sale of Sprint s directory publishing business to R.H. Donnelley in the 2003 first quarter. In connection with the gain recognized from this sale, Sprint utilized nearly $800 million in deferred tax assets. Net property, plant and equipment decreased $1.5 billion as capital expenditures were more than offset by depreciation expense and asset impairments. Spectrum licenses declined due to an impairment charge of $1.2 billion related to the write-down in fair value of Sprint s MMDS spectrum.

The Sprint debt-to-total-capital ratio was 58.9% at year-end 2003 versus 64.0% at year-end 2002. The rating agencies generally give some form of equity treatment for equity unit notes in determining debt-to-total-capital ratios. Assuming that the Sprint equity unit notes are treated as 80% equity and 20% debt, this ratio would be 54.7% at year-end 2003, versus 60.0% at year-end 2002. Accordingly, this debt-to-total-capital ratio for Sprint is calculated defining debt as short-term borrowings, long-term debt, capital lease obligations and 20% of the equity unit notes carrying amount. Total capital is defined as debt, plus the remaining 80% of the equity unit notes value, redeemable preferred stock and total shareholders equity. See Liquidity and Capital Resources for more information about changes in Sprint s Consolidated Balance Sheets.

Liquidity and Capital Resources

Sprint s board of directors exercises discretion regarding the liquidity and capital resource needs of its business segments. This includes the ability to prioritize the use of capital and debt capacity, to determine cash management policies and to make decisions regarding the timing and amount of capital expenditures.

Operating Activities

	2003 (as restated)	2002 (as restated)	2001 (as restated)
		(millions)	
FON Group	$ 4,039	$ 4,176	$ 4,457
PCS Group	2,476	2,002	42
Cash flows provided (used) by operating activities of continuing operations	$ 6,515	$ 6,178	$ 4,499

Operating cash flows increased $337 million in 2003 and $1.7 billion in 2002. The 2003 increase was mainly due to growth in the PCS Group partially offset by higher working capital requirements in both the FON and PCS Groups. The 2002 increase was driven mainly by growth in the PCS Group. Cost controls and reductions in work force in the FON Group mitigated the revenue erosion seen in the global market division. The receipt of $480 million of tax refunds generated by the economic stimulus bill passed in the 2002 first quarter also contributed to the increase. The 2002 increase was partially offset by higher working capital requirements.

Investing Activities

	2003	2002	2001
	(as restated)	(as restated)	(as restated)

		(millions)	
FON Group	$ (1,876)	$ (1,987)	$ (5,036)
PCS Group	(2,154)	(2,580)	(3,678)
Cash flows provided (used) by investing activities of continuing operations	$ (4,030)	$ (4,567)	$ (8,714)

The FON Group s capital expenditures totaled $1.7 billion in 2003, $2.2 billion in 2002, and $5.3 billion in 2001. Global markets division capital expenditures were incurred mainly to enhance network reliability and upgrade capabilities for providing new products and services. The local division incurred capital expenditures to accommodate voice-grade equivalent growth, maintain or improve service delivery capabilities, expand capabilities for providing enhanced services, convert our network from circuit to next generation packet switching and continue the build-out of high-speed DSL services. The decline in FON Group capital expenditures was driven mainly by the termination of Sprint ION in 2001 and reduced spending for data-related services. The PCS Group capital expenditures, totaling $2.1 billion in 2003, $2.6 billion in 2002, and $3.7 billion in 2001, were incurred to increase capacity and expand coverage. The 2002 and 2001 amounts also include approximately $100 million and $600 million, respectively, of expenditures related to deployment of 3G technology which was launched nationwide in 2002. Network efficiencies gained from 3G technology contributed to lower capital requirements in 2003.

Investing activities also include contributions of $32 million to Virgin Mobile, USA in 2003; proceeds of $116 million due to sales and dissolutions of investments in 2002; and contributions of $66 million to EarthLink, Virgin Mobile, USA, Intelig, SVC BidCo L.P., and Pegaso in 2001. See Note 3 of Notes to Consolidated Financial Statements for more information on investments.

Additionally, other investing activities include proceeds from sales of other assets totaling $101 million in 2003, $138 million in 2002, and $301 million in 2001. In 2003, investing activities mainly include proceeds from the partial sale of the FON Group s investment in EarthLink stock and proceeds from the sale of certain network and administrative assets. In 2002, investing activities mainly include proceeds from the sale of the PCS Group s investment in Pegaso and the FON Group s sale of certain customer contracts, investment securities and other administrative assets. The 2001 activities mainly include proceeds from sale of PCS customers to an affiliate and certain network and administrative assets.

Financing Activities

	2003	2002	2001
		(millions)	
FON Group	$ (2,702)	$ (1,836)	$ 463
PCS Group	(627)	793	3,698
Cash flows provided (used) by financing activities of continuing operations	$ (3,329)	$ (1,043)	$ 4,161

Financing activities mainly reflect a $2.9 billion reduction of debt in 2003 and a $642 million reduction in 2002, compared to a net borrowing of $4.0 billion in 2001. The reduction in the debt requirements in 2003 and 2002 was due to Sprint s continuing operating cash flow improvement, reduced capital expenditures, and proceeds from the sale of Sprint s directory publishing business in the 2003 first quarter. In 2001, cash provided by financing activities was used mainly to fund capital investments and working capital requirements. Financing activities also reflect net proceeds from the issuance of common stock of $12 million in 2003, $3 million in 2002, and $608 million in 2001. Sprint paid dividends of $457 million in 2003, $454 million in 2002, and $451 million in 2001.

Also included in financing activities are proceeds from options exercised under Sprint s employee stock benefit plans, debt issuance costs and other financing activities of $24 million in 2003, $50 million in 2002, and $16 million in 2001.

Capital Requirements

Sprint s 2004 investing activities, mainly consisting of capital expenditures, are expected to total approximately $4.0 billion. FON Group capital expenditures are expected to be $1.6 billion. These expenditures are primarily to support the growth in demand for enterprise services. They also include investments for broadband initiatives and the phased transition from circuit to packet switching. PCS Group capital expenditures are expected to be $2.4 billion. These investments are targeted largely for network capacity and coverage. Sprint continues to review capital expenditure requirements closely and will adjust spending and capital investment in concert with growth. Dividend payments are expected to be approximately $670 million in 2004 including the impact of the recombination of the tracking stocks in April 2004. Sprint expects overall cash from operations to be $6.5 billion in 2004, with $3.6 billion from the FON Group and $2.9 billion from the PCS Group.

In 1998, Sprint adopted a tax sharing agreement providing for the allocation of income taxes between the FON Group and the PCS Group. That agreement expired with the 2001 tax year and Sprint adopted a continuation of that tax sharing arrangement except for the elimination of provisions addressing certain types of acquisitions or restructurings, which never became operable under the original arrangement. Sprint expects the FON Group to continue to make significant payments to the PCS Group under this arrangement because of expected PCS Group tax losses in the near future and from using the PCS Group s tax loss carryforwards. These payments reflect the PCS Group s incremental cumulative effect on Sprint s consolidated federal and state tax liability and tax credit position. The PCS Group received payments from the FON Group totaling $1.1 billion in 2003, which includes $700 million in connection with the gain on the sale of Sprint s directory publishing business, $360 million in 2002, and $292 million in 2001. See Note 1 of Notes to Consolidated Financial Statements, Intergroup Transactions and Allocations Allocation of Federal and State Income Taxes, for more details.

Liquidity

In recent years, Sprint has used the long-term bond market as well as other financial markets to fund its needs. As a result of its improved liquidity position, Sprint currently does not expect to borrow funds through the capital markets in 2004 to fund capital expenditures and operating and working capital requirements.

In January 2003, Sprint closed on the $2.23 billion cash sale of its directory publishing business to R.H. Donnelley.

In June 2003, Sprint entered into a new revolving credit facility with a syndicate of banks. The $1.0 billion facility is unsecured, with no springing liens, and is structured as a 364-day credit line with a subsequent one-year, $1.0 billion term-out option. Sprint does not intend to draw against this facility. Sprint had standby letters of credit serving as a backup to various obligations of approximately $134 million at year-end 2003.

Sprint has a PCS Group accounts receivable asset securitization facility that provides Sprint with up to $500 million of additional liquidity. The facility, which expires in 2005, is subject to annual renewals and does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and fluctuates each month. Sprint has not drawn against the facility and slightly more than $223 million was available as of year-end 2003.

Sprint also has a global markets division accounts receivable asset securitization facility that provides Sprint with up to $700 million of additional liquidity. The facility, which expires in 2005, is subject to annual renewals and does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and fluctuates each month. In February 2003, Sprint prepaid all outstanding borrowings under this facility. As of December 31, 2003, Sprint had more than $468 million total funding available under the facility.

The undrawn loan facilities described above have interest rates equal to LIBOR or Prime Rate plus a spread that varies depending on Sprint s credit ratings.

Debt maturities, including capital lease obligations, during 2004 total $594 million. Sprint s $2.4 billion cash balance at December 31, 2003, and expected net cash provided by operating activities of continuing operations in excess of capital requirements of $2.0 billion in 2004 more than fund these requirements.

Any borrowings Sprint may incur are ultimately limited by certain debt covenants. Sprint could borrow up to an additional $6.7 billion at year-end 2003 under the most restrictive of its debt covenants. The most restrictive covenant is contained in the new revolving credit facility, which is referenced in exhibit 10(c) to this annual report on Form 10-K, and limits debt, as defined in the agreement, to a multiple of income, adjusted for various items as set forth in the agreement. The same restrictive covenant is contained in the PCS Group and the global markets division accounts receivable asset securitization facilities. Sprint is currently in compliance with all debt covenants associated with its borrowings.

Sprint completed its tender offers to repurchase senior notes in March 2003 in the amount of $1.1 billion and repaid, before scheduled maturities, $118 million of debt primarily consisting of the local division s first mortgage bonds in the 2003 third quarter. In September 2003, Sprint repaid the $300 million Export Development Canada loan. Sprint continually evaluates various factors and, as a result, may repurchase additional debt in the future.

In December 2002, Sprint repurchased long-term debt in the amount of $67 million.

In March 2002, Sprint issued $5 billion of debt securities. These borrowings have interest rates ranging from 7.9% to 8.8% and maturities ranging from 2005 to 2032. The proceeds were allocated 5% to the FON Group and 95% to the PCS Group and were used to extinguish outstanding commercial paper and for general corporate purposes.

Fitch Ratings (Fitch) currently rates Sprint s long-term senior unsecured debt at BBB with a stable outlook.

Standard and Poor s Corporate Ratings (Standard and Poor s) currently rates Sprint s long-term senior unsecured debt at BBB- with a stable outlook. In June 2003, Moody s Investors Service (Moody s) raised Sprint s outlook to stable. Moody s currently rates Sprint s long-term senior unsecured debt at Baa3.

Sprint s ability to fund its capital needs is ultimately impacted by the overall capacity and terms of the bank, term-debt and equity markets. Given the volatility in the markets, Sprint continues to monitor the markets closely and to take steps to maintain financial flexibility and a reasonable capital structure cost. Other than the remarketing of its equity unit notes as discussed in Note 10 of Notes to the Consolidated Financial Statements, Sprint currently plans to access the markets only for extension, replacement or renewal of current credit arrangements.

As of December 31, 2003, Sprint s contractual obligations are summarized below and are fully disclosed in Notes 3, 8, 9, 10, 11, and 17 to Sprint s Consolidated Financial Statements.

Payments Due by Period