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SPRINT CORP  
Form 8-K  
October 29, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(D) of the Securities Exchange Act Of 1934

Date of Report (Date of earliest event reported) October 17, 2001

SPRINT CORPORATION  
(Exact name of Registrant as specified in its charter)

|                          |                          |   |
|--------------------------|--------------------------|---|
| Kansas                   | 1-04721                  | 48-0457967                              |
| (State of Incorporation) | (Commission File Number) | (I.R.S. Employer<br>Identification No.) |

|  |            |
|--|------------|
| 2330 Shawnee Mission Parkway, Westwood, Kansas | 66205      |
| (Address of principal executive offices)       | (Zip Code) |

Registrant's telephone number, including area code (913) 624-3000

(Former name or former address, if changed since last report)

P. O. Box 11315, Kansas City, Missouri 64112  
(Mailing address of principal executive offices)

Item 5. Other Events.

1. Press Release Regarding Third Quarter Results. On October 17, 2001, the registrant ("Sprint") announced its third quarter results for the quarter ending September 30, 2001. The press release was as follows:

Sprint Announces Third Quarter Results

The Sprint FON Group (NYSE: FON) is comprised of Sprint's Global Markets segment, Local Telecommunications Division and product distribution and directory publishing businesses.

The Sprint PCS Group (NYSE: PCS) consists of Sprint's wireless PCS operations.

KANSAS CITY, Mo., - October 17, 2001 - Sprint today announced record third quarter consolidated revenues of \$6.72 billion, an increase of 11 percent from \$6.04 billion a year ago. During the quarter, the PCS Group reported exceptional year-over-year customer growth, solid average customer revenue and improved cost metrics. In the quarter, the FON Group achieved growth significantly above the

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market rate in sales of dedicated Internet Protocol (IP) services, continued to successfully penetrate the market with sales of bundled wireless and wireline products and significantly increased operating margin in its local telecommunications division. In a separate press release, Sprint also announced today that it is terminating Sprint ION development and restructuring various elements of the FON Group.

The PCS Group reported a third quarter loss per share from recurring operations of 29 cents compared to the mean analyst estimate of 22 cents for the quarter and a reported 41 cents a year ago. Because of the PCS Group's exceptional level of customer acquisitions, sales related expenses, while below estimates on a per customer basis, were higher overall. Third quarter diluted earnings per share for the FON Group's recurring operations were 28 cents compared to the 28-cent mean analyst estimate for the quarter and 43 cents a year ago. The year-over-year decline in FON Group earnings is due to lower yields in the long distance business and higher broadband development costs partially offset by strong profit growth in local operations.

"In the quarter, we continued to see exceptional growth in our wireless business and a continued evolution in our wireline business as it adapts to challenging market conditions," said William T. Esrey, Sprint chairman and chief executive officer. "With the announcements that we are terminating our ION efforts and restructuring several facets of our FON Group operations, we are taking significant steps toward reducing our cost structure, gaining efficiencies and aligning our investments to the areas with the best potential for growth and return on investment."

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### SPRINT PCS GROUP HIGHLIGHTS

The PCS Group recorded its thirteenth consecutive industry-leading quarter of customer growth, adding over 1.2 million direct customers and 384,000 affiliate customers. The net gain in subscribers marked the largest increase for any quarter in Sprint PCS' five-year history and the single largest quarterly net total for a carrier in the history of the U.S. wireless industry. Customer gains in the quarter were driven by strong demand for the account spending limit offer for consumers and strong performance in business markets.

The PCS Group's total customer base, including resale and affiliate customers, increased to 14.4 million, up 57 percent from third quarter 2000. The company operates the nation's largest 100-percent digital, 100-percent PCS wireless network, which now covers a population of nearly 244 million people or more than 85 percent of the U.S. population.

- o Net operating revenues increased 55 percent to \$2.65 billion in the third quarter from \$1.71 billion during the same quarter a year ago.
- o Monthly average revenue per user (ARPU) for the quarter was \$62. This is consistent with ARPU level in the second quarter and ahead of the \$61 reported in the third quarter last year.
- o Average monthly operating cash cost per user (CCPU) for the quarter was \$33, which was also consistent with the second quarter CCPU level and improved from the \$35 reported a year ago.
- o The average cost to acquire a customer was approximately \$320 in the quarter compared to \$340 in the same period last year.
- o Operating cash flows (EBITDA) were \$402 million in the quarter, compared to \$122 million in the third quarter of 2000. The decrease in EBITDA from \$491 million in the second quarter of 2001 was largely driven by one-time acquisition costs due to customer growth.
- o Sprint PCS increased its business customer base by 63 percent compared to the

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third quarter 2000. At the end of the quarter, Sprint PCS reported nearly 20,000 centrally managed business accounts nationwide.

- o Capital expenditures were \$1.15 billion for the quarter, reflecting continued network capacity expansion and development of new service capabilities.

Esrey reaffirmed Sprint's plans to launch high-speed, third-generation (3G 1X) services nationally by the middle of 2002. He added that Sprint's plans for a national 3G rollout remain unchanged since March when the company announced detailed plans. "Unlike its wireless competitors," Esrey said, "we believe Sprint PCS has adequate spectrum for a smooth transition to 3G and offers the most cost-efficient path to the faster services, attributable to CDMA technology in its nationwide network."

He added, "While our competitors promote the introduction of faster-speed voice and data services in a few markets, the true success of 3G service will be in its seamless, national deployment. Make no mistake, 3G isn't a race to the starting line, it's a race to the finish. And the finish line in Sprint's view is faster and better voice and data services clear across the country."

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The PCS Group continued to demonstrate the company's aggressive plans to deliver 3G services on time to Sprint customers nationwide:

- o During the third quarter, the PCS Group continued to deploy 3G channel cards to cell sites throughout its nationwide network, as scheduled.
- o Sprint recently announced it intends to deploy the Java 2 Platform, Micro Edition (J2ME) on Sprint PCS phones upon 3G 1X deployment. With applications that use the J2ME platform, Sprint customers should experience improved graphics and personalized services on their wireless devices.
- o Sprint recently hosted its first-ever Application Developers Program, featuring presentations, case studies and tutorials that will help application developers create wireless applications in Sprint's 3G 1X network environment.

Additionally during the quarter, Sprint PCS teamed with Samsung Telecommunications America to introduce the SPH-N300, the first phone in the United States to meet the Federal Communications Commission (FCC) handset mandate for Enhanced 911 (E911) capabilities. The new phone features an embedded Global Positioning System (GPS) chip that enables E911 emergency safety features and other location-based services as they become available in the Sprint PCS markets.

Earlier this month, Sprint PCS and the Virgin Group announced a joint venture to offer pay-as-you-go wireless communications services and handsets to the U.S. market under the Virgin brand name using Sprint PCS' nationwide wireless network. Sprint PCS also extended its wireless network to Puerto Rico this quarter and announced it will offer the same services and capabilities there as it does in the continental United States, including 3G service by mid-2002.

### SPRINT FON GROUP HIGHLIGHTS

- o Third quarter revenues of \$4.24 billion declined 4.5 percent compared to \$4.44 billion in the same period a year ago.
- o Net income was \$244 million in the quarter compared to \$384 million a year ago, excluding three nonrecurring charges in the quarter: a write-down of an equity investment of \$157 million, a loss on the sale of an investment of \$8 million and a gain of \$75 million related to an amendment in retirement plan benefits.
- o Including a loss of 11 cents per share from ION, third quarter diluted earnings per share from recurring operations were 28 cents compared to 43 cents a year ago, which included losses of 9 cents per share from ION.

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Including net charges from nonrecurring items totaling 10 cents per share, diluted earnings per share was 18 cents.

- o FON Group operating income in the quarter was \$422 million compared to \$724 million a year ago. Excluding losses from ION, operating income for the quarter would have been \$582 million compared to \$853 million a year ago.
- o Operating cash flows in the quarter were \$1.07 billion compared to \$1.30 billion in the third quarter a year ago.

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### Local Telecommunications Division

- o Net operating revenues were up 1 percent for the quarter to \$1.56 billion from \$1.55 billion a year ago.
- o Operating income rose 11 percent in the quarter to \$477 million from \$431 million a year ago. Operating margin increased to 30.5 percent from 27.9 percent during the same period a year ago.
- o Voice grade equivalent lines grew 15 percent from the third quarter a year ago. The number of access lines decreased 0.7 percent over the past 12 months and declined 0.4 percent in the third quarter compared to the second quarter of 2001.
- o Operating cash flows in the quarter increased 7 percent to \$761 million from \$714 million in the previous third quarter.

### Global Markets

- o Net operating revenues in the Global Markets segment for the quarter were down 5 percent from a year ago due to lower long distance voice revenues and a reduced focus on one-time cable sales. These declines were partially offset by growth in Internet Protocol (IP) and enterprise data services. Third quarter revenues were \$2.51 billion compared to \$2.65 billion a year ago.
- o Operating income declined in the quarter primarily due to lower yields and increased network and depreciation expense. Third quarter operating loss was \$119 million compared to operating income of \$226 million a year ago. Excluding losses associated with the ION efforts, which are being terminated, operating income in the quarter would have been \$41 million compared to \$355 million in the same period a year ago.
- o Operating cash flows in the third quarter were \$237 million compared to \$513 million a year ago. Excluding ION, operating cash flows would have been \$349 million compared to \$621 million in the third quarter of 2000.
- o Voice long distance calling volumes rose 21 percent for the quarter compared to last year.

### Product Distribution and Directory Publishing

- o Net operating revenues for the quarter were \$434 million compared to \$496 million a year ago. Non-affiliate revenues, which accounted for about 59 percent of total revenues, declined by 19 percent reflecting a telecom industry slowdown in capital spending.
- o Operating income was \$73 million in the third quarter compared to \$75 million a year ago.
- o Operating cash flows were \$78 million in the third quarter compared to \$79 million a year ago.

"In the midst of an economic slowdown, significant shifts in customer preferences for products and services and continued pricing pressures in our core long distance business, the FON Group posted solid results," Esrey said. "To meet revenue challenges, the FON Group is making progress in expanding distribution channels and taking an even more aggressive approach to offering long distance service bundled with PCS and local communications offerings. Of equal

importance is accelerating efforts to grow revenues in our Internet, data services, web hosting and international businesses."

The Local Telecommunications Division during the quarter demonstrated sustained cost management enabling the division to deliver double-digit operating income growth and expanded margins. The division maintained strong sales of bundled services, contributing to an increase in the sale of add-on services such as Caller ID and an increased penetration of Sprint's long distance and wireless services in the local territories.

The division sold nearly 350,000 consumer and business bundles during the quarter. Approximately 44 percent of Sprint's local residential lines and 36 percent of its business lines now use Sprint long distance services.

The local division's data-related service revenues continued to improve during the quarter, increasing 26 percent from the year-ago period. The chief driver of the increase is a continued strong demand for special access services.

During the quarter, rigorous cost containment measures trimmed the cost of services and products by 3 percent from the same period a year ago. Sales, general and administrative costs decreased 3 percent compared to a year ago.

In Global Markets, the long distance market proved once again to be highly competitive. Total voice revenues declined 6 percent in the quarter compared to a year ago. Business voice revenues continue to be impacted by aggressive market pricing. In the quarter, Sprint increased sales of current-generation data services by 6 percent compared to a year ago, in spite of a sluggish economy and a competitive price environment.

During the quarter, dedicated IP service revenues grew nearly 50 percent compared to the same period last year and increased 9 percent sequentially. Overall, Internet revenues for the quarter grew 11 percent compared to the same period last year. To support future Internet revenue growth, the FON Group announced:

- o an alliance with Dell, the world's No. 1 computer systems company, to enhance and grow web hosting and e-commerce offerings to the small and medium business markets, which is expected to generate several hundred million dollars in sales over the next seven years.
- o an enhancement to its managed Internet services portfolio by offering Microsoft's messaging, e-commerce and database services to Sprint E|Solutions' Internet Center customers. The alliance offers Sprint customers outsourcing of the integration, maintenance and management of Microsoft Exchange 2000 Server, Microsoft Commerce Server 2000 and Microsoft SQL Server 2000 to Sprint E|Solutions.
- o an agreement with Sprint Canada, Inc., a wholly owned subsidiary of Call-Net Enterprises Inc. (TSE: CN and CN.B) under which Sprint Canada will market Sprint E|Solutions' wide range of services throughout Canada.

On the international front during the quarter, Sprint announced the opening of its new Asia Pacific regional headquarters in Hong Kong. In addition to dedicated Internet access in that market, Sprint will be offering a broad portfolio of IP services, including Sprint IPVPN (IP virtual private network), Sprint International Private Line, collocation, backhaul, and managed network services.

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### BUSINESS OUTLOOK

The following statements are based on current expectations. These statements are forward-looking, and actual results may differ materially.

We now expect that full-year net customer additions in the PCS Group could be approximately 4.2 million. This is an increase from our previous forecast of 3.8 million and implies that we expect to add approximately 1.3 million customers in the fourth quarter. The fourth quarter estimate is consistent with our previous expectation. With this level of additions, we expect full year EBITDA could be around \$1.6 billion or about \$100 million below our previous estimate. The decline is principally due to higher acquisition costs incurred in the third quarter in support of stronger than expected customer additions. Due to stronger customer usage, higher than expected customer additions and an acceleration of a portion of 1X related capital from next year into 2001, we now expect capital expenditures could be approximately \$3.6 billion for the full year 2001. This is above our previous estimate of about \$3.4 billion.

Our earnings expectations for the FON Group for the fourth quarter may vary depending upon the timing of our actions to complete the termination of services to our ION customer base and completion of the restructuring we announced today. We currently expect that these actions will be substantially complete by the end of the fourth quarter. When fully implemented, these actions are currently expected to reduce net operating costs by approximately \$1 billion on an annualized basis. Assuming the mid-point on timing of the completion of these actions, pro forma earnings could be in the upper 30-cent range in the fourth quarter. We expect that total FON Group revenues will decline at a mid-single digit rate in the fourth quarter. FON Group capital expenditures for the full year 2001 are now expected to be approximately \$5.4 billion, which is below our previous estimate of \$5.9 billion.

Sprint is planning to host a meeting with the FON Group and PCS Group's investment community on December 4. On that date we plan to provide an update on our expectations for the fourth quarter as well as our views on 2002.

### Third Quarter Results Conference Calls

Conference calls elaborating on the company's third quarter results are scheduled for the morning of October 18. Management will discuss the PCS Group third quarter earnings at 7:45 a.m. EDT in a listen-only format conference call. The call-in numbers are 1-800-659-6183 or, for international callers, 816-650-0741. Callers may also use the following secondary phone numbers: 1-800-347-3350 or 816-650-0701. A continuous replay will be available immediately following the conference call and can be accessed by dialing 1-888-775-8673 or 402-220-1325 (international), or through our web site, [www.sprint.com](http://www.sprint.com). This replay will be available through October 25, 2001.

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The FON Group third quarter earnings report and an update on ION and other company initiatives will be discussed in a conference call at 8:30 a.m. EDT. The call will be live and will conclude with an interactive Q&A session. The total duration of the call is expected to be approximately one hour. The call-in numbers are 1-866-215-1938 or, for international callers, 816-650-0742. Callers may also use the following secondary numbers: 1-800-659-6183 or 816-650-0741. There will also be a live audio cast of the call on our web site at [www.sprint.com](http://www.sprint.com). Participants on the web cast will not have the ability to ask questions in the Q&A session. A continuous replay will be available immediately following the conference call and can be accessed by dialing 1-888-775-8696 or 402-220-1326 (international), or through our web site. This replay will be available through October 25, 2001.

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### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This press release includes "forward-looking statements" within the meaning of securities laws. The statements in this press release regarding the business outlook as well as other statements that are not historical facts are forward-looking statements. The words "estimate," "project," "intend," "expect," "believe," and similar expressions identify forward-looking statements. Forward-looking statements are estimates and projections reflecting management's judgment and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. With respect to these forward-looking statements, Sprint has made assumptions regarding, among other things, customer and network usage, customer growth, pricing, costs to acquire customers and to provide services, the timing of the restructuring, and the economic environment. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include:

- o the effects of vigorous competition in the markets in which Sprint operates;
- o the costs and business risks associated with providing new services and entering new markets necessary to provide nationwide or global services;
- o the ability of the PCS Group to continue to grow a significant market presence;
- o the effects of mergers and consolidations within the telecommunications industry;
- o the uncertainties related to Sprint's strategic investments;
- o the impact of any unusual items resulting from ongoing evaluations of Sprint's business strategies;
- o the impact of new technologies on Sprint's business;
- o unexpected results of litigation filed against Sprint;
- o the possibility of one or more of the markets in which Sprint competes being impacted by changes in political, economic or other factors such as monetary policy, legal and regulatory changes including the impact of the Telecommunications Act of 1996, or other external factors over which Sprint has no control; and
- o other risks referenced from time to time in Sprint's filings with the Securities and Exchange Commission ("SEC").

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Sprint believes these forward-looking statements are reasonable; however, you should not place undue reliance on forward-looking statements, which are based on current expectations and speak only as of the date of this release. Sprint is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this release. Sprint provides a detailed discussion of risk factors in periodic SEC filings as well as its registration statements (see Registration No. 333-65402) and you are encouraged to review these filings.

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Sprint Corporation  
CONSOLIDATED STATEMENTS OF OPERATIONS (una  
(millions, except per share data)

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|  | Sprint Corporation |          | Eliminations/<br>Reclassifications |          | Sprint FON Group |          |
|--|--------------------|----------|------------------------------------|----------|------------------|----------|
|  | Consolidated       |          |                                    |          |                  |          |
| Quarters Ended September 30,                         | 2001               | 2000     | 2001                               | 2000     | 2001             | 2000     |
| Net operating revenues                               | \$ 6,715           | \$ 6,040 | \$ (180)                           | \$ (111) | \$ 4,244         | \$ 4,244 |
| Operating expenses                                   |                    |          |                                    |          |                  |          |
| Costs of services and products                       | 3,442              | 2,935    | (180)                              | (111)    | 2,106            | 2,106    |
| Selling, general and administrative                  | 1,805              | 1,686    | -                                  | -        | 1,072            | 1,072    |
| Depreciation   | 1,096              | 908      | -                                  | -        | 638              | 638      |
| Amortization   | 66                 | 154      | -                                  | -        | 6                | 6        |
| Total operating expenses                             | 6,409              | 5,683    | (180)                              | (111)    | 3,822            | 3,760    |
| Operating income (loss)                              | 306                | 357      | -                                  | -        | 422              | 422      |
| Interest expense                                     | (290)              | (233)    | 4                                  | 4        | (13)             | (13)     |
| Other expense, net (1)                               | (95)               | (89)     | (4)                                | (4)      | (56)             | (56)     |
| Income (loss) before income taxes                    | (79)               | 35       | -                                  | -        | 353              | 353      |
| Income taxes   | (55)               | (41)     | -                                  | -        | (199)            | (199)    |
| Net income (loss)                                    | (134)              | (6)      | -                                  | -        | 154              | 154      |
| Preferred stock dividends (paid) received            | (1)                | (3)      | -                                  | -        | 2                | 2        |
| Earnings (Loss) applicable to common stock           | \$ (135)           | \$ (9)   | \$ -                               | \$ -     | \$ 156           | \$ 156   |
| Diluted earnings (loss) per common share             |                    |          |                                    |          |                  |          |
| Income (loss) from continuing operations - recurring |                    |          |                                    |          | \$ 0.28          | \$ 0.28  |
| Non-recurring items (1)                              |                    |          |                                    |          | (0.10)           | (0.10)   |
| Total  |                    |          |                                    |          | \$ 0.18          | \$ 0.18  |
| Diluted weighted average common shares outstanding   |                    |          |                                    |          | 889.6            | 889.6    |
| Basic earnings (loss) per common share               |                    |          |                                    |          | \$ 0.18          | \$ 0.18  |



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The FON Group and the PCS Group are integrated businesses of Sprint Corporation and do not constitute stand-alone entities.

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## Sprint Corporation CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited) (millions, except per share data)

|  | Sprint Corporation    |           | Eliminations/<br>Reclassifications |          | Sprint FON Group |           |
|--|-----------------------|-----------|------------------------------------|----------|------------------|-----------|
|  | -----<br>Consolidated |           |                                    |          | -----            |           |
| Year-to-Date September 30,                                   | 2001                  | 2000      | 2001                               | 2000     | 2001             | 2000      |
| -----  | -----                 | -----     | -----                              | -----    | -----            | -----     |
| Net operating revenues                                       | \$ 19,415             | \$ 17,390 | \$ (463)                           | \$ (307) | \$ 12,912        | \$ 13,000 |
| -----  | -----                 | -----     | -----                              | -----    | -----            | -----     |
| Operating expenses   |                       |           |                                    |          |                  |           |
| Costs of services and products                               | 9,648                 | 8,541     | (463)                              | (307)    | 6,300            | 6,000     |
| Selling, general and administrative                          | 5,334                 | 4,992     | -                                  | -        | 3,325            | 3,000     |
| Depreciation   | 3,124                 | 2,581     | -                                  | -        | 1,827            | 1,500     |
| Amortization   | 322                   | 454       | -                                  | -        | 18               | 100       |
| Merger related costs (1)                                     | -                     | 187       | -                                  | -        | -                | 100       |
| -----  | -----                 | -----     | -----                              | -----    | -----            | -----     |
| Total operating expenses                                     | 18,428                | 16,755    | (463)                              | (307)    | 11,470           | 11,000    |
| -----  | -----                 | -----     | -----                              | -----    | -----            | -----     |
| Operating income (loss)                                      | 987                   | 635       | -                                  | -        | 1,442            | 2,000     |
| Interest expense   | (907)                 | (717)     | 15                                 | 14       | (56)             | 100       |
| Other income (expense), net (2)                              | (137)                 | (48)      | (15)                               | (14)     | (52)             | 100       |
| -----  | -----                 | -----     | -----                              | -----    | -----            | -----     |
| Income (loss) from continuing operations before income taxes | (57)                  | (130)     | -                                  | -        | 1,334            | 1,000     |
| Income taxes   | (111)                 | (32)      | -                                  | -        | (574)            | 100       |
| -----  | -----                 | -----     | -----                              | -----    | -----            | -----     |

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|  |          |        |      |      |         |      |
|--|----------|--------|------|------|---------|------|
| Income (loss) from continuing operations                   | (168)    | (162)  | -    | -    | 760     | 1    |
| Discontinued operation, net                                | -        | 675    | -    | -    | -       |      |
| Extraordinary items, net                                   | (1)      | (3)    | -    | -    | (1)     |      |
| Cumulative effect of changes in accounting principles, net | 2        | (2)    | -    | -    | -       |      |
| Net income (loss)  | (167)    | 508    | -    | -    | 759     | 1    |
| Preferred stock dividends (paid) received                  | (5)      | (6)    | -    | -    | 5       |      |
| Earnings (Loss) applicable to common stock                 | \$ (172) | \$ 502 | \$ - | \$ - | \$ 764  | \$ 1 |
| Diluted earnings (loss) per common share                   |          |        |      |      |         |      |
| Income (loss) from continuing operations - recurring       |          |        |      |      | \$ 0.95 | \$   |
| Non-recurring items (1,2)                                  |          |        |      |      | (0.09)  | (    |
| Income (loss) from continuing operations                   |          |        |      |      | 0.86    |      |
| Discontinued operation                                     |          |        |      |      | -       |      |
| Total  |          |        |      |      | \$ 0.86 | \$   |
| Diluted weighted average common shares outstanding         |          |        |      |      | 888.3   | 8    |
| Basic earnings (loss) per common share                     |          |        |      |      | \$ 0.86 | \$   |

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(millions)

|                                     | Quarters Ended<br>September 30, |          | Year-to-Date<br>September 30, |          |
|-------------------------------------|---------------------------------|----------|-------------------------------|----------|
|                                     | 2001                            | 2000     | 2001                          | 2000     |
| Global Markets Division             |                                 |          |                               |          |
| Net operating revenues              |                                 |          |                               |          |
| Voice                               | \$ 1,692                        | \$ 1,795 | \$ 5,136                      | \$ 5,370 |
| Data                                | 497                             | 470      | 1,512                         | 1,429    |
| Internet                            | 248                             | 223      | 759                           | 676      |
| Other                               | 68                              | 158      | 228                           | 485      |
| Net operating revenues              | 2,505                           | 2,646    | 7,635                         | 7,960    |
| Operating expenses                  |                                 |          |                               |          |
| Costs of services and products      | 1,544                           | 1,410    | 4,561                         | 4,149    |
| Selling, general and administrative | 724                             | 723      | 2,223                         | 2,261    |
| Depreciation and amortization       | 356                             | 287      | 992                           | 819      |
| Total operating expenses            | 2,624                           | 2,420    | 7,776                         | 7,229    |
| Operating income (loss)             | \$ (119)                        | \$ 226   | \$ (141)                      | \$ 731   |
| Local Division                      |                                 |          |                               |          |
| Net operating revenues              |                                 |          |                               |          |
| Local service                       | \$ 732                          | \$ 720   | \$ 2,199                      | \$ 2,121 |
| Network access                      | 507                             | 486      | 1,521                         | 1,497    |
| Long distance                       | 186                             | 187      | 549                           | 536      |
| Other                               | 139                             | 152      | 400                           | 443      |
| Net operating revenues              | 1,564                           | 1,545    | 4,669                         | 4,597    |
| Operating expenses                  |                                 |          |                               |          |
| Costs of services and products      | 496                             | 513      | 1,476                         | 1,464    |
| Selling, general and administrative | 307                             | 318      | 972                           | 968      |
| Depreciation                        | 284                             | 283      | 840                           | 845      |

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|                          |        |        |          |          |
|--------------------------|--------|--------|----------|----------|
| Total operating expenses | 1,087  | 1,114  | 3,288    | 3,277    |
| Operating income         | \$ 477 | \$ 431 | \$ 1,381 | \$ 1,320 |

## Product Distribution and Directory Publishing

|                        |        |        |          |          |
|------------------------|--------|--------|----------|----------|
| Net operating revenues | \$ 434 | \$ 496 | \$ 1,402 | \$ 1,428 |
| Operating income       | \$ 73  | \$ 75  | \$ 230   | \$ 210   |

Sprint's FON Group reporting segments are intended to reflect the operating results of its global markets, local services, and product distribution and directory publishing businesses. The Global Markets segment includes domestic and international voice services (except for consumer services provided to customers within Sprint's local franchise territories); data communications services such as frame relay access and transport, web hosting, collocation, security services, our integrated communications services, referred to as Sprint ION, and broadband fixed wireless services; and Internet services. The Local Services segment includes local phone services, access to its local network, consumer long distance services provided to customers within our local franchise territories, and sales of telecommunications equipment. The Product Distribution and Directory Publishing segment provides wholesale distribution services of telecommunications products and publishes and markets white and yellow page phone directories. The FON Group is an integrated business of Sprint Corporation and does not constitute a stand-alone entity.

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## Sprint Corporation SELECTED OPERATING RESULTS (unaudited) (millions)

|                                | Quarters Ended<br>September 30, |          | Year-to-Date<br>September 30, |          |
|--------------------------------|---------------------------------|----------|-------------------------------|----------|
|                                | 2001                            | 2000     | 2001                          | 2000     |
| PCS Group                      |                                 |          |                               |          |
| Net operating revenues         | \$ 2,651                        | \$ 1,707 | \$ 6,966                      | \$ 4,403 |
| Operating expenses             |                                 |          |                               |          |
| Costs of services and products | 1,516                           | 982      | 3,811                         | 2,813    |

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|                                     |          |          |          |            |
|-------------------------------------|----------|----------|----------|------------|
| Selling, general and administrative | 733      | 603      | 2,009    | 1,638      |
| Depreciation                        | 458      | 352      | 1,297    | 963        |
| Amortization                        | 60       | 137      | 304      | 403        |
| Merger related costs                | -        | -        | -        | 24         |
| Total operating expenses            | 2,767    | 2,074    | 7,421    | 5,841      |
| Operating loss                      | \$ (116) | \$ (367) | \$ (455) | \$ (1,438) |

## Unallocated Corporate Operations and Intercompany Eliminations

|                        |          |          |            |          |
|------------------------|----------|----------|------------|----------|
| Net operating revenues | \$ (439) | \$ (354) | \$ (1,257) | \$ (998) |
| Operating income (1)   | \$ (9)   | \$ (8)   | \$ (28)    | \$ (188) |

Sprint's PCS Group includes Sprint's wireless personal communications services operations. The PCS Group is an integrated business of Sprint Corporation and does not constitute a stand-alone entity.

## Sprint Corporation CONSOLIDATED BALANCE SHEETS (unaudited) (millions)

| Sprint Corporation       |                  | Eliminations/<br>Reclassifications |                  | Sprint FON        |                  |
|--------------------------|------------------|------------------------------------|------------------|-------------------|------------------|
| Consolidated             |                  |                                    |                  |                   |                  |
| Sept. 30,<br>2001        | Dec. 31,<br>2000 | Sept. 30,<br>2001                  | Dec. 31,<br>2000 | Sept. 30,<br>2001 | Dec. 31,<br>2000 |
| <b>Assets</b>            |                  |                                    |                  |                   |                  |
| <b>Current Assets</b>    |                  |                                    |                  |                   |                  |
| Cash and equivalents     | \$ 205           | \$ 239                             | \$ -             | \$ -              | \$ 64            |
| Accounts receivable, net | 4,230            | 4,028                              | -                | -                 | 2,863            |

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|  |           |           |          |          |           |
|--|-----------|-----------|----------|----------|-----------|
| Inventories  | 638       | 949       | -        | -        | 371       |
| Receivables from the PCS Group                                       | -         | -         | (443)    | (361)    | 443       |
| Prepaid expenses and other   | 769       | 757       | -        | (28)     | 482       |
| Total current assets   | 5,842     | 5,973     | (443)    | (389)    | 4,223     |
| Net property, plant and equipment                                    | 28,951    | 25,316    | (47)     | (39)     | 17,904    |
| Net intangible assets  | 8,609     | 8,938     | -        | -        | 1,194     |
| Other  | 2,169     | 2,374     | (279)    | (383)    | 1,635     |
| Total  | \$ 45,571 | \$ 42,601 | \$ (769) | \$ (811) | \$ 24,956 |
| Liabilities and shareholders' equity                                 |           |           |          |          |           |
| Current liabilities  |           |           |          |          |           |
| Short-term borrowings including current maturities of long-term debt | \$ 4,548  | \$ 1,205  | \$ (113) | \$ (65)  | \$ 2,447  |
| Accounts payable and accrued interconnection costs                   | 2,202     | 2,832     | -        | -        | 1,577     |
| Construction obligations   | 737       | 997       | -        | -        | -         |
| Payables to the FON Group  | -         | -         | (319)    | (296)    | -         |
| Other  | 3,492     | 2,934     | (47)     | (67)     | 1,985     |
| Total current liabilities  | 10,979    | 7,968     | (479)    | (428)    | 6,009     |
| Noncurrent liabilities   |           |           |          |          |           |
| Long-term debt and capital lease obligations                         | 15,434    | 17,514    | -        | (104)    | 3,624     |
| Equity units   | 1,725     | -         | -        | -        | -         |
| Deferred income taxes and investment tax credits                     | 1,620     | 1,360     | (4)      | (6)      | 1,624     |
| Other  | 1,676     | 1,787     | 2        | -        | 1,349     |
| Total noncurrent liabilities   | 20,455    | 20,661    | (2)      | (110)    | 6,597     |
| Redeemable preferred stock   | 256       | 256       | (280)    | (280)    | 10        |
| Common stock and other shareholders' equity                          |           |           |          |          |           |
| Common stock   |           |           |          |          |           |
| Class A FT   | 22        | 108       | 22       | 108      | -         |

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|                                |           |          |          |          |           |
|--------------------------------|-----------|----------|----------|----------|-----------|
| Class A DT                     | -         | 108      | -        | 108      | -         |
| FON                            | 1,775     | 1,598    | 1,775    | 1,598    | -         |
| PCS                            | 984       | 933      | 984      | 933      | -         |
| Other shareholders' equity     | 11,100    | 10,969   | 11,100   | 10,969   | -         |
| Combined attributed net assets | -         | -        | (13,889) | (13,709) | 12,340    |
| <hr/>                          |           |          |          |          |           |
| Total shareholders' equity     | 13,881    | 13,716   | (8)      | 7        | -         |
| <hr/>                          |           |          |          |          |           |
| Total                          | \$ 45,571 | \$42,601 | \$ (769) | \$ (811) | \$ 24,956 |
| <hr/>                          |           |          |          |          |           |

The FON Group and the PCS Group are integrated businesses of Sprint Corporation and do not constitute stand-alone entities.

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Sprint Corporation  
CONDENSED CONSOLIDATED CASH FLOW INFORMATION (unaudited)  
(millions)

|                                    | Sprint Corporation       |        | Eliminations/<br>Reclassifications |      | Sprint FON Gr    |
|------------------------------------|--------------------------|--------|------------------------------------|------|------------------|
|                                    | <hr/> Consolidated <hr/> |        | <hr/> 20012000 <hr/>               |      | <hr/> 2001 <hr/> |
| Year-to-Date September 30,         | 2001                     | 2000   | 2001                               | 2000 | 2001             |
| <hr/>                              |                          |        |                                    |      |                  |
| Operating Activities               |                          |        |                                    |      |                  |
| Net income (loss)                  | \$ (167)                 | \$ 508 | \$ -                               | \$ - | \$ 759           |
| Discontinued operation, net        | -                        | (675)  | -                                  | -    | -                |
| Equity in net losses of affiliates | 144                      | 197    | -                                  | -    | 64               |
| Depreciation and amortization      | 3,446                    | 3,035  | -                                  | -    | 1,845            |
| Deferred income taxes              | 155                      | 9      | -                                  | -    | 384              |
| Changes in assets and liabilities  | (392)                    | (25)   | 2                                  | -    | (295)            |
| Other, net                         | (40)                     | (135)  | (2)                                | -    | 4                |
| <hr/>                              |                          |        |                                    |      |                  |

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|  |         |         |      |      |         |
|--|---------|---------|------|------|---------|
| Net cash provided by operating activities        | 3,146   | 2,914   | —    | —    | 2,761   |
| <hr/>  |         |         |      |      |         |
| Investing Activities                             |         |         |      |      |         |
| Capital expenditures                             | (6,760) | (4,765) | —    | —    | (3,899) |
| Investments in and loans to affiliates, net      | (61)    | (882)   | —    | —    | (32)    |
| Proceeds from sales of other assets              | 286     | 255     | (70) | —    | 319     |
| Other, net                                       | 33      | (10)    | —    | (17) | 33      |
| <hr/>  |         |         |      |      |         |
| Net cash used by continuing operations           | (6,502) | (5,402) | (70) | (17) | (3,579) |
| <hr/>  |         |         |      |      |         |
| Proceeds from the sale of Global One             | —       | 1,403   | —    | —    | —       |
| <hr/>  |         |         |      |      |         |
| Net cash used by investing activities            | (6,502) | (3,999) | (70) | (17) | (3,579) |
| <hr/>  |         |         |      |      |         |
| Financing Activities                             |         |         |      |      |         |
| Increase (Decrease) in debt, net                 | 1,257   | 1,167   | 70   | —    | 1,192   |
| Proceeds from equity units                       | 1,725   | —       | —    | —    | —       |
| Proceeds from common stock issued                | 605     | 264     | —    | —    | 22      |
| Dividends paid                                   | (340)   | (333)   | —    | —    | (329)   |
| Other, net                                       | 75      | 86      | —    | 17   | (125)   |
| <hr/>  |         |         |      |      |         |
| Net cash provided (used) by financing activities | 3,322   | 1,184   | 70   | 17   | 760     |
| <hr/>  |         |         |      |      |         |
| Increase (Decrease) in cash and equivalents      | (34)    | 99      | —    | —    | (58)    |
| Cash and equivalents at beginning of period      | 239     | 120     | —    | —    | 122     |
| <hr/>  |         |         |      |      |         |
| Cash and equivalents at end of period            | \$ 205  | \$ 219  | \$ — | \$ — | \$ 64   |
| <hr/>  |         |         |      |      |         |

The FON Group and the PCS Group are integrated businesses of Sprint Corporation and do not constitute stand-alone entities.



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Sprint Corporation  
PRO FORMA SELECTED OPERATING RESULTS (unaudited)  
(millions, except per share data)

| Quarters Ended                    | September 30 |          | June 30  |          | March 31 |          |
|-----------------------------------|--------------|----------|----------|----------|----------|----------|
|                                   | 2001         | 2000     | 2001     | 2000     | 2001     | 2000     |
| Global Markets Division           |              |          |          |          |          |          |
| Net operating revenues            | \$ 2,497     | \$ 2,644 | \$ 2,559 | \$ 2,686 | \$ 2,564 | \$ 2,686 |
| Operating income (2)              | \$ 41        | \$ 355   | \$ 129   | \$ 365   | \$ 170   | \$ 365   |
| EBITDA (2)                        | \$ 349       | \$ 621   | \$ 417   | \$ 620   | \$ 443   | \$ 620   |
| Sprint FON Group                  |              |          |          |          |          |          |
| Net operating revenues            | \$ 4,236     | \$ 4,442 | \$ 4,306 | \$ 4,445 | \$ 4,355 | \$ 4,445 |
| Operating income (2), (3)         | \$ 582       | \$ 853   | \$ 664   | \$ 716   | \$ 677   | \$ 716   |
| EBITDA (2), (3)                   | \$ 1,178     | \$ 1,405 | \$ 1,233 | \$ 1,255 | \$ 1,234 | \$ 1,255 |
| Diluted earnings per common share |              |          |          |          |          |          |
| As reported                       | \$ 0.18      | \$ 0.43  | \$ 0.33  | \$ 0.41  | \$ 0.36  | \$ 0.41  |
| Sprint ION losses (4)             | 0.11         | 0.09     | 0.12     | 0.09     | 0.10     | 0.09     |
| Pro forma (1)                     | \$ 0.29      | \$ 0.52  | \$ 0.45  | \$ 0.50  | \$ 0.46  | \$ 0.50  |

Sprint Corporation  
PCS GROUP  
NET CUSTOMER ADDITIONS (unaudited)  
(thousands)

|  | Quarter ended September 30, 2001 |        |           |        |
|--|----------------------------------|--------|-----------|--------|
|  | Direct                           | Resale | Affiliate | Total  |
|  | -----                            | -----  | -----     | -----  |
| Operational net additions                | 1,243                            | (61)   | 384       | 1,566  |
| Purchases (Sales), net                   | -                                | -      | -         | -      |
|  | -----                            | -----  | -----     | -----  |
| Reported net additions                   | 1,243                            | (61)   | 384       | 1,566  |
|  | -----                            | -----  | -----     | -----  |
|  | Year-to-date September 30, 2001  |        |           |        |
|  | Direct                           | Resale | Affiliate | Total  |
|  | -----                            | -----  | -----     | -----  |
| Operational net additions                | 2,912                            | (23)   | 838       | 3,727  |
| Purchases (Sales), net                   | (14)                             | -      | 14        | -      |
|  | -----                            | -----  | -----     | -----  |
| Reported net additions                   | 2,898                            | (23)   | 852       | 3,727  |
|  | -----                            | -----  | -----     | -----  |
| Ending customers -<br>September 30, 2000 | 8,348                            | 259    | 550       | 9,157  |
| Ending customers -<br>December 31, 2000  | 9,543                            | 310    | 809       | 10,662 |
| Ending customers -<br>September 30, 2001 | 12,441                           | 287    | 1,661     | 14,389 |
|  | -----                            | -----  | -----     | -----  |

2. Press Release Regarding Termination of ION and Additional Actions to Improve Competitive Positioning and Reduce Operating Costs. On October 17, 2001, Sprint also announced that it will terminate its efforts to develop and provide Sprint ION services along with additional steps to improve the competitive positioning and reduce operating costs in the business units that comprise the FON Group tracking stock. The press release was as follows:

Sprint to Terminate ION Efforts; Announces Additional Actions to Improve Competitive Positioning and Reduce Operating Costs in FON Group

Kansas City, Mo., - October 17, 2001 - Sprint (NYSE: FON, PCS) today announced that it will terminate its efforts to develop and provide Sprint ION services along with additional aggressive steps to improve the competitive positioning and reduce operating costs in the business units that comprise the FON Group tracking stock.

The actions taken will include:

- o Discontinuation of Sprint ION consumer and business offerings. Sprint will ensure an orderly transition of ION customers to alternative service arrangements. A substantial portion of the assets that support the ION offerings are expected to be written off in the fourth quarter.
- o Ending customer acquisition for the company's fixed wireless (MMDS) services and freezing the number of MMDS markets served until substantial progress is made on second-generation MMDS technology. The current MMDS customer base will be maintained, as will all video services offered through the fixed wireless spectrum.
- o Consolidation of marketing functions and streamlining of network operations within Sprint's Global Markets Group. In addition, consumer and small business operations will be combined to form a single mass market organization, whose focus will be on acquiring customers through bundled PCS and local telephone offerings and through affiliate and partnership sales channels.
- o Streamlining of selected marketing and network support functions in local telephone operations, product supply and directory publishing businesses, as well as streamlining corporate support functions.

The actions taken will result in a workforce reduction of approximately 6,000 employees. This is approximately 7 percent of Sprint's workforce worldwide. In addition, 1,500 contractor positions will be eliminated.

"We are taking significant steps to reduce our cost structure and sharpen our focus on the products and services that hold the best potential for growth and return on investment," said William T. Esrey, Sprint's chairman and chief executive officer.

Added Esrey: "Several factors influenced our decision to discontinue the Sprint ION initiative, including the rapidly changing industry landscape and future funding requirements for ION

especially in light of the economic slowdown and the uncertainty of the timing of a recovery. Great progress was made over the past several months on the technical challenges to developing an on-demand, integrated product offering. The knowledge that we have gained throughout the development of ION is already

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being put to use in delivering multiple services over our backbone network and will be of additional value as technology continues to evolve. We believe our vision that customers will desire integrated communications services still holds true. However, it is clear that with our current efforts an appropriate return on investment can not be achieved in an acceptable time frame and we are adjusting our plans accordingly."

"Today we find ourselves operating in a more difficult economic climate and a highly competitive telecommunications marketplace. Despite these challenges the industry overall continues to expand, with some sectors enjoying rapid growth. We believe that we are well positioned in these high growth segments - wireless communications and Internet and data services - and by shifting resources we can maximize our competitive advantage in these areas."

Accounting charges related to the wind-down of ION, associated asset write-offs, and the workforce reductions are expected to result in an estimated \$2 billion one-time pre-tax charge to fourth quarter 2001 earnings. Total cash exit costs of terminating ION and severance packages for the workforce reduction are expected to be approximately \$600 million including an estimated \$200 million for severance. The balance of cash exit costs will cover the costs of terminating ION services, supplier agreements, real estate leases and other contractual obligations. Using third quarter 2001 costs as a baseline, the annualized pre-tax savings from the termination of ION, organizational realignments and suspension of MMDS marketing, is currently estimated at about \$1 billion beginning in 2002.

Additional guidance on FON Group's fourth quarter 2001 results can be found in Sprint's third quarter earnings announcement that was also released this afternoon.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This press release includes "forward-looking statements" within the meaning of securities laws. The words "estimate," "project," "intend," "expect," "believe," and similar expressions identify forward-looking statements. Forward-looking statements are estimates and projections reflecting management's judgment and involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include:

- o the effects of vigorous competition in the markets in which Sprint operates;
- o the costs and business risks associated with providing new services and entering new markets necessary to provide nationwide or global services;
- o the ability of the PCS Group to continue to grow a significant market presence;
- o the effects of mergers and consolidations within the telecommunications industry;
- o the uncertainties related to Sprint's strategic investments;

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- o the impact of any unusual items resulting from ongoing evaluations of Sprint's business strategies;
- o the impact of new technologies on Sprint's business;
- o unexpected results of litigation filed against Sprint;
- o the possibility of one or more of the markets in which Sprint competes being impacted by changes in political, economic or other factors such as monetary policy, legal and regulatory changes including the impact of the Telecommunications Act of 1996, or other external factors over which Sprint has no control; and

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

Sprint believes these forward-looking statements are reasonable; however, you should not place undue reliance on forward-looking statements, which are based on current expectations and speak only as of the date of this release. Sprint is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this release. Sprint provides a detailed discussion of risk factors in periodic SEC filings as well as its registration statements (see Registration No. 333-65402) and you are encouraged to review these filings.

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### Item 7. Financial Statements and Exhibits.

#### (c) Exhibits.

- 12. Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.
- 99. Second Supplemental Indenture, dated as of October 15, 2001, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A., as Trustee.

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#### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

SPRINT CORPORATION

Date: October 29, 2001

By: /s/ Michael T. Hyde  
Michael T. Hyde  
Assistant Secretary

EXHIBIT INDEX

| Exhibit<br>Number | Description   | Page |
|-------------------|---|------|
| 12.               | Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.                          |      |
| 99.               | Second Supplemental Indenture, dated as of October 15, 2001, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A., as Trustee. |      |