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SPRINT CORP
Form 10-Q/A
May 10, 2004

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

FORM 10-Q/A

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2004

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, Shawnee Mission, Kansas 66207-0997
(Address of principal executive offices) (Zip Code)

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

(Former name, former address and former fiscal year,
if changed since last report)

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 No

Indicate by check mark whether the registrant is an accelerated filer (as

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defined in Rule 12b-2 of the Exchange Act).

Yes X No
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COMMON SHARES OUTSTANDING AT April 30, 2004:
FON COMMON STOCK

Series 1	1,333,945,270
Series 2	92,372,664

EXPLANATORY NOTE

Sprint Corporation hereby amends its Quarterly Report on Form 10-Q for the period ended March 31, 2004 (the "Form 10-Q") as set forth in this quarterly report on Form 10-Q/A (the "Form 10-Q/A"). This Form 10-Q/A includes amendments to the following:

- o Signature Page
- o Exhibit 31(a)
- o Exhibit 31(b)
- o Exhibit 32(a)
- o Exhibit 32(b)

Each of these pages has been updated to reflect that the officers signed this document and their certifications on May 7, 2004.

All other items of the Form 10-Q are simply restated herein and have not been amended.

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Signature

Exhibits

- (12) Computation of Ratios of Earnings to Fixed Charges
- (31)
 - (a) Certification of Chief Executive Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)
 - (b) Certification of Chief Financial Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)
- (32)
 - (a) Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
 - (b) Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(millions, except per share data)

Quarters Ended March 31,	2004
Net Operating Revenues	\$ 6,707
Operating Expenses	
Costs of services and products	3,083
Selling, general and administrative	1,637
Depreciation	1,243
Restructuring and asset impairments	30

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Total operating expenses		5,993

Operating Income		714
Interest expense		(320)
Premium on early retirement of debt		-
Other, net		(26)

Income from continuing operations before income taxes		368
Income tax expense		(146)

Income from Continuing Operations		222
Discontinued operation, net		-
Cumulative effect of change in accounting principle, net		-

Net Income		222
Preferred stock dividends paid		(2)

Earnings Applicable to Common Stock	\$	220

Diluted Earnings per Common Share		
Continuing operations	\$	0.15
Discontinued operation		-
Cumulative effect of change in accounting principle, net		-

Total	\$	0.15

Diluted weighted average common shares		1,436.1

Basic Earnings per Common Share		
Continuing operations	\$	0.15
Discontinued operation		-
Cumulative effect of change in accounting principle, net		-

Total	\$	0.15

Basic weighted average common shares		1,424.2

See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

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SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(millions)

Quarters Ended March 31,	2004
Net Income	\$ 222
Other Comprehensive Income	
Unrealized holding losses on securities	(21)
Income tax benefit	8
Net unrealized holding losses on securities during the period	(13)
Reclassification adjustment for gains on securities included in net income	(2)
Income tax expense	1
Net reclassification adjustment for gains included in net income	(1)
Foreign currency translation adjustments	-
Unrealized gains (losses) on qualifying cash flow hedges	17
Income tax benefit (expense)	(6)
Net unrealized gains (losses) on qualifying cash flow hedges during the period	11
Total other comprehensive loss	(3)
Comprehensive Income	\$ 219

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See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

SPRINT CORPORATION
CONSOLIDATED BALANCE SHEETS
(millions)

	March 31 2004
	(Unaudited)
<hr/>	
Assets	
Current assets	
Cash and equivalents	\$ 2
Accounts receivable, net of allowance for doubtful accounts of \$260 and \$276	2
Inventories	
Deferred tax asset	
Prepaid expenses	
Other	
<hr/>	
Total current assets	6
Gross property, plant and equipment	54
Accumulated depreciation	(27)
<hr/>	
Net property, plant and equipment	26
Intangibles	
Goodwill	4
Spectrum licenses	3
Other intangibles	
<hr/>	
Total intangibles	7
Accumulated amortization	
<hr/>	
Net intangibles	7
Other assets	1
<hr/>	
Total	\$ 42

See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

SPRINT CORPORATION
 CONSOLIDATED BALANCE SHEETS (continued)
 (millions, except per share data)

	March 31
	2004
	(Unaudited)
Liabilities and Shareholders' Equity	
Current liabilities	
Short-term borrowings and current maturities of long-term debt	\$ 1
Accounts payable	2
Accrued interconnection costs	
Accrued taxes	
Advance billings	
Accrued restructuring costs	
Payroll and employee benefits	
Accrued interest	
Other	
Total current liabilities	7

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Noncurrent liabilities		
Long-term debt and capital lease obligations		15
Equity unit notes		1
Deferred income taxes		1
Postretirement and other benefit obligations		1
Other		1

Total noncurrent liabilities		21
Redeemable preferred stock		
Shareholders' equity		
Common stock		
FON, par value \$2.00 per share, 3,000.0 shares authorized, 1,425.6 and 904.3 shares issued and outstanding		2
PCS, par value \$1.00 per share, 4,000.0 shares authorized, 0 and 1,035.4 shares issued and outstanding		
Capital in excess of par or stated value		10
Retained earnings		1
Accumulated other comprehensive loss		

Total shareholders' equity		13

Total		\$ 42

See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(millions)

Quarters Ended March 31,

2004

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 Operating Activities

Net income	\$	22
Adjustments to reconcile net income to net cash provided by operating activities:		
Discontinued operation, net		
Cumulative effect of change in accounting principle, net		
Depreciation		1,24
Deferred income taxes		14
Changes in assets and liabilities:		
Accounts receivable, net		(5
Inventories and other current assets		1
Accounts payable and other current liabilities		(38
Noncurrent assets and liabilities, net		(20
Other, net		4
Net cash provided by operating activities of continuing operations		1,044

 Investing Activities

Capital expenditures		(68
Investments in and loans to other affiliates, net		(
Investments in debt securities		(10
Proceeds from debt securities		14
Other, net		
Net cash used by investing activities of continuing operations		(65

 Financing Activities

Payments on debt		(2
Proceeds from common stock issued		3
Dividends paid		(11
Other, net		1
Net cash used by financing activities of continuing operations		(8

 Cash from discontinued operations

Increase in Cash and Equivalents		30
Cash and Equivalents at Beginning of Period		2,42
Cash and Equivalents at End of Period	\$	2,72

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See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

SPRINT CORPORATION
 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (Unaudited)
 (millions)
 Quarter Ended March 31, 2004

	FON Common Stock	PCS Common Stock	Capital in Excess of Par or Stated Value	Retained Earnings	Accumu Oth Compreh Los
Beginning 2004 balance	\$ 1,809	\$ 1,035	\$ 10,084	\$ 1,017	\$ (72)
Net income	-	-	-	222	
Common stock dividends	-	-	-	(113)	
Preferred stock dividends	-	-	(2)	-	
FON Series 1 common stock issued	5	-	57	-	
PCS Series 1 common stock issued	-	2	6	-	
Conversion of PCS common stock into FON common stock	1,037	(1,037)	-	-	
Other, net	-	-	6	-	
March 2004 balance	\$ 2,851	\$ -	\$ 10,151	\$ 1,126	\$ (72)

Shares Outstanding

Beginning 2004 balance	904.3	1,035.4
FON Series 1 common stock issued	2.9	-
PCS Series 1 common stock issued	-	1.4
Conversion of PCS common stock into FON common stock	518.4	(1,036.8)
March 2004 balance	1,425.6	-

See accompanying Condensed Notes to Consolidated Financial Statements (Unaudited)

PART I.
Item 1.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Sprint Corporation

The information in this Form 10-Q has been prepared according to Securities and Exchange Commission (SEC) rules and regulations. In our opinion, the consolidated interim financial statements reflect all adjustments, consisting only of normal recurring accruals, needed to fairly present Sprint Corporation's consolidated financial position, results of operations, cash flows and comprehensive income.

Certain information and footnote disclosures normally included in consolidated financial statements prepared according to accounting principles generally accepted in the United States have been condensed or omitted. As a result, you should read these financial statements along with Sprint Corporation's 2003 Form 10-K. Operating results for the 2004 year-to-date period do not necessarily represent the results that may be expected for the year ending December 31, 2004.

1. Basis of Consolidation and Presentation

Consolidation and Comparative Presentation

The consolidated financial statements include the accounts of Sprint, its wholly owned subsidiaries and subsidiaries it controls. Investments in entities in which Sprint exercises significant influence, but does not control, are accounted for using the equity method. See Note 3 for additional information.

The consolidated financial statements are prepared using accounting principles

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generally accepted in the United States. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the net results of operations or shareholders' equity as previously reported.

Classification of Operations

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's business is divided into three segments: the PCS wireless division, the global markets division, and the local division.

Change in Depreciable Life

As of January 1, 2004, Sprint re-evaluated the depreciable lives of certain network assets. The depreciable life of certain high-capacity transmission equipment was extended from eight years to twelve years. This extension in life decreased the 2004 first quarter depreciation expense in the global markets division by approximately \$25 million.

2. Recombination of Tracking Stock

On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including the PCS wireless division, the global markets division and the local division. This event is reflected in the presentation of these financial statements.

FON common stock and PCS common stock were intended to reflect the financial results and economic value of the FON and PCS Groups. However, they were classes of common stock of Sprint, not of the group they were intended to track. Accordingly, FON and PCS shareholders were each subject to the risks related to an equity investment in Sprint and all of Sprint's businesses, assets and liabilities. Shares of FON common stock and PCS common stock did not represent a direct legal interest in the assets and liabilities allocated to either group, but rather represented a direct equity interest in Sprint's assets and liabilities as a whole.

Earnings Per Share

All per share amounts have been restated, for all periods presented, to reflect the recombination of the FON common stock and PCS common stock as of the earliest period presented at an identical conversion ratio (0.50). The conversion ratio was also applied to dilutive PCS securities (mainly stock options, ESPP, convertible preferred stock and restricted stock units) to determine diluted weighted average shares on a consolidated basis.

Following is previously reported earnings per share information for the FON

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Group and the PCS Group:

Quarter Ended March 31, 2003	FON Group	PCS Group
	(millions, except earnings per share)	
Income (Loss) from Continuing Operations	\$ 279	\$ (182)
Discontinued operation, net	1,313	-
Cumulative effect of change in accounting principle, net	258	-
	1,850	(182)
Net Income (Loss)		
Preferred stock dividends (paid) received	2	(4)
	1,852	(186)
Earnings (Loss) Applicable to Common Stock		
	0.31	(0.18)
Diluted Earnings (Loss) per Common Share(1)		
Continuing operations	\$ 0.31	\$ (0.18)
Discontinued operation	1.46	-
Cumulative effect of change in accounting principle, net	0.29	-
	2.06	(0.18)
Total		
Diluted weighted average common shares	899.5	1,022.1
	0.31	(0.18)
Basic Earnings (Loss) per Common Share		
Continuing operations	\$ 0.31	\$ (0.18)
Discontinued operation	1.47	-
Cumulative effect of change in accounting principle, net	0.29	-
	2.07	(0.18)
Total		
Basic weighted average common shares	896.6	1,022.1

Shareholders' Equity

The conversion of PCS common stock into FON common stock resulted in an increase in FON common stock outstanding of 518.4 million shares as of March 31, 2004. Although Sprint's Articles of Incorporation continue to authorize PCS common stock following the conversion of PCS common stock, no shares of PCS common stock may be issued.

3. Investments

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At March 31, 2004, Sprint carried \$483 million in investment asset value: \$110 million was included in "Current assets--other" and \$373 million in "Other assets" on the Consolidated Balance Sheets.

At December 31, 2003, Sprint carried \$548 million in investment asset value: \$125 million was included in "Current assets--other" and \$423 million in "Other assets" on the Consolidated Balance Sheets.

The material investment types and amounts include:

Investments in Debt Securities

During the second half of 2003, Sprint invested in marketable debt securities. Interest on these investments is reinvested and recognized in "Other, net" in the Consolidated Statements of Operations. Sprint recognized approximately \$2 million of interest income on these investments in the 2004 first quarter. Accumulated unrealized holding gains (losses) were immaterial in the 2004 first quarter. At March 31, 2004, investments in marketable debt securities totaled \$505 million of which \$110 million was included in "Current assets - Other" and \$159 million, with maturities of less than five years, was included in "Other assets" on the Consolidated Balance Sheets. The remaining \$236 million have original or remaining maturities at purchase of less than 90 days and were included in "Cash and equivalents."

At December 31, 2003, investments in marketable debt securities totaled \$503 million of which \$125 million was included in "Current assets - Other" and \$177 million was included in "Other assets" on the Consolidated Balance Sheets. The remaining \$201 million had original or remaining maturities at purchase of less than 90 days and were included in "Cash and equivalents."

Investments in Equity Securities

The cost of investments in marketable equity securities, primarily made up of EarthLink common stock, was \$132 million and \$134 million at the end of the 2004 first quarter and 2003 year-end, respectively. Accumulated unrealized holding gains were \$23 million (net of \$15 million tax) and \$38 million (net of \$23 million tax) at the end of the 2004 first quarter and 2003 year-end, respectively. Both gains and losses were included in "Accumulated other comprehensive income" on the Consolidated Balance Sheets.

At the end of the 2004 first quarter, Sprint held 18.9 million shares of EarthLink common stock, which were reflected in "Other assets" on the Consolidated Balance Sheets. These shares were hedged with variable prepaid forward contracts, maturing from November 2004 to November 2005. See Note 10 for additional information.

Equity Method Investments

At the end of the 2004 first quarter and at year-end 2003, investments accounted for using the equity method consisted primarily of Sprint's investment in Virgin Mobile, USA, LLC. These investments were reflected in "Other assets" on the Consolidated Balance Sheets. Certain other equity method investments were carried at zero value.

Virgin Mobile, USA

Sprint's investment in Virgin Mobile, USA was \$31 million at the end of the 2004 first quarter and \$41 million at year-end 2003. This joint venture with the Virgin Group was originally entered into in the 2001 fourth quarter to market wireless services, principally to youth and pre-pay segments. Virgin Mobile, USA launched services in June 2002. In the 2002 second quarter, Sprint entered into a new agreement with Virgin Group for funding of Virgin Mobile, USA. Under the

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terms of the agreement, Sprint agreed to fund up to \$150 million, with the majority in the form of discounted network services and the remainder in cash, and the Virgin Group agreed to fund up to \$150 million in cash. As of March 31, 2004, Sprint had satisfied 100% of this cash funding commitment and approximately 80% of the network services contribution. Additionally, in the 2003 third quarter, Sprint's board of directors authorized additional cash funding for the joint venture in the amount of \$30 million, of which \$22 million had been provided to the joint venture as of March 31, 2004.

In the 2003 third quarter, a Sprint subsidiary agreed to guarantee a \$20 million term-loan facility entered into by Virgin Mobile, USA to fund working capital needs. The facility expires on December 31, 2004. If required to perform, Sprint would acquire Virgin Mobile, USA's subscriber base. The fair value of this guarantee was recorded in "Current liabilities - Other" on the Consolidated Balance Sheets in the amount of \$5 million.

In the 2004 first quarter, Sprint's board of directors authorized additional funding of approximately \$22 million in the form of loans to the joint venture. This line of credit remains undrawn.

Combined, unaudited, summarized financial information (100% basis) of entities accounted for using the equity method was as follows:

	Quarters Ended March 31,	
	2004	2003
	(millions)	
Results of operations		
Net operating revenues	\$ 295	\$ 231
Operating loss	\$ (30)	\$ (14)
Net loss	\$ (46)	\$ (31)
Equity in net losses of affiliates		
	\$ (12)	\$ (18)

4. Asset Retirement Obligations

Sprint adopted Statement of Financial Accounting Standard (SFAS) No. 143, Accounting for Asset Retirement Obligations, on January 1, 2003. This standard provides accounting guidance for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and (or) normal operation of that asset. According to the standard, the fair value of an asset retirement obligation (ARO liability) should be recognized in the period in which (1) a legal obligation to retire a long-lived asset exists and (2) the fair value of the obligation based on retirement cost and settlement date is reasonably estimable. Upon initial recognition of the ARO liability, the related asset retirement cost should be

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capitalized by increasing the carrying amount of the related long-lived asset.

Sprint's network is primarily located on owned and leased property and utility easements. In the global markets division and the local division, a majority of the leased property has no requirement for remediation at retirement. The leased property of the PCS wireless division has potential remediation requirements. Sprint expects to maintain its property as a necessary component of infrastructure required to maintain operations or FCC licensing. Sprint estimates the liability presently required associated with the ultimate satisfaction of those requirements to be immaterial.

Adoption of SFAS No. 143 affected the cost of removal historically recorded by the local division. Consistent with regulatory requirements and industry practice, the local division historically accrued costs of removal in its depreciation reserves. These costs of removal do not meet the SFAS No. 143 definition of an ARO liability. Upon adoption of SFAS No. 143, Sprint recorded a reduction in its historical depreciation reserves of approximately \$420 million to remove the accumulated excess cost of removal, resulting in a cumulative effect of change in accounting principle credit, net of tax, in the Consolidated Statements of Operations of \$258 million.

5. Restructuring and Asset Impairment

Sprint Transformation

In the 2003 fourth quarter, Sprint recognized charges from its organizational redesign initiatives. The restructuring is a company wide effort to create a more customer focused organization (Sprint Transformation - 2003). This decision resulted in pre-tax charges of \$59 million in the 2003 fourth quarter and \$24 million in the 2004 first quarter consisting of severance costs associated with work force reductions.

In the 2004 first quarter, Sprint continued its transformation initiatives in an effort to create a more efficient cost structure (Sprint Transformation - 2004). These decisions resulted in a \$4 million pre-tax charge in the 2004 first quarter for severance costs associated with work force reductions.

In connection with its transformation efforts, Sprint expects the aggregate pre-tax charges not to exceed \$90 million. Additional charges for employee termination costs will be recorded in subsequent periods and will impact all of Sprint's divisions. The severance charges are associated with the involuntary separation of approximately 2,550 employees. As of March 31, 2004, approximately 1,750 of the employee separations had been completed.

Other Restructuring Activity

In the 2003 fourth quarter, Sprint announced the termination of the development of a new billing platform (PCS Billing Platform Termination). These decisions resulted in pre-tax charges of \$351 million in the 2003 fourth quarter. The charge for asset impairments was \$339 million and the remaining \$12 million was accrued for other contractual obligations.

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 (Global Markets Web Hosting Wind-down). These decisions resulted in pre-tax

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charges of \$376 million in 2003 and \$2 million in the 2004 first quarter. The aggregate charge for asset impairments was \$316 million, the aggregate charge for employee terminations was \$16 million and the remaining \$46 million was accrued for facility lease terminations. In connection with the wind-down of the web hosting business, Sprint will record additional charges for facility lease terminations, customer migration, employee termination, and other wind-down costs in subsequent periods. The severance charges are associated with the involuntary employee separation of approximately 600 employees. As of March 31, 2004, approximately 500 of the employee separations had been completed. Sprint expects the aggregate pre-tax charge to be approximately \$440 million. Sprint expects to pay the majority of severance and other exit costs in the next three months.

This activity is summarized as follows:

	December 31, 2003 Liability Balance	2004 Activity	
		Restructuring Charge	Cash Payments
(millions)			
Restructuring Events			
Sprint Transformation - 2004			
Severance	\$ -	\$ 4	\$ -
Sprint Transformation - 2003			
Severance	54	24	24
PCS Billing Platform Termination			
Other exit costs	12	-	10
Global Markets Web Hosting			
Wind-down			
Severance	6	1	1
Other exit costs	45	1	1
Total	\$ 117	\$ 30	\$ 36

Other Asset Impairments

In the 2003 first quarter, Sprint recorded a charge for asset impairment of \$10 million. This charge was associated with the termination of a software development project.

6. Stock-based Compensation

Effective January 1, 2003, Sprint adopted SFAS No. 123, Accounting for Stock-Based Compensation, as amended by SFAS No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure, using the prospective method. Upon adoption Sprint began expensing the fair value of stock-based compensation for

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all grants, modifications or settlements made on or after January 1, 2003. The following table illustrates the effect on net income and earnings per share of stock-based compensation included in net income and the effect on net income and earnings per share for grants issued on or before December 31, 2002, had Sprint applied the fair value recognition provisions of SFAS 123.

	Quarters Ended March 31,	
	2004	2003
	(millions, except per share data)	
Net income, as reported	\$ 222	\$ 1,668
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	13	-
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(28)	(34)
Pro forma net income	\$ 207	\$ 1,634
Earnings per common share:		
Basic - as reported	\$ 0.15	\$ 1.18
Basic - pro forma	\$ 0.14	\$ 1.16
Diluted - as reported	\$ 0.15	\$ 1.18
Diluted - pro forma	\$ 0.14	\$ 1.16

Sprint recognized pre-tax charges of \$21 million in the 2004 first quarter and \$1 million in the 2003 first quarter related to stock-based grants issued after December 31, 2002 and grants of restricted stock made in 2002 and previous years.

7. Employee Benefit Information

The net periodic benefit cost consisted of the following:

	Pension Benefits	Other Be
Quarters Ended		Quarters

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	March 31,		March	
	2004	2003	2004	
Service cost	\$ 36	\$ 32	\$ 4	\$
Interest cost	62	58	15	
Expected return on plan assets	(76)	(69)	(1)	
Amortization of transition (asset) obligation	(1)	(1)	-	
Amortization of prior service cost	4	4	(12)	
Amortization of net loss	21	8	8	
Net benefit expense	\$ 46	\$ 32	\$ 14	\$

Sprint contributed \$300 million to the pension trust on January 27, 2004. This is the only contribution expected to be made during the year.

In the 2004 first quarter, Sprint amended certain retiree medical plans to standardize the plan design effective January 1, 2005, eliminating differences in benefit levels. These amendments decreased the accumulated postretirement benefit obligation (APBO) related to other postretirement benefits by approximately \$35 million, and decreased the 2004 net benefit expense by \$5 million, of which approximately \$1 million was recognized in the 2004 first quarter.

As a result of these amendments, Sprint also recognized the effects of the Medicare Prescription Drug, Improvement and Modernization Act (the Act) signed into law on December 8, 2003. The Act contains a subsidy to employers who provide prescription drug coverage to retirees that is actuarially equivalent to Medicare Part D. Analysis of Sprint's retiree prescription drug claims data determined that Sprint's retiree prescription drug benefit was actuarially equivalent. In estimating the effects of the Act, estimates of participation rates and per capita claims costs were not changed. The effect of recognizing the federal subsidy related to the Act was a \$3 million reduction in the net benefit cost in the 2004 first quarter and a \$73 million reduction in the APBO.

8. Litigation, Claims and Assessments

In March 2004, eight purported class action lawsuits relating to the recombination of the tracking stocks were filed against Sprint and its directors by PCS common stockholders. Seven of the lawsuits were consolidated in the District Court of Johnson County, Kansas. The eighth, pending in New York, has been voluntarily stayed. The lawsuits allege breach of fiduciary duty in connection with the recombination and seek monetary damages.

A number of putative class action cases that allege Sprint failed to obtain easements from property owners during the installation of its fiber optic network have been filed in various courts. Several of these cases sought certification of nationwide classes, and in one case, a nationwide class was certified. However, a nationwide settlement of these claims was recently approved by the U.S. District Court for the Northern District of Illinois, which has enjoined all other similar cases. Objectors have appealed the preliminary approval order and injunction to the Seventh Circuit Court of Appeals. In 2001, Sprint accrued for the estimated settlement costs of these suits.

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In July 2002, the Federal Communications Commission (FCC) released a declaratory ruling in a matter referred to it by the federal district court for the Western District of Missouri in Sprint's suit against AT&T Corporation for the collection of terminating access charges. The FCC ruled that although nothing prohibited wireless carriers from charging for access to their networks, interexchange carriers were not required to pay such charges absent a contractual obligation to do so. This decision was affirmed by the D.C. Circuit Court of Appeals. Management believes adequate provisions have been recorded in the results of operations.

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 Corporation, the committees that administer the two plans, 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 2003, two additional complaints, making identical allegations, were filed. These lawsuits have been consolidated before a single judge. 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. The lawsuits seek to recover any decline in the value of FON and PCS stock during the class period.

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.

9. Income Taxes

The differences that caused Sprint's effective income tax rates to vary from the 35% federal statutory rate for income taxes related to continuing operations were as follows:

	Quarters Ended March 31,	
	2004	
	(millions)	
Income tax expense at the federal statutory rate	\$	129
Effect of:		
State income taxes, net of federal income tax effect		12
Other, net		5
Income tax expense	\$	146

Effective income tax rate

39.7%

10. Accounting for Derivative Instruments

Risk Management Policies

Sprint's derivative instruments include interest rate swaps, stock warrants, variable prepaid forward contracts, credit forward contracts, and foreign currency forward and option contracts. Sprint's derivative transactions are used principally for hedging purposes and comply with board-approved policies. Senior finance management receives frequent status updates of all outstanding derivative positions.

Sprint enters into interest rate swap agreements to manage exposure to interest rate movements and achieve an optimal mixture of floating and fixed-rate debt while minimizing liquidity risk. Interest rate swap agreements that are designated as fair value hedges effectively convert Sprint's fixed-rate debt to a floating rate through the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreement without an exchange of the underlying principal amount. Interest rate swap agreements designated as cash flow hedges reduce the impact of interest rate movements on future interest expense by effectively converting a portion of its floating-rate debt to a fixed rate.

In certain business transactions, Sprint is granted warrants to purchase the securities of other companies at fixed rates. These warrants are supplemental to the terms of the business transactions and are not designated as hedging instruments.

Sprint enters into variable prepaid forward contracts which reduce the variability in expected cash flows related to a forecasted sale of the underlying equity securities held as available for sale.

Sprint enters into fair value hedges through credit forward contracts which hedge changes in fair value of certain debt issues.

Sprint's foreign exchange risk management program focuses on reducing transaction exposure to optimize consolidated cash flow. Sprint enters into forward and option contracts in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint's primary transaction exposure results from net payments made to and received from overseas telecommunications companies for completing international calls made by Sprint's domestic customers and the operation of its international subsidiaries.

Interest Rate Swaps

The interest rate swaps met all the required criteria under derivative accounting rules for the assumption of perfect effectiveness resulting in no recognition of changes in their fair value in earnings during the life of the swap. Sprint held only fair-value hedges during 2003 and the 2004 first quarter.

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Sprint recorded a \$26 million increase in the 2004 first quarter resulting from changes in the fair value of the interest rate swaps. The increase in value for these swaps has been recorded in "Other non-current assets" on the Consolidated Balance Sheets. As the swaps have been deemed perfectly effective, an offset was recorded to the underlying long-term debt.

Stock Warrants

The stock warrants are not designated as hedging instruments and changes in the fair value of these derivative instruments are recognized in earnings during the period of change.

Sprint's net derivative losses on stock warrants were immaterial in both the 2004 and 2003 first quarters.

Net Purchased Equity Options

The net purchased equity options embedded in variable prepaid forward contracts are designated as cash flow hedges.

Sprint recorded an \$11 million after-tax increase to other comprehensive income in the 2004 first quarter resulting from gains on these cash flow hedges. The changes in other comprehensive income are included in "Net unrealized gains (losses) on qualifying cash flow hedges" in the Consolidated Statements of Comprehensive Income.

Credit Forward Contracts

Sprint held fair value hedges in credit forward contracts during the 2003 first quarter to hedge changes in fair value of certain debt issues. As there is high correlation between the credit forward contracts and the debt issues being hedged, fluctuations in the value of the credit forward contracts are generally offset by changes in the fair value of the debt issues. A nominal amount was recorded in Sprint's Consolidated Statements of Operations in the 2003 first quarter on this investment. The contracts matured in the 2003 third quarter.

Foreign Currency Forward and Option Contracts

Foreign currency forward and option contracts held during the periods were not designated as hedges as defined in SFAS No. 133 and changes in the fair value of these derivative instruments are recognized in earnings during the period of change. The activity associated with these contracts was immaterial in both periods presented.

Concentrations of Credit Risk

Sprint's accounts receivable are not subject to any concentration of credit risk. Sprint controls credit risk of its interest rate swap agreements and foreign currency contracts through credit approvals, dollar exposure limits and internal monitoring procedures. In the event of nonperformance by the counterparties, Sprint's accounting loss would be limited to the net amount it would be entitled to receive under the terms of the applicable interest rate swap agreement or foreign currency contract. However, Sprint does not anticipate nonperformance by any of the counterparties to these agreements.

11. Discontinued Operation

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In the 2003 first quarter, Sprint sold its directory publishing business to R.H. Donnelley for \$2.23 billion in cash. The sale closed on January 3, 2003. In the 2003 first quarter, Sprint recognized a pretax gain of \$2.13 billion, \$1.31 billion after-tax. In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-lived Assets, Sprint has presented the directory publishing business as a discontinued operation in the consolidated financial statements. Included in "Discontinued Operations, net" in the 2003 first quarter Consolidated Statements of Operations was \$5 million of previously reported "Net operating revenues" and "Income from continuing operations before income taxes."

12. Other Financial Information

Supplemental Cash Flows Information

Sprint's net cash paid (received) for interest and income taxes was as follows:

	Quarters Ended March 31,	
	2004	2003
	(millions)	
Interest (net of capitalized interest)	\$ 380	\$ 4
Income taxes	\$ (1)	\$

Sprint's non-cash activities included the following:

	Quarters Ended March 31,	
	2004	2003
	(millions)	
Common stock issued under Sprint's employee benefit stock plans	\$ -	\$
Settlement of shareholder suit	\$ 5	\$

13. Segment Information

Sprint is divided into three main lines of business: the PCS wireless division, the global markets division and the local division. Other consists primarily of wholesale distribution of telecommunications products.

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Sprint manages its segments to the operating income level of reporting. Items below operating income are held at a corporate level. The reconciliation from operating income to net income is shown on the face of the Consolidated Statements of Operations.

Segment financial information was as follows:

Quarters Ended March 31,	PCS Wireless Division	Global Markets Division	Local Division	Other (1)	Corporate and Eliminations (1)
(millions)					
2004					
Net operating revenues	\$ 3,437	\$ 1,912	\$ 1,506	\$ 196	\$ (344)
Affiliated revenues	4	169	56	115	(344)
Operating income (loss)	257	11	446	(8)	8
2003					
Net operating revenues	\$ 2,947	\$ 2,046	\$ 1,532	\$ 187	\$ (373)
Affiliated revenues	3	193	52	125	(373)
Operating income (loss)	140	4	462	(10)	8

Net operating revenues by product and services were as follows:

Quarters Ended March 31,	PCS Wireless Division	Global Markets Division	Local Division	Other (1)	Elimination
(millions)					
2004					
Voice	\$ -	\$ 1,186	\$ 1,147	\$ -	\$ (196)
Data	-	452	195	-	(19)
Internet	-	223	-	-	(3)
Wireless services	3,437	-	-	-	(3)
Other	-	51	164	196	(123)
Total net operating revenues	\$ 3,437	\$ 1,912	\$ 1,506	\$ 196	\$ (344)
2003					
Voice	\$ -	\$ 1,293	\$ 1,183	\$ -	\$ (242)
Data	-	462	173	-	-
Internet	-	243	-	-	-
Wireless services	2,947	-	-	-	(3)
Other	-	48	176	187	(128)

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Total net operating revenues	\$	2,947	\$	2,046	\$	1,532	\$	187	\$	(373)
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14. Subsequent Events

Dividend Declaration

On April 20, 2004, Sprint's board of directors declared a dividend of 12.5 cents per share on the FON common stock to shareholders of record at the close of business, June 9, 2004. The dividend will be paid June 30, 2004.

Debt Extinguishment

In May 2004, Sprint repurchased \$750 million aggregate principal amount of its 6.0% equity unit senior notes, scheduled to mature August 17, 2006, from a single noteholder. Upon completion of this transaction, \$975 million aggregate principal amount of these notes remains outstanding.

Part I.
Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Sprint Corporation

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, the timing of various events 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:

- o extent and duration of any economic downturn;
- o the effects of vigorous competition in the markets in which Sprint

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- operates;
- o the costs and business risks associated with providing new services and entering new markets;
- o adverse change in the ratings afforded our debt securities by ratings agencies;
- o the ability of the PCS wireless division to continue to grow a significant market presence;
- o the ability of the PCS wireless division to continue to improve profitability;
- o the ability of the global markets division and the local division to improve cash flow generation;
- o the effects of mergers and consolidations within the telecommunications industry and unexpected announcements or developments from others in the telecommunications industry;
- o the uncertainties related to the outcome of bankruptcies affecting the telecommunications industry;
- o the impact of financial difficulties of third-party affiliates on the PCS wireless division's network coverage;
- o the uncertainties related to Sprint's investments in networks, systems and other businesses;
- o 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;
- o the impact of new, emerging and competing technologies on Sprint's business;
- o unexpected results of litigation filed against Sprint;
- o the impact of wireless local number portability (WLNP) on the PCS wireless division's growth and churn rates, revenues and expenses;
- o the risk of equipment failure, natural disasters, terrorist acts, or other breaches of network or information technology security;
- o 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
- o 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, including its 2003 Form 10-K, and you are encouraged to review these filings.

Overview

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.

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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 wireless division, together with third party affiliates, operates PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS wireless division service, including third party affiliates, reaches a quarter billion people. The PCS wireless division, combined with our wholesale and affiliate partners, served more than 21 million customers at the end of the 2004 first quarter.

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. Due to 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 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 the 2003 first quarter, 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 lines of business: the PCS wireless division, the global markets division and the local division.

In the 2003 fourth quarter, Sprint undertook an initiative to realign internal resources. This effort was implemented to enhance the customer-facing focus on the needs and preferences of two distinct consumer types - businesses and individuals. 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 taking into consideration the re-aligned customer-focused approach.

In conjunction with the realignment initiative, Sprint commenced efforts to improve Sprint's productivity through:

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

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These efforts could result in restructuring charges and asset impairments in subsequent quarters.

Elimination of Tracking Stocks

On April 23, 2004, Sprint recombined its two tracking stocks. Each share of PCS common stock automatically converted into 0.5 shares of FON common stock. As of April 23, 2004, the FON Group and the PCS Group no longer exist, and FON common stock represents all of the operations and assets of Sprint, including the PCS wireless division, the global markets division and the local division.

FON common stock and PCS common stock were intended to reflect the financial results and economic value of the FON and PCS Groups. However, they were classes of common stock of Sprint, not of the group they were intended to track. Accordingly, FON and PCS shareholders were each subject to the risks related to an equity investment in Sprint and all of Sprint's businesses, assets and liabilities. Shares of FON common stock and PCS common stock did not represent a direct legal interest in the assets and liabilities allocated to either group, but rather represented a direct equity interest in Sprint assets and liabilities as a whole.

Results of Operations

Consolidated

Net operating revenues increased 6% to \$6.7 billion in the 2004 first quarter compared to \$6.3 billion in the same 2003 period reflecting growth in the PCS wireless division's revenues partially offset by declining long distance voice revenues in the global markets division.

Income from continuing operations increased to \$222 million in the 2004 first quarter compared to \$97 million in the 2003 first quarter and includes the after-tax impacts of the items discussed below.

In the 2004 first quarter, income from continuing operations included a \$19 million charge related to severance costs associated with Sprint's transformation and the wind-down of its web hosting business, as well as \$9 million in advisory fees associated with the recombination of the tracking stocks.

In the 2003 first quarter, income from continuing operations included a \$32 million charge to settle derivative action and securities class action litigation, a \$12 million charge reflecting the premiums paid on debt tender offers, and a \$6 million charge associated with the termination of a software development project.

Segmental Results of Operations

PCS Wireless Division

The PCS wireless division 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

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single technology. The PCS wireless division, together with third party affiliates, operates PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS wireless division's service, together with third party affiliates, reaches a quarter billion people. The PCS wireless division combined with our wholesale and affiliate partners served more than 21 million customers at the end of the 2004 first quarter. The PCS wireless division provides nationwide service through a combination of:

- o 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 transmission bits, sending a scrambled transmission of the encoded information over the air and reassembling the speech and data into its original format,
- o affiliating with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- o roaming on other providers' analog cellular networks using multi-mode and multi-band handsets, and
- o 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:

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

Sprint's third generation (3G) 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(TM)," 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 wireless division 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 one of them continues to pursue claims against Sprint in the bankruptcy court. 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 nearly 50% of the customers served by all affiliates. The agreements provide simplified and predictable long-term pricing for service bureau fees and

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stability to the rates charged for inter-area service fees. In addition, the agreements settled all significant outstanding disputes.

The PCS wireless division 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 wireless division affiliates cease operations, the PCS wireless division 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 wireless division 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 PCS 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 wireless division. Qwest began adding new customers in the 2004 first quarter. The transition of existing customers will begin in the 2004 second quarter and is expected to be complete by year-end.

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

	Selected Operating Results		
	Quarters Ended March 31,		V
	2004	2003	\$
	(millions)		
Net operating revenues	\$ 3,437	\$ 2,947	\$ 490
Operating expenses			
Costs of services and products	1,744	1,448	296
Selling, general and administrative	778	741	37
Depreciation	654	608	46
Restructuring and asset impairment	4	10	(6)
Total operating expenses	3,180	2,807	373
Operating income	\$ 257	\$ 140	\$ 117
Capital expenditures	\$ 412	\$ 187	\$ 225

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The PCS wireless division 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 service revenues generated by sales to its customers accounted for 21.4% of net operating revenues in the 2004 first quarter compared to 22.8% for the same 2003 period.

Net Operating Revenues

	Quarters Ended March 31,	
	2004	2003
Customers		
(millions)	16.3	15.0
Average monthly service revenue per user (ARPU)	\$ 61	\$ 59
Customer churn rate	2.9%	3.1%

Average monthly service revenue per user (ARPU) is calculated by dividing wireless service revenues by weighted average monthly wireless subscribers to measure revenue on a per user basis. 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 revenues from sales of handsets and accessory equipment. Service revenues consist of monthly recurring charges, usage charges and miscellaneous fees such as directory assistance, operator-assisted calling, handset insurance and late payment charges. Service revenues increased 14.2% in the 2004 first quarter period from the same 2003 period reflecting an increase in the number of customers, increased revenues from data services, customer elections to add services to their base plans and increased fees. These increases were partially offset by lower overage charges from usage-based plans. Average monthly usage in the 2004 first quarter was approximately 15 hours per month, an increase of more than three hours when compared to the 2003 first quarter. At the end of the period 38% of the customer base was subscribing to data services compared to approximately 25% at the end of the 2003 first quarter.

The PCS wireless division had 414,000 post-paid retail additions in the 2004 first quarter, ending the period with approximately 16.3 million customers compared to approximately 15.0 million customers at the end of the 2003 first quarter. Resellers added 420,000 customers in the first quarter of 2004, which

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increased their customer base to 2.0 million, principally due to Virgin Mobile, USA. The PCS wireless division third party affiliates added 138,000 customers in the first quarter of 2004. This brings the total number of customers served on the PCS and affiliate networks, including post-paid retail, affiliate and wholesale customers, to more than 21.3 million at the end of the 2004 first quarter. In the 2004 first quarter, more than half of new post-paid retail customers chose to include PCS Vision in their service package.

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. The customer churn rate in the 2004 first quarter was 2.9% compared to 3.1% for the same 2003 period. Improvement was due to effective customer retention programs, as well as credit management policies. This improvement was partially offset by an increase in voluntary churn due in part to the institution of WLNP in the 2003 fourth quarter.

Revenues from sales of handsets and accessories, including new customers and upgrades, were approximately 11.0% of net operating revenues in the 2004 first quarter compared to 9.1% for the same 2003 period. The increase was mainly due to higher customer additions and higher retail prices, which was partially offset by higher rebates. As part of the PCS wireless division's marketing plans, handsets, net of rebates, are normally sold at prices below the PCS wireless division's cost.

Other service revenues consist primarily of net revenues retained from Sprint PCS customers residing in PCS affiliate territories and revenues from the sale of PCS services to companies that resell those services to their customers on a retail basis. Other revenues represented 3.5% of net operating revenues in the 2004 first quarter compared to 2.5% for the same 2003 period. These increases mainly reflect net additions to the affiliate and wholesale customer base.

Costs of Services and Products

The PCS wireless division'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 20% in the 2004 first quarter from the same 2003 period. These increases were primarily due to network support of a larger customer base, higher minutes of use and expanded market coverage. Equipment costs also increased due to higher gross additions and handset upgrades as well as a decline in availability of refurbished handsets. These increases were somewhat offset by scale benefits resulting from the increased customer base and decreases in information technology expense. Handset and equipment costs were 41% of total costs of services and products in the 2004 first quarter compared to 40% for the same 2003 period. Costs of services and products were 50.7% of net operating revenues in the 2004 first quarter compared to 49.1% for the same 2003 period.

Selling, General and Administrative

Selling, General and Administrative (SG&A) expense mainly includes marketing costs to promote products and services, as well as related salary and benefit costs. SG&A expense increased 5% in the 2004 first quarter from the same 2003 period reflecting an increase in marketing, sales and distribution costs primarily driven by higher gross post-paid retail additions and an increase in the number of our own retail stores. This increase was offset by a decline in bad debt expense due to a better credit class mix, leading to lower write-offs and higher recovery. SG&A expense was 22.6% of net operating revenues in the 2004 first quarter compared to 25.1% for the same 2003 period. Bad debt expense as a percentage of net revenues was 1.1% in the 2004 first quarter compared to

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3.0% in the same 2003 period. Reserve for bad debt as a percent of outstanding accounts receivable was 6.8% at the end of the 2004 first quarter and 7.3% at year-end 2003. This improvement was mainly driven by lower involuntary churn and improved cash collections.

Depreciation

Estimates and assumptions are used both in setting depreciable lives and testing for recoverability. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation expense consists mainly of depreciation of network assets.

Depreciation expense increased 8% in the 2004 first quarter from the same 2003 period due to an increase in the network asset investment during 2003 and the 2004 year-to-date period. Depreciation expense was 19.0% of net operating revenues in the 2004 first quarter compared to 20.6% for the same 2003 period.

Restructuring and Asset Impairment

In the first quarter of 2004, the PCS wireless division recorded a \$4 million restructuring charge representing severance associated with Sprint's transformation to a customer-focused organizational design.

In the first quarter of 2003, the PCS wireless division recorded a charge of \$10 million associated with the termination of a software development project.

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 using Multichannel Multipoint Distribution Services (MMDS) technology. Sprint is focusing its efforts in the use of MMDS technology on a broad range of alternative strategies. Sprint is continuing to optimize its spectrum portfolio, is monitoring technology and industry developments, and is involved in efforts to achieve favorable regulatory rulings with respect to this spectrum.

Selected Operating Results

Quarters Ended

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	March 31,		V
	2004	2003	
(millions)			
Net operating revenues			
Voice	\$ 1,186	\$ 1,293	\$ (107)
Data	452	462	(10)
Internet	223	243	(20)
Other	51	48	3
Total net operating revenues	1,912	2,046	(134)
Operating expenses			
Costs of services and products	1,053	1,106	(53)
Selling, general and administrative	516	575	(59)
Depreciation	320	361	(41)
Restructuring and asset impairment	12	-	12
Total operating expenses	1,901	2,042	(141)
Operating income	\$ 11	\$ 4	\$ 7
Capital Expenditures	\$ 56	\$ 61	\$ (5)

NM = Not meaningful

Net Operating Revenues

Net operating revenues decreased 6.5% in the 2004 first quarter from the same 2003 period. The overall revenue decrease is in large part due to the decline in voice revenues.

Voice Revenues

Voice revenues decreased 8% in the 2004 first quarter from the same 2003 period due to a decline in consumer voice revenues resulting from wireless, e-mail and instant messaging substitution, aggressive competition from Regional Bell Operating Companies (RBOCs) for consumer and small business customers and aggressive pricing by traditional interexchange carriers and the RBOCs for enterprise customers. Minute volume increased 9% in the 2004 first quarter compared to the 2003 first quarter.

Data Revenues

Data revenues decreased 2% in the 2004 first quarter from the same 2003 period. The decrease is driven by declines in frame relay, private line services and ATM partially offset by an increase in managed network services.

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Internet Revenues

Internet revenues decreased 8% in the 2004 first quarter from the same 2003 period. The decline was mainly driven by a decrease in dial IP and web hosting services, somewhat offset by an increase in dedicated IP. Sprint made the decision to exit the web hosting business in the 2003 second quarter.

Other Revenues

Other revenues increased 6% in the 2004 first quarter from the same 2003 period. The increase was primarily due to higher equipment sales.

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 our long distance networks, and costs of equipment sales. These costs decreased 5% in the 2004 first quarter from the same 2003 period. The decrease was due to FCC-mandated access rate reductions, favorable carrier access settlements, and initiatives to reduce access unit costs. Costs of services and products for the global markets division were 55.1% of net operating revenues in the 2004 first quarter compared to 54.1% for the same period a year ago.

Selling, General and Administrative

SG&A expenses decreased 10% in the 2004 first quarter from the same 2003 period. The decline was due to reduced bad debt provisions, restructuring efforts, and general cost controls. SG&A expense was 27.0% of net operating revenues in the 2004 first quarter compared to 28.1% for the same period a year ago.

SG&A includes charges for estimated bad debt expense. The reserve for bad debts requires management's judgment and is based on customer specific indicators, as well as historical trending, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 1.3% in the 2004 first quarter compared to 2.4% for the same 2003 period. This reduction reflects an improvement in collections, aging and recoveries of previously written-off accounts. Reserve for bad debt as a percent of outstanding accounts receivable was 9.8% at the end of the 2004 first quarter and 11.0% at year-end 2003.

Depreciation

Estimates and assumptions are used both in setting depreciable lives and testing for recoverability. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation expense decreased 11% in the 2004 first quarter from the same period a year ago primarily driven by a decreased asset base due to the asset impairments associated with the wind-down of the web hosting business which occurred in the 2003 second quarter, as well as the extension of the depreciable life of certain high-capacity transmission equipment from eight years to twelve years due to slower anticipated evolution of technology and limited physical deterioration. This extension in life decreased the 2004 first quarter depreciation expense in the global markets division by approximately \$25 million. Depreciation expense was 16.7% of net operating revenues in the 2004 first quarter compared to 17.6% for the same 2003 period.

Restructuring and Asset Impairment

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In the 2004 first quarter, the global markets division recorded a \$12 million restructuring charge representing severance associated with Sprint's transformation to a customer-focused organizational design and the wind-down of the web hosting business.

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 in 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.

	Selected Operating Results		
	Quarters Ended March 31,		V
	2004	2003	\$
	(millions)		
Net operating revenues			
Voice	\$ 1,147	\$ 1,183	\$ (36)
Data	195	173	22
Other	164	176	(12)
Total net operating revenues	1,506	1,532	(26)
Operating expenses			
Costs of services and products	451	487	(36)
Selling, general and administrative	327	318	9
Depreciation	268	265	3
Restructuring	14	-	14
Total operating expenses	1,060	1,070	(10)
Operating income	\$ 446	\$ 462	\$ (16)
Operating margin	29.6%	30.2%	
Capital expenditures	\$ 209	\$ 281	\$ (72)

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Net Operating Revenues

Net operating revenues decreased 2% in the 2004 first quarter from the same 2003 period. The decline was driven by lower voice revenue primarily due to fewer access lines and lower consumer long distance services. Equipment sales also contributed to the decrease. The local division ended the 2004 first quarter with approximately 7.9 million switched access lines, a 2% decrease during the past 12 months. The reduction in access lines was 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 the loss rates experienced by other major urban carriers. On a voice-grade equivalent basis, which includes both traditional switched services and high capacity lines, voice-grade equivalents grew 6% during the past 12 months. This growth reflects growth in DSL as well as many business customers switching from individual lines to high capacity dedicated circuits.

Voice Revenues

Voice revenues, derived from local exchange services, long distance revenue and switched access revenue, decreased 3% in the 2004 first quarter from the same 2003 period due to a decrease in access lines, lower consumer long distance revenue and the discontinuation of cost recovery related to local number portability.

Data Revenues

Data revenues are mainly derived from DSL, local data transport services, and special access. Data revenues increased 13% in the 2004 first quarter compared to a year ago driven by strong growth in DSL lines.

Other Revenues

Other revenues decreased 7% in the 2004 first quarter from the same 2003 period principally driven by lower equipment sales. The decrease in equipment sales was primarily the result of a planned shift in focus to selling higher margin products.

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 decreased 7% in the 2004 first quarter compared to the same 2003 period. This decrease was mainly driven by general expense controls and lower costs associated with equipment sales, somewhat offset by higher pension costs. Costs of services and products were 29.9% of net operating revenues in the 2004 first quarter compared to 31.8% for the same period a year ago.

Selling, General and Administrative

SG&A expense increased 3% in the 2004 first quarter compared to the same 2003 period. The increase was primarily due to higher pension costs and stock-based compensation offset by lower bad debt expense and general expense controls. SG&A expense was 21.7% of net operating revenues in the 2004 first quarter compared to 20.8% for the same period a year ago. SG&A includes charges for estimated bad debt expense. The reserve for bad debts requires management's judgment and is based on customer specific indicators, as well as historical trending, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues

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was 1.3% in the 2004 first quarter compared to 1.6% in the same period a year ago resulting from improvements in collections and aging. Reserve for bad debt as a percent of outstanding accounts receivable was 8.8% at the end of the 2004 first quarter and 8.5% at year-end 2003.

Depreciation

Estimates and assumptions are used in setting depreciable lives and testing for recoverability. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation expense increased 1% in the 2004 first quarter compared to the same 2003 period. Depreciation expense was 17.8% of net operating revenues in the 2004 first quarter compared to 17.3% for the same period a year ago.

Restructuring and Asset Impairment

In the 2004 first quarter, the local division recorded a \$14 million restructuring charge representing severance associated with Sprint's transformation to a customer-focused organizational design.

Nonoperating Items

Interest Expense

Sprint's effective interest rate on long-term debt was 6.9% in the 2004 first quarter compared to 7.0% in the 2003 first quarter. Interest costs on short-term borrowings and interest costs on deferred compensation plans have been excluded so as not to distort the effective interest rate on long-term debt. See "Liquidity and Capital Resources" for more information on Sprint's financing activities.

Premium on Early Retirement of Debt

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 wa