

Exhibit No. \_\_\_\_\_  
Witness: Kevin P. Collins  
Type of Exhibit: Surrebuttal Testimony  
Party: Sprint Nextel Corporation  
Case No. IO-2006-0086

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

Application of Sprint Nextel Corporation     )  
for Approval of the Transfer of Control of     ) Case No. IO-2006-0086  
Sprint Missouri, Inc., Sprint Long     )  
Distance, Inc. and Sprint Payphone     )  
Services, Inc. From Sprint Nextel     )  
Corporation to LTD Holding Company.     )

**SURREBUTTAL TESTIMONY OF KEVIN P. COLLINS**

**ON**

**BEHALF OF**

**SPRINT NEXTEL CORPORATION**

**PUBLIC VERSION**

**JANUARY 5, 2006**

**FILED<sup>2</sup>**  
MAR 07 2006  
Missouri Public  
Service Commission

Exhibit No. 12  
Case No(s). 10-2006-0086  
Date 2-7-06 Rptr NC

1    **SECTION 1: NAME/PURPOSE**

2    **Q.     Please state your name and business address.**

3    A.     My name is Kevin P. Collins. My business address is Houlihan, Lokey, Howard  
4           and Zukin Financial Advisors, Inc., 245 Park Avenue, 19<sup>th</sup> Floor, New York, NY  
5           10167.

6

7    **Q.     Are you the same Kevin P. Collins who previously filed Direct Testimony in**  
8           **this proceeding?**

9    A.     Yes, I am.

10

11   **Q.     What is the purpose of your Surrebuttal Testimony?**

12   A.     The purpose of my Surrebuttal Testimony is to respond to statements made in the  
13           testimony of Ms. Debbie Goldman, who filed Response to Staff Testimony in this  
14           proceeding on behalf of Communication Workers of America ("CWA"). The  
15           testimony was filed on December 6, 2005. In responding to this testimony, I will  
16           clarify certain misrepresentations presented by Ms. Goldman, as well as explain  
17           the flaws contained in various arguments she makes regarding the financial  
18           viability of the new LTD Holding Company (or "LTD").

1    **SECTION 2: Ms. Debbie Goldman**

2    **Q.    Ms. Goldman claims that LTD will be a financially weaker company after**  
3           **the separation (Goldman Amended Response to Staff Testimony, page 23).**  
4           **In coming to that conclusion she expresses concern regarding the existence of**  
5           **negative shareholder equity (Goldman Response to Staff Testimony, pages**  
6           **15-16). Are her concerns regarding negative shareholder equity valid?**

7    **A.    Not at all. In that discussion, Ms. Goldman is referring to book value of equity,**  
8           **rather than market value. As discussed in my Direct Testimony (Collins Direct,**  
9           **page 7), book value of equity is often a function of accounting conventions and**  
10          **historical accounting treatment and, for companies like LTD Holding Company,**  
11          **is not a directly applicable figure for either valuation purposes or for assessing a**  
12          **company's capital structure. Book value results from the myriad accounting rules**  
13          **and often has no direct correlation to market value. This can be observed in the**  
14          **marketplace where companies with negative book equity values have positive and**  
15          **substantial market equity values. There is generally little correlation between the**  
16          **market value of equity of a company, the true indicator of the value of a company,**  
17          **and the book value of equity. As demonstrated on Attachment KPC-3 to my**  
18          **Surrebuttal Testimony, there is a lack of correlation between a company's market**  
19          **value of equity and book equity. For example, Proctor & Gamble, as of the date**  
20          **of the attachment, had \$132 billion of market equity value and less than \$19**  
21          **billion of book equity value. In fact, Proctor & Gamble's book equity would have**  
22          **been negative had it not been for goodwill that is held on the balance sheet.**

1   **Q.    But Ms. Goldman suggests that shareholders would be concerned that,**  
2       **because of negative book equity, LTD would not be able to raise additional**  
3       **capital funds, and in the case of a downturn the company could go bankrupt**  
4       **and shareholders be left with nothing (Goldman Amended Response to Staff**  
5       **Testimony, pages 14-15).**

6   **A.    As discussed in my Direct Testimony (Collins Direct, pages 11-12), the ability of**  
7       **a company to raise financing is a function of a number of factors, including, but**  
8       **not limited to attractiveness of its business, leverage and capital market**  
9       **conditions. Based on the Company's forecasts and assuming market conditions**  
10      **are reasonably similar to those existing today, LTD Holding Company should**  
11      **maintain a substantial market equity value as well as numerous alternatives for**  
12      **accessing capital in the future. For companies such as LTD Holding Company,**  
13      **lenders and investors look at a company's earnings power and its credit metrics**  
14      **(i.e. debt/EBITDA) when considering investing capital and do not put material**  
15      **weight on the book value of equity. Regarding a potential alleged downturn in**  
16      **LTD Holding Company's business performance beyond the declines forecasted in**  
17      **the base case projections, I have performed an analysis ("Report to Sprint Nextel**  
18      **Corporation" at pages 65-73, attached to my Direct Testimony) which tests the**  
19      **impact of underperformance versus plan for LTD. Based on this analysis, it is my**  
20      **opinion that LTD should be able to pay and/or refinance its debts as they become**  
21      **absolute and mature.**

1   **Q.     Based upon reading of the Testimony by Ms. Goldman, do your conclusions**  
2       **cited in your prior testimony change.**

3   **A.     No. There is nothing in my Direct Testimony that changes as a result of her**  
4       **testimony.**

5   **Q,     Does this conclude your Surrebuttal Testimony?**

6   **A.     Yes it does.**

10-2006-0086

Sprint

Surrebuttal Testimony of Kevin P. Collins

KPC-1

**PUBLIC**

**SPRINT-NEXTEL CORPORATION**  
**Market v. Book Value of Equity Analysis**  
**Select Companies**  
**(\$ in millions)**

Company	As of 3/31/05				As of 6/30/05			
	Market Value of Equity	Book Value of Equity	Goodwill Balance	BV of Equity less Goodwill	Market Value of Equity	Book Value of Equity	Goodwill Balance	BV of Equity less Goodwill
Cablevision Systems Corp.	\$8,077.9	(\$2,722.4)	\$1,446.0	(\$4,168.4)	\$9,288.1	(\$2,481.1)	\$989.6	(\$3,470.7)
EchoStar Communications Corp.	13,293.8	(1,829.8)	3.0	(1,832.8)	13,636.4	(972.1)	3.4	(975.5)
Cincinnati Bell Inc.	1,044.3	(627.6)	40.9	(668.5)	1,057.4	(659.3)	40.9	(700.2)
Clorox Co.	9,710.0	(346.0)	744.0	(1,090.0)	8,451.8	(553.0)	743.0	(1,296.0)
Lucent Technologies Inc.	12,174.3	(479.0)	427.0	(906.0)	12,932.0	(70.0)	423.0	(493.0)
Procter & Gamble Co.	\$132,203.2	\$18,730.0	\$20,286.0	(\$1,556.0)	\$130,445.5	\$18,475.0	\$19,816.0	(\$1,341.0)
General Mills Inc. <sup>(1)</sup>	18,942.6	5,292.0	6,711.0	(1,419.0)	17,306.1	5,144.0	6,675.0	(1,531.0)
Kellogg Co. <sup>(2)</sup>	17,554.1	2,290.6	3,445.5	(1,154.9)	18,436.3	2,477.4	3,445.5	(968.1)
Citizens Communications Co.	4,405.5	1,326.9	1,921.5	(594.6)	4,614.0	1,318.9	1,921.5	(602.6)
CenturyTel Inc.	4,311.0	3,429.2	3,433.9	(4.7)	4,498.7	3,443.1	3,444.2	(1.1)
Dell Inc. <sup>(3)</sup>	\$85,054.9	\$5,624.0	\$0.0	\$5,624.0	\$97,735.1	\$5,509.0	\$0.0	\$5,509.0

Source: Company filings and Factset.

(1) Figures for 3/1/05 and 6/30/05 are as of 2/27/05 and 8/28/05, respectively, due to different reporting periods.

(2) Figures for 3/1/05 and 6/30/05 are as of 4/2/05 and 7/2/05, respectively, due to different reporting periods.

(3) Figures for 3/1/05 and 6/30/05 are as of 4/29/05 and 7/29/05, respectively, due to different reporting periods.