Embarq CORP
Form DEF 14A
March 09, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant To Section 14(a)

Of The Securities Exchange Act Of 1934

(Amendment No.)

Filed by the registrant x Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

Embarq Corporation

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

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3) Filing Party:

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 26, 2007

The annual meeting of shareholders of Embarq Corporation will be held at 10:00 a.m. (Central Time) on Thursday, April 26, 2007, at the Overland Park Convention Center, 6000 College Boulevard, Overland Park, Kansas, for the following purposes:

1. To elect 8 directors to serve 1-year terms;

2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the 2007 fiscal year; and

3. To take action on any other business that properly comes before the meeting and any adjournments or postponements of the meeting.

Shareholders of record at the close of business on March 5, 2007 may vote at the annual meeting and at any adjournment of the meeting. In connection with our solicitation of proxies for the annual meeting, we are mailing this proxy statement, proxy card and Annual Report on Form 10-K to shareholders on or about March 15, 2007. Please vote in one of the following ways:

1. Use the toll-free number shown on your proxy card;

2. Visit our website, www.embarq.com, on the Shareholder Services page of our Investor Relations section to vote via the internet;

3. Complete, sign, date and return the enclosed proxy card in the enclosed postage-paid envelope; or

4. Vote in person at the meeting.

Your vote is very important. Please vote using one of the methods above to ensure that your vote will be counted. Your proxy may be revoked at any time before the vote at the annual meeting by following the procedures outlined in the accompanying proxy statement.

By order of the Board of Directors,

Claudia S. Toussaint
Vice President and Corporate Secretary

March 15, 2007

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COMMON QUESTIONS REGARDING OUR ANNUAL MEETING

AND PROXY STATEMENT

Why did I receive these proxy materials?

Our Board of Directors is soliciting your proxy so that as a shareholder you will have the opportunity to vote on matters that will be presented at our 2007 annual meeting of shareholders. This proxy statement provides you with information on these matters to assist you in voting your shares.

What is the purpose of this meeting?

At the annual meeting, our shareholders will be asked to:

- Elect 8 directors to serve for a 1-year term (Proposal 1);
- Ratify the appointment of KPMG LLP as our independent registered public accounting firm for our 2007 fiscal year (Proposal 2); and
- Take action on any other business that properly comes before the annual meeting and any adjournment or postponement of the annual meeting.

How does a proxy work?

When you complete and return your enclosed proxy card, you authorize the individuals listed on the proxy card, who were appointed by our Board of Directors, to vote your shares at the annual meeting in the manner you direct.

Who may vote at the meeting?

You may vote at the annual meeting if you own shares of our common stock at the close of business on the record date, March 5, 2007.

How do I vote my shares?

If you are a *shareholder of record,* you may vote:

- By returning your proxy card;
- Over the telephone or via the Internet; or
- In person at the meeting.

Your enclosed proxy card includes specific instructions for voting your shares. Our electronic voting procedures are designed to authenticate your identity and to ensure that your votes are accurately recorded.

If you hold your shares in *street name,* please vote your shares by following the instructions provided by your broker, bank, trustee or nominee, which are enclosed with these materials.

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What is the difference between a shareholder of record and a street name holder?

These terms describe how you hold your shares. If your shares are registered directly in your name, you are a shareholder of record. If your shares are held in the name of a brokerage, bank, trust, or other nominee as a custodian, your shares are held in street name. Shares held in an Embarq Retirement Savings Plan are held in street name.

Why did I receive more than one proxy card?

You will receive multiple proxy cards if you hold your shares in different ways (e.g., in trust, or custodial accounts) or in multiple accounts. If your shares are held in street name, you will receive a proxy card or other voting information from your broker (which should be enclosed with these materials). You should vote on, sign and return each proxy card you receive by following the instructions for each card.

What is a quorum for the annual meeting?

The presence in person or by proxy of the holders of common stock representing a majority of the issued and outstanding shares of our common stock entitled to vote on the record date will constitute a quorum. On our record date, March 5, 2007, there were 150,648,816 shares of common stock outstanding and entitled to vote at our annual meeting. Shares of common stock represented by a properly completed proxy card will be counted as present for purposes of determining a quorum, without regard to whether the proxy card indicates that a shareholder is voting or abstaining.

What vote is needed to approve each proposal?

Proposal 1 - Election of Directors

In an uncontested election, a director nominee must be elected by a ***majority*** of the votes cast, in person or by proxy, regarding the election of that director nominee. A majority means that the number of votes cast **FOR** a director nominee s election exceeds the number of abstentions and votes cast as **WITHHOLD** for that particular director nominee. If an incumbent director is not re-elected in an uncontested election and no successor is elected at the same meeting, the director must submit an offer to resign.

In a contested election, which occurs when the number of director nominees exceeds the number of open seats on the Board of Directors, director nominees will be elected by a ***plurality*** of the shares represented at the meeting. A plurality means that the open seats on the Board of Directors will be filled by those director nominees who received the most affirmative votes, regardless of whether those director nominees received a majority of the votes cast with respect to their election.

You may vote for director nominees by:

- Casting your vote in favor of all nominees;
- Withholding your vote from all nominees; or
- Withholding your vote from a specific nominee.

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Proposal 2 - Ratification of Independent Registered Public Accounting Firm

Proposal 2 must be approved by a ***majority*** of votes cast in person or by proxy.

What happens if I abstain or withhold my vote on a proposal?

Votes withheld and abstentions will be treated as votes cast against a proposal.

What are the Board of Directors recommendations?

The Board of Directors recommends that you vote your shares as follows:

Proposal 1	**FOR** the election of all 8 director nominees.
Proposal 2	**FOR** the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for our 2007 fiscal year.

Is my vote confidential?

Your vote will be kept confidential from our directors, officers and employees except for certain limited exceptions, including where we are required to disclose votes for legal reasons or in the event of a contested election. However, if you include a comment or question on your proxy card, a copy of the card will be sent to us.

What if I do not specify a choice when returning a proxy card?

If you return your signed proxy card without indicating how you want your shares to be voted, your shares will be voted ***for*** the election of each of the director nominees designated by the Board of Directors; and ***for*** the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for our 2007 fiscal year. Proxy cards that are returned without a signature will not be counted as present at the annual meeting and cannot be voted.

How can I revoke my proxy?

You may revoke your proxy by:

- Giving written notice to our Corporate Secretary;
- Delivering a later-dated, properly executed proxy card; or
- Voting in person at the meeting.

Where can I view proxy materials on the Internet?

You may view our proxy and annual meeting materials on our website, www.embarq.com, in the Investor Relations section. If you would like to review all future annual reports and proxy statements on the Internet instead of receiving them by mail, please vote via the Internet, using the procedures described below, and follow the instructions provided after you vote.

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How can I attend or view the annual meeting?

You may attend the meeting in person. If you plan to attend, please check the appropriate box on your proxy card or on the on-line voting form. **To attend, you must bring proof of ownership to the meeting such as a brokerage account or a Direct Registration statement showing that you owned Embarq common stock on March 5, 2007.** Seating is limited and it will be available on a first-come, first-served basis.

You may also view the meeting via live webcast on our website, www.embarq.com, on the Presentations and Webcasts page of our Investor Relations section. An archived replay will be available on our website for 2 weeks after our annual meeting.

Who pays for the cost of this proxy solicitation?

We will pay the cost and expenses of printing and mailing this proxy statement and soliciting and obtaining the proxies, including the cost of reimbursing brokers, banks and other financial institutions and nominees for forwarding proxy materials to their customers. Proxies may be solicited, without extra compensation, by our officers and employees by mail, telephone, fax, personal interviews or other methods of communication. If we hire a proxy solicitation firm, we will pay those costs and expenses as well.

How do I obtain a separate set of proxy materials if I share an address with other shareholders?

As permitted by Securities and Exchange Commission, or SEC, rules, we have delivered a single copy of our annual report and proxy statement to shareholders residing at the same address, unless you provided instructions to the contrary in response to a notice previously mailed to you. If you prefer to receive your own copy of these materials, please send a written request to Embarq Shareholder Relations, 5454 W. 110th Street, Overland Park, KS, 66211 or call 866-591-1964.

If you prefer to receive your own copy of proxy materials in the future, and you are a holder of record, please contact Embarq Shareholder Relations. If a bank, broker or other nominee holds your shares, you may instruct your broker to send duplicate mailings.

If you share a household address with another shareholder, and you received duplicate mailings of the proxy materials this year, you may request that your household receive a single set of proxy materials in the future. If you are a record holder, please contact our transfer agent, UMB Bank, n.a., at 866-591-1964, Option #1. If a broker or other nominee holds your shares, contact your bank, broker or nominee.

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PROPOSAL 1 - ELECTION OF DIRECTORS

(Item 1 on Proxy Card)

Our Board of Directors consists of 8 directors. If elected, each of our director nominees will serve until the 2008 annual meeting or until a successor has been elected and qualified. If any of the 8 nominees becomes unavailable for election, the persons named on the proxy card as proxies may vote for other nominees selected by the Board of Directors or by the named proxies.

Each of our 8 director nominees has served on our Board of Directors since May 1, 2006.

Our Board of Directors recommends that you vote FOR the election of the 8 director nominees in this Proposal 1.

Nominees for Director

Peter C. Brown, 48, is Chairman, Chief Executive Officer and President of AMC Entertainment Inc., a theatrical exhibition company. He has served as Chairman and Chief Executive Officer of AMC since July 1999 and as President of AMC since January 1997. He began his career with AMC in 1990 and became Senior Vice President and Chief Financial Officer in 1991. He served as Co-Chairman of the Board from May 1998 through July 1999 and as Executive Vice President from August 1994 to January 1997. Mr. Brown serves as a director of Midway Games, Inc. and National CineMedia, Inc.

Steven A. Davis, 48, is Chairman and Chief Executive Officer of Bob Evans Farms, Inc., a restaurant company. He has served as Chief Executive Officer since May 2006 and Chairman since November 2006. From October 2004 to May 2006, he served as President of the Long John Silvers and A&W Restaurants division and Multi-Branding for YUM! Brands, Inc., an international restaurant company. He held various positions of increasing responsibility with YUM! Brands companies beginning in 1993.

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Daniel R. Hesse, 53, is Chairman, President and Chief Executive Officer of Embarq. He served as Chief Executive Officer of Sprint Nextel Corporation s local telecommunications division from June 2005 until May 2006. From March 2000 to June 2004, he served as Chairman, President and Chief Executive Officer of Terabeam Corp., a Seattle-based communications company. From 1997 until 2000, he served as President and Chief Executive Officer of AT&T Wireless Services, a division of AT&T. Mr. Hesse serves as a director of Nokia Corporation and VF Corporation.

John P. Mullen, 51, is Chief Executive Officer of DHL Express, an international express delivery company. He has served as Chief Executive Officer since September 2006, and has served as a member of the Management Board of Deutsche Post World Net, the parent company of DHL, since January 2005. Mr. Mullen served as Joint Chief Executive of DHL from 2005 to 2006, and held various leadership positions with DHL and its predecessor companies beginning in 1990.

William A. Owens, 66, is Managing Director, Chairman and CEO of AEA Holdings Asia, a private equity fund. Mr. Owens served as Vice Chairman, President and Chief Executive Officer of Nortel Networks Corporation, a global supplier of communications equipment, from 2004 to 2005 and as Chairman and Chief Executive Officer of Teledesic LLC, a satellite communications company, from 1998 to 2003. He also served in the U.S. military from 1962 until 1996 holding various key leadership positions, including Vice Chairman of the Joint Chiefs of Staff. Mr. Owens serves as a director of DaimlerChrysler AG, Polycom, Inc. and Wipro Limited.

Dinesh C. Paliwal, 49, is Chairman and Chief Executive Officer of ABB Inc., a power and automation technology company. He has served as Chairman and Chief Executive Officer since January 2004, and as President, Global Markets & Technology, of ABB Ltd., the parent company of ABB Inc., since January 2006. He has served as a member of the ABB Group Executive Committee, ABB Ltd., since January 2001. From October 2002 to December 2005, Mr. Paliwal was President of

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ABB Automation Technology Worldwide. From January 2001 to October 2002, he served as President of ABB Process Industries. Mr. Paliwal has been with ABB for over 20 years in various leadership positions.

Stephanie M. Shern, 59, is the founder of Shern Associates LLC, a company founded in February 2002 that provides business advisory and retail consulting services. Mrs. Shern served as Senior Vice President of Kurt Salmon Associates, a retail consulting and business advisory firm, from 2001 to February 2002. Mrs. Shern held various positions with Ernst & Young, LLP from 1969 to 2001, including Vice Chairman and Global Director of Retail and Consumer Products. Mrs. Shern also serves as a director of GameStop Corp., Royal Ahold NV and The Scotts Miracle-Gro Company.

Laurie A. Siegel, 51, is Senior Vice President of Human Resources and Internal Communications for Tyco International Ltd., a global, diversified manufacturing and service company. She has held this position since January 2003. Before joining Tyco, she held various positions with Honeywell International Inc. from September 1994 to December 2002, including Vice President of Human Resources Specialty Materials.

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CORPORATE GOVERNANCE

Corporate Governance Guidelines

Our Corporate Governance Guidelines, adopted by our Board of Directors, embody our commitment to responsible and responsive corporate governance and are available at www.embarq.com/governance/documents/. You may also obtain a copy of the guidelines free of charge by writing to: Corporate Secretary, Embarq Corporation, 5454 W. 110th Street, Overland Park, Kansas 66211.

Director Independence

Our Corporate Governance Guidelines require that at least 2/3 of our directors be independent in accordance with the listing standards of the New York Stock Exchange, or NYSE. Our Board of Directors annually examines and makes a determination of each director s independence based on criteria set forth in our Corporate Governance Guidelines, as well as the NYSE listing standards. Our Board of Directors considers all relevant circumstances when examining director independence.

Several of our directors are employed by companies with which we do business in the ordinary course, either as a service provider, a customer or both. As required under the NYSE listing standards and our Corporate Governance Guidelines, our Board of Directors examined the amount spent by Embarq with those companies and by those companies with Embarq. Because in all cases the amount spent fell far below the threshold established in the NYSE listing standards and in our Corporate Governance Guidelines, our Board of Directors concluded that the amounts spent did not create a material relationship with us that would interfere with the exercise by any of these directors of his or her independent judgment.

Our Board of Directors also examined our directors memberships on other public company boards and private company, civic and not-for-profit boards, as well as those memberships of our executive officers, and did not find any relationships which our Board of Directors believed would prevent any director from exercising his or her independent judgment. Similarly, our Board of Directors examined the charitable donations we have made since May 2006 and did not find any donations that our Board of Directors believed would prevent any director from exercising his or her independent judgment.

After considering all relevant circumstances, our Board of Directors determined that all of our current directors and director nominees are independent under the NYSE listing standards and our Corporate Governance Guidelines, except for Daniel R. Hesse, our Chairman, President and Chief Executive Officer, or as we refer to him throughout this proxy statement, our CEO.

Lead Independent Director

Our Board of Directors annually designates an independent director to serve as Lead Independent Director as part of our efforts to ensure good corporate governance. Our Lead Independent Director oversees and coordinates the independent directors activities, facilitates our Board s oversight of management and ensures an appropriate flow of information between our Board and management. The Lead Independent Director s responsibilities are described in detail in our Corporate Governance Guidelines.

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Director Nomination Process

Our Nominating and Corporate Governance Committee considers and recommends to our Board of Directors candidates for election to the Board of Directors, and nominees for committee memberships and committee Chairs. Each member of the Committee participates in the review and discussion of director candidates. In addition, directors who are not on the Committee may meet with and evaluate the suitability of candidates. The full Board makes final determinations on director nominees.

When selecting candidates, our Nominating and Corporate Governance Committee seeks persons who have achieved prominence in their field and who possess significant experience in areas of importance to our company and evaluates each candidate on the following qualifications, among others: (1) character, including a reputation for personal integrity and adherence to high ethical standards, (2) judgment, (3) knowledge and experience in leading a successful company, business unit or other institution, (4) independence from Embarq and our management, (5) an ability to contribute diverse views and perspectives, (6) business acumen and (7) the ability and willingness to devote the time and attention necessary to be an effective director all in the context of the Committee s assessment of the Board of Directors needs at that point in time. Candidates also must demonstrate a willingness to work as part of a team in an atmosphere of trust and a commitment to represent the interests of all our shareholders rather than those of a specific constituency.

The Nominating and Corporate Governance Committee retains an independent, nationally recognized executive search firm to assist it with identifying, evaluating and recruiting new directors. Our Nominating and Corporate Governance Committee recommended, and our Board of Directors nominated, each director nominee included in this proxy statement. We did not receive any shareholder recommendations for director candidates in connection with our 2007 annual meeting of shareholders.

The Nominating and Corporate Governance Committee will evaluate director candidates recommended by shareholders using the same criteria applied to other candidates. Shareholders may send their recommendations for director candidates to: Board Communications Designee, Embarq Corporation, 5454 W. 110th Street. Overland Park, KS 66211, or send an e-mail to BoardInquiries@embarq.com.

If you wish to nominate a person for election to our Board of Directors at the 2008 annual meeting of shareholders, our Bylaws require you to notify us in writing no earlier than 150 days (October 17, 2007) and no later than 120 days (November 16, 2007) before March 15, 2008, which is the first anniversary of the mailing of materials for our 2007 annual meeting.

Shareholder Communications

Our Board of Directors values our shareholders views and any shareholder or other interested party who wishes to communicate with our Board of Directors, the Lead Independent Director or the other non-employee directors can contact the Board of Directors by writing to: Board Communications Designee, Embarq Corporation, 5454 W. 110th Street. Overland Park, KS 66211, or send an e-mail to Boardinquiries@embarq.com.

Our Board of Directors has instructed our Board Communications Designee to examine incoming communications to determine whether the communications are relevant to our Board s roles and responsibilities. Our Board of Directors has asked our Board Communications Designee to discard

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the following types of communications: spam, business solicitations and advertisements, resumes, and any threatening or hostile materials. Our Board Communications Designee will forward any service inquiries or complaints to the appropriate groups within Embarq for processing and response.

Our Board Communications Designee will review all appropriate communications and report those communications to the Chair or the full Nominating and Corporate Governance Committee, the full Board of Directors, or the independent directors as appropriate. The Board Communications Designee will take additional action or respond to letters in accordance with instructions from the relevant Board source. Communications relating to our accounting, internal accounting controls, or auditing matters will be referred promptly to the Audit Committee Chair.

Director Attendance at Annual Meetings

Our Board of Directors believes it is important for directors to make themselves available to our shareholders by attending our annual meetings of shareholders. Our Board has adopted a policy under which each director is expected to attend our annual meeting of shareholders unless an unavoidable circumstance or pre-existing conflict prevents him or her from doing so. Because we were a wholly-owned subsidiary of Sprint Nextel Corporation until May 17, 2006, we did not hold an annual meeting of shareholders in 2006.

Director Stock Ownership Guidelines

We have established stock ownership guidelines for our non-employee directors. These guidelines require each non-employee director to own Embarq securities equal to 5 times his or her annual cash retainer. Directors have 5 years from their initial election or appointment to the Board of Directors to comply with these requirements. We believe these guidelines focus our directors on increasing shareholder value.

Code of Ethics

Our Board of Directors has adopted a code of ethics, which we call the Embarq Code of Conduct, which applies to all our employees, including our executive officers, and directors. You can view the Embarq Code of Conduct on our website at www.embarq.com/governance/ethics/ and you may obtain a copy of the Embarq Code of Conduct free of charge by writing to: Corporate Secretary, Embarq Corporation, 5454 W. 110th Street, Overland Park, Kansas 66211.

BOARD OF DIRECTORS AND COMMITTEE MATTERS

Board Committees

The Board of Directors has established 3 standing committees the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee to assist it with carrying out its duties effectively. These committees meet regularly and report to the full Board on their activities. Each committee has a written charter, which you can view on our website at www.embarq.com/governance/committee/charters. You may also obtain a copy of any charter free of charge by writing to: Corporate Secretary, Embarq Corporation, 5454 W. 110th Street, Overland Park, Kansas 66211.

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Board and Committee Meetings

Between May 2006 and December 31, 2006, the full Board of Directors held 5 meetings, the Audit Committee held 8 meetings, the Compensation Committee held 7 meetings and the Nominating and Corporate Governance Committee held 2 meetings. During this period all directors attended at least 75% of the board meetings or the meetings of the committee(s) on which he or she served.

Committee Membership

The following table shows the current membership for each of our 3 standing committees:

Audit Committee	Nominating and Corporate Governance Committee	Compensation Committee
Stephanie M. Shern (Chair)*	William A. Owens (Chair)	Laurie A. Siegel (Chair)
Peter C. Brown*	Peter C. Brown	Dinesh C. Paliwal
Steven A. Davis	Laurie A. Siegel	Stephanie M. Shern
John P. Mullen		

*Denotes audit committee financial expert

The duties and membership of each committee are described below.

Audit Committee

Our Audit Committee is comprised of 4 non-employee directors, all of whom our Board of Directors has determined are independent under the NYSE listing standards, our Corporate Governance Guidelines and applicable SEC rules. Our Board of Directors has also determined that both Peter C. Brown and Stephanie M. Shern qualify as an audit committee financial expert, as that term is defined by applicable SEC rules, and that each member of the Audit Committee is financially literate within the meaning of the NYSE listing standards.

Consistent with the NYSE listing standards, our Corporate Governance Guidelines limit to 2 the number of public company audit committees in addition to our Audit Committee on which our Audit Committee members may serve without the review and approval of our Board of Directors. Mrs. Shern currently serves on the audit committees of 3 public companies in addition to serving on our Audit Committee. Our Board of Directors has discussed with Mrs. Shern her audit committee memberships and has evaluated the demands on her time. Based on these discussions, our Board of Directors has concluded that Mrs. Shern s service on 3 other public company audit committees does not impair her ability to serve effectively on our Audit Committee and act as our Audit Committee Chair.

Our Audit Committee s primary duties are to assist our Board of Directors in fulfilling its oversight responsibilities with respect to:

The integrity of our financial statements and related disclosures;

Our compliance with legal and regulatory requirements;

Our independent registered public accounting firm s qualifications and independence;

The performance of our independent registered public accounting firm and internal audit function; and

Our ethics and compliance program.

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Audit Committee Report

The Audit Committee has reviewed and discussed our audited consolidated financial statements for the fiscal year ended December 31, 2006 with Embarq s management and has also discussed with our independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 (SAS 61 Communication with Audit Committees), as amended, relating to our independent registered public accounting firm s judgment about the quality of our accounting principles, judgments and estimates, as applied in our financial reporting.

The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) that relates to the firm s independence from our company and our subsidiaries and we have discussed with our independent registered public accounting firm its independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in Embarq s Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission.

The Audit Committee

Stephanie M. Shern, Chair

Peter C. Brown

Steven A. Davis

John P. Mullen

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee is comprised of 3 non-employee directors, all of whom our Board of Directors has determined are independent under the NYSE listing standards and our Corporate Governance Guidelines.

The Nominating and Corporate Governance Committee s primary duties are to ensure that we have effective corporate governance policies and procedures, an effective Board of Directors and effective Board evaluation and director selection and nomination processes. Our Nominating and Corporate Governance Committee:

- Identifies candidates qualified to become directors;
- Recommends to the Board of Directors nominees for the next annual meeting of shareholders;
- Recommends to the Board of Directors nominees for each Board committee; and
- Develops, reviews and recommends to the Board of Directors corporate governance policies and practices.

Our Nominating and Corporate Governance Committee is also responsible for implementing our Related Persons Transaction Policy, as adopted by the Board of Directors. This written policy provides that our Nominating and Corporate Governance Committee will review any contemplated or planned transaction with us or any of our controlled subsidiaries where (1) one of our directors, executive officers, 5% shareholders, or any of their immediate family members has a material interest, and (2) the amount involved exceeds $100,000. The Nominating and Corporate Governance Committee will review the relevant details of the transaction submitted to it under the policy and may approve only those transactions it finds to be consistent with the best interests of Embarq and our shareholders.

Compensation Committee

Our Compensation Committee is comprised of 3 non-employee directors, all of whom our Board of Directors has determined are independent under the NYSE listing standards and our Corporate Governance Guidelines, and meet the definition of a non-employee director in the SEC rules promulgated under Section 16 of the Securities Exchange Act of 1934, as amended, and the definition of outside director for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended.

Our Compensation Committee s responsibilities are described in detail in its charter and include, among others, the responsibility to:

- Oversee the review of the CEO s performance and set his compensation, subject to input from and ratification by the independent directors;
- Review management s assessment of the performance of our senior officers and set their compensation;
- Develop and oversee our executive compensation programs and approve goals and objectives relevant to executive compensation, including CEO and executive officer compensation;
- Design and administer our incentive compensation plans, equity-based compensation plans, and employee benefits plans;
- Advise our Board of Directors regarding non-employee director compensation;
- Oversee succession planning and our executive and director stock ownership guidelines; and
- Review our executive compensation disclosure in our public filings.

Our Compensation Committee regularly consults with members of management, including our CEO and Senior Vice President - Human Resources, as well as its outside compensation and other advisors. Our Compensation Committee considers the perspectives and recommendations of management and its outside advisors and exercises its independent judgment to make compensation decisions or recommendations to the Board of Directors, as appropriate. The Compensation Committee regularly meets in executive session and the Compensation Committee Chair regularly reports the Committee s activities to the Board of Directors. Our method for designing our 2006 compensation program is discussed in greater detail in Compensation Discussion and Analysis.

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Our Compensation Committee is permitted by its charter to delegate its authority to sub-committees and to retain, determine the fees for and terminate compensation advisors and other advisors to assist the Committee. Our Compensation Committee has delegated certain general administrative tasks involving our compensation and benefits programs to members of our human resources department and to our Employee Benefits Committee, which is comprised of members of management.

In connection with our spin-off from Sprint Nextel in May 2006, our Compensation Committee retained Deloitte Consulting as its outside compensation advisor, and the Sprint Nextel Human Capital and Compensation Committee, or as we refer to it, the Sprint Nextel Committee, retained Frederic W. Cook & Co. as its outside compensation advisor, to assist in the design of our 2006 compensation program. Our Compensation Committee also consulted with other outside advisors, including outside tax and legal counsel, and our accounting and tax departments with respect to the accounting and tax consequences of certain design features of our 2006 compensation program.

In the fall of 2006, our Compensation Committee conducted a formal request for proposal process and directly retained Korn/Ferry Executive Compensation Advisors as its outside compensation advisor to advise it regarding future compensation decisions. Korn/Ferry provides the Compensation Committee with relevant market data and alternatives to consider when making compensation decisions. Our Compensation Committee reviews the total fees paid to the compensation advisor and regularly evaluates relationships between management and the compensation advisor. Korn/Ferry has not provided and does not provide other services to us.

Compensation Committee Interlocks and Insider Participation

During 2006, no Compensation Committee member (1) was an Embarq officer or employee, (2) was a former Embarq officer or employee, or (3) had any relationships requiring disclosure under the SEC s rules requiring disclosure of certain relationships and related party transactions. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board of Directors or Compensation Committee.

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis and the tabular disclosure that follows discusses compensation information relating to our CEO, our Chief Financial Officer, and our 3 other most highly compensated executive officers for the year ended December 31, 2006, or as we refer to them collectively, our Named Officers.

Embarq Compensation Program Objectives and Principles

As a contemporary communications company with heavy penetration in traditional wireline technology and a need to expand our services to our customers in a highly competitive marketplace, it is critical for us to attract, motivate and retain highly talented individuals at every level of the company who are committed to the company s core values of competitiveness, innovation, teamwork, community involvement and integrity. At the time of our spin-off from Sprint Nextel in May 2006, our overall compensation design structure was largely established by the Sprint Nextel Committee. Before the spin-off, the Sprint Nextel Committee, and after the spin-off, our Compensation Committee, have endeavored to apply the same principles to our Named Officers as have been applied to all our employees:

All compensation is set at competitive market rates, taking into account other companies with which we compete either for business or talent or both, as well as other businesses of similar size and complexity. We strive to set each component of compensation at the 50th percentile in the marketplace.

In establishing and periodically adjusting individual compensation levels, we also consider individual job responsibility and performance as well as company performance. From time to time, we also provide special recognition or retention awards on an individual basis, including to our Named Officers.

We believe that compensation should be performance-based. Accordingly, all employees, from entry-level employees to the CEO, are subject to the same short-term incentive, or STI, performance objectives and all employees who participate in our Long-Term Incentive, or LTI, program are subject to the same LTI performance objectives. Employees in higher levels of the organization have greater percentages of their pay at risk than do entry-level employees. Our CEO has the greatest percentage of his pay delivered in variable compensation. On average, approximately 15% of our Named Officers total direct compensation is attributed to fixed base salaries, while the remaining 85% is attributed to compensation that is based on company performance through our STI and long-term incentive, or LTI, programs. Total direct compensation is defined below in 2006 Compensation Program - Total Direct Compensation Methodology.

To be effective, our compensation programs are designed to be broadly similar across the organization, as well as relevant and understandable to our employees. As a result, we have emphasized revenue, profitability and customer satisfaction in our STI program.

We believe our employees should be motivated to increase shareholder value. Our incentive compensation programs therefore emphasize financial and strategic goals that we consider crucial to the success of our business and the growth of long-term shareholder value.

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Our cash and equity compensation programs are designed to be sufficiently competitive to attract highly skilled executives, without the need to provide substantial additional executive perquisites. We have adopted a strategy of generally being perquisite-free with limited exceptions described below.

During 2006, our compensation programs also had to take into consideration our need to compete with Sprint Nextel for executive and other talent and to avoid reducing compensation for employees joining us from Sprint Nextel. Accordingly, we entered into an Employee Matters Agreement and assumed certain pre-existing employment agreements for certain of our employees, including some of our Named Officers.

Our compensation programs are designed to be tax efficient and comply with relevant Internal Revenue Code and accounting requirements. However, to maintain flexibility, our Compensation Committee reserves the right to design programs that vary from these standards when such variation is believed to be in the interest of our shareholders.

Because we recognize that all employees, including our Named Officers, should be evaluated and rewarded on their individual performance, base salaries are established and considered for adjustment annually based on a review of individual performance and contributions evaluated against individual goals and objectives and market competitiveness. Adjustments to base salary also affect STI target opportunity for those employees whose STI target opportunity is based on a percentage of base salary.

Finally, our 2006 compensation program was structured to recognize the unique challenges related to launching an independent company.

Compensation Design Tools and Processes

During 2006, a variety of tools and processes were used to establish our 2006 compensation program and to set our Named Officers compensation.

External and Internal Pay Comparison

In addition to an analysis of our relevant labor market to determine market-competitive compensation levels, as described below, we reviewed the relative importance and complexity of positions within our company. Those compensation levels were adjusted based on this review, as appropriate.

Use of Compensation Advisors and the Role of Certain Executive Officers

The Sprint Nextel Committee and our Compensation Committee consulted with their respective management teams and used outside compensation advisors to provide independent analysis of our 2006 compensation program. For more information about the involvement of management and the role of outside compensation advisors, see Board of Directors and Committee Matters Compensation Committee.

Review of Tally Sheets

Both compensation committees periodically reviewed comprehensive tally sheets that generally included all material aspects of compensation, including the current value of all equity-based compensation held, and the value of payments to each Named Officer following a termination of employment under various scenarios.

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2006 Compensation Program

The material elements of our 2006 compensation program for our approximately 220 executives, including our Named Officers, and related programs are:

Total Direct Compensation

- Base salary;
- Short-term incentive compensation; and
- Long-term incentive compensation.

Other Compensation

- Executive perquisites;
- Retirement benefits; and
- Other legacy benefits.

Total Direct Compensation Methodology

When we designed our 2006 compensation program, we conducted a market analysi