SPRINT Corp
Form 10-Q
February 05, 2015
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended December 31, 2014

or

o 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)

Delaware	46-1170005
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6200 Sprint Parkway, Overland Park, Kansas	66251
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (855) 848-3280

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 such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x		Accelerated filer	o
Non-accelerated filer	o	(Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes o No x

COMMON SHARES OUTSTANDING AT FEBRUARY 2, 2015:

Sprint Corporation Common Stock	3,957,841,420

Table of Contents

SPRINT CORPORATION
TABLE OF CONTENTS

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SPRINT CORPORATION
CONSOLIDATED BALANCE SHEETS

	Successor	
	December 31, 2014	March 31, 2014
	(in millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,455	$ 4,970
Short-term investments	254	1,220
Accounts and notes receivable, net of allowance for doubtful accounts and deferred interest of $325 and $197, respectively	4,362	3,607
Device and accessory inventory	1,513	982
Deferred tax assets	101	128
Prepaid expenses and other current assets	773	672
Total current assets	10,458	11,579
Property, plant and equipment, net	18,853	16,299
Intangible assets		
Goodwill	6,343	6,383
FCC licenses and other	39,942	41,978
Definite-lived intangible assets, net	6,288	7,558
Other assets	1,154	892
Total assets	$ 83,038	$ 84,689
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,220	$ 3,163
Accrued expenses and other current liabilities	5,722	5,544
Current portion of long-term debt, financing and capital lease obligations	1,302	991
Total current liabilities	12,244	9,698
Long-term debt, financing and capital lease obligations	31,160	31,787
Deferred tax liabilities	13,681	14,207
Other liabilities	3,864	3,685
Total liabilities	60,949	59,377
Commitments and contingencies		
Stockholders' equity:		
Common stock, voting, par value $0.01 per share, 9.0 billion authorized, 3.956 billion and 3.941 billion issued at December 31, 2014 and March 31, 2014, respectively	40	39
Paid-in capital	27,478	27,354
Accumulated deficit	(5,159)	(2,038)
Accumulated other comprehensive loss	(270)	(43)
Total stockholders' equity	22,089	25,312
Total liabilities and stockholders' equity	$ 83,038	$ 84,689

See Notes to the Consolidated Financial Statements

1

Table of Contents

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Successor				Predecessor
	Three Months Ended		Nine Months Ended		101 Days Ended
	December 31,		December 31,		July 10,
	2014	2013	2014	2013	2013
	(in millions, except per share amounts)				
Net operating revenues	$8,973	$9,142	$26,250	$16,891	$ 9,809
Net operating expenses:					
Cost of services and products (exclusive of depreciation and amortization included below)	5,282	5,435	14,761	9,777	5,612
Selling, general and administrative	2,647	2,546	7,232	4,827	2,731
Impairments	2,133	—	2,133	—	—
Severance and exit costs	22	206	333	309	627
Depreciation	940	1,084	2,706	2,026	1,676
Amortization	380	447	1,189	908	77
Other, net	109	—	109	—	—
	11,513	9,718	28,463	17,847	10,723
Operating loss	(2,540)	(576)	(2,213)	(956)	(914)
Other (expense) income:					
Interest expense	(506)	(502)	(1,528)	(918)	(703)
Equity in losses of unconsolidated investments, net	—	—	—	—	(280)
Gain on previously-held equity interests	—	—	—	—	2,926
Other income, net	10	55	19	67	19
	(496)	(447)	(1,509)	(851)	1,962
(Loss) income before income taxes	(3,036)	(1,023)	(3,722)	(1,807)	1,048
Income tax benefit (expense)	657	(15)	601	(44)	(1,563)
Net loss	$(2,379)	$(1,038)	$(3,121)	$(1,851)	$ (515)
Basic net loss per common share	$(0.60)	$(0.26)	$(0.79)	$(0.51)	$ (0.17)
Diluted net loss per common share	$(0.60)	$(0.26)	$(0.79)	$(0.51)	$ (0.17)
Basic weighted average common shares outstanding	3,957	3,944	3,950	3,607	3,038
Diluted weighted average common shares outstanding	3,957	3,944	3,950	3,607	3,038
Other comprehensive (loss) income, net of tax:					
Net unrealized holding (losses) gains on securities and other	$(12)	$5	$(18)	$9	$ (11)
Net unrecognized net periodic pension and other postretirement benefits	(208)	93	(209)	93	20
Other comprehensive (loss) income	(220)	98	(227)	102	9
Comprehensive loss	$(2,599)	$(940)	$(3,348)	$(1,749)	$ (506)

See Notes to the Consolidated Financial Statements

Table of Contents

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor		Predecessor
	Nine Months Ended		101 Days Ended
	December 31,		July 10,
	2014	2013	2013
	(in millions)		
Cash flows from operating activities:			
Net loss	$(3,121)	$(1,851)	$ (515)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Impairments	2,133	—	—
Depreciation and amortization	3,895	2,934	1,753
Provision for losses on accounts receivable	730	261	111
Share-based and long-term incentive compensation expense	89	98	20
Deferred income tax (benefit) expense	(634)	33	1,562
Equity in losses of unconsolidated investments, net	—	—	280
Gain on previously-held equity interests	—	—	(2,926)
Interest expense related to beneficial conversion feature on convertible bond	—	—	247
Contribution to pension plan	(22)	(7)	—
Call premiums paid on debt redemptions	—	(180)	—
Amortization and accretion of long-term debt premiums and discounts, net	(226)	(160)	(5)
Other changes in assets and liabilities:			
Accounts and notes receivable	(1,356)	(547)	(65)
Inventories and other current assets	(1,044)	(391)	55
Accounts payable and other current liabilities	1,183	17	1,014
Non-current assets and liabilities, net	(259)	(379)	191
Other, net	106	113	9
Net cash provided by (used in) operating activities	1,474	(59)	1,731
Cash flows from investing activities:			
Capital expenditures	(3,957)	(3,847)	(1,759)
Expenditures relating to FCC licenses	(121)	(146)	(70)
Reimbursements relating to FCC licenses	95	—	—
Acquisitions, net of cash acquired	—	(14,112)	(4,039)
Investment in Clearwire (including debt securities)	—	—	(228)
Proceeds from sales and maturities of short-term investments	2,913	1,715	1,164
Purchases of short-term investments	(1,947)	(1,719)	(295)
Proceeds from sales of assets and FCC licenses	114	7	4
Other, net	(9)	(6)	(4)
Net cash used in investing activities	(2,912)	(18,108)	(5,227)
Cash flows from financing activities:			
Proceeds from debt and financings	300	9,500	—

Repayments of debt, financing and capital lease obligations	(390)	(3,378)	(303)
Debt financing costs	(37)	(147)	(1)
Proceeds from issuance of common stock and warrants, net	50	18,567	53
Other, net	—	(14)	—
Net cash (used in) provided by financing activities	(77)	24,528	(251)
Net (decrease) increase in cash and cash equivalents	(1,515)	6,361	(3,747)
Cash and cash equivalents, beginning of period	4,970	3	6,275
Cash and cash equivalents, end of period	$3,455	$6,364	$ 2,528

See Notes to the Consolidated Financial Statements

3

Table of Contents

SPRINT CORPORATION
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(in millions)

	Successor Common Stock					
	Shares	Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance, March 31, 2014	3,941	$39	$27,354	$ (2,038)	$ (43)	$25,312
Net loss	—	—	—	(3,121)	—	(3,121)
Other comprehensive loss, net of tax	—	—	—	—	(227)	(227)
Issuance of common stock, net	15	1	49	—	—	50
Share-based compensation expense	—	—	75	—	—	75
Balance, December 31, 2014	3,956	$40	$27,478	$ (5,159)	$ (270)	$22,089

See Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
INDEX

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. All normal recurring adjustments considered necessary for a fair presentation have been included. Certain disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our transition report on Form 10-K for the period ended March 31, 2014. Unless the context otherwise requires, references to "Sprint," "we," "us," "our" and the "Company" mean Sprint Corporation and its consolidated subsidiaries for all periods presented, inclusive of Successor and Predecessor periods (each as defined below), and references to "Sprint Communications" are to Sprint Communications, Inc. and its consolidated subsidiaries.

On July 10, 2013 (SoftBank Merger Date), SoftBank Corp. and certain of its wholly-owned subsidiaries (together, "SoftBank") completed the merger (SoftBank Merger) with Sprint Nextel Corporation (Sprint Nextel) contemplated by the Agreement and Plan of Merger, dated as of October 15, 2012 (as amended, the Merger Agreement), and the Bond Purchase Agreement, dated as of October 15, 2012 (as amended, the Bond Agreement). As a result of the SoftBank Merger, Starburst II, Inc. (Starburst II) became the parent company of Sprint Nextel. Immediately thereafter, Starburst II changed its name to Sprint Corporation and Sprint Nextel changed its name to Sprint Communications, Inc. In connection with the change of control, as a result of the SoftBank Merger, Sprint Communications' assets and liabilities were adjusted to fair value on the closing date of the SoftBank Merger. The consolidated financial statements distinguish between the predecessor period (Predecessor) relating to Sprint Communications for periods prior to the SoftBank Merger and the successor period (Successor) relating to Sprint Corporation, formerly known as Starburst II, for periods subsequent to the incorporation of Starburst II on October 5, 2012. The Successor financial information represents the activity and accounts of Sprint Corporation, which includes the activity and accounts of Starburst II prior to the close of the SoftBank Merger on July 10, 2013 and Sprint Communications, inclusive of the consolidation of Clearwire Corporation and its wholly-owned subsidiary Clearwire Communications LLC (together, "Clearwire"), prospectively following completion of the SoftBank Merger, beginning on July 11, 2013. The accounts and operating activity of Starburst II prior to the close of the SoftBank Merger primarily related to merger expenses that were incurred in connection with the SoftBank Merger (recognized in selling, general and administrative expense) and interest related to the $3.1 billion convertible bond (Bond) Sprint Communications, Inc. issued to Starburst II. The Predecessor financial information represents the historical basis of presentation for Sprint Communications for the 101-day period ended July 10, 2013 prior to the SoftBank Merger. As a result of the valuation of assets acquired and liabilities assumed at fair value at the time of the SoftBank Merger, the financial statements for the Successor period are presented on a measurement basis different than the Predecessor period (Sprint Communications historical cost) and are, therefore, not comparable. In addition, in order to align with SoftBank's reporting schedule, our Board of Directors approved a change in fiscal year end to March 31, effective March 31, 2014. References herein to fiscal year 2014 refer to the twelve-month period ending March 31, 2015. See Note 3. Significant Transactions for additional information regarding the SoftBank Merger.

On July 9, 2013 (Clearwire Acquisition Date), Sprint Communications completed the acquisition of the remaining equity interests in Clearwire that it did not already own for approximately $3.5 billion, net of cash acquired, or $5.00 per share (Clearwire Acquisition). The consideration paid was allocated to assets acquired and liabilities assumed based on their estimated fair values at the time of the Clearwire Acquisition. The effects of the Clearwire Acquisition are included in the Predecessor period financial information and are therefore included in the allocation of the consideration transferred at the closing date of the SoftBank Merger.

The preparation of the unaudited interim consolidated financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements. These estimates are inherently subject to judgment and actual results could differ.
Certain prior period amounts have been reclassified to conform to the current period presentation.

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Change in Estimate

When estimating the value of returned inventory, we evaluate many factors and obtain information to support the estimated value of used devices and the useful lives. Recently, we have observed sustained value and extended useful lives for handsets leading to an increase in the estimated value for returned inventory. As a result, we revised our methodology and assumptions used in estimating the value for returned handsets during the quarter ended December 31, 2014.

The change in estimate was accounted for on a prospective basis effective October 1, 2014. The effect of the change in estimate, which was included in "Cost of services and products" in our consolidated statements of comprehensive loss, reduced our operating loss by approximately $100 million, or $0.03 per basic and diluted share, for both the three and nine-month periods ended December 31, 2014. In addition, this change resulted in an increase to "Device and accessory inventory" on the consolidated balance sheet of approximately $100 million at December 31, 2014.

Note 2. New Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding Reporting of Discontinued Operations and Disclosures of Disposals of Components of an Entity, which changes the criteria for determining which disposals can be presented as discontinued operations and modifies related disclosure requirements. The updated guidance defines discontinued operations as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results. Additionally, the disclosure requirements for discontinued operations were expanded and new disclosures for individually significant dispositions that do not qualify as discontinued operations are required. The guidance is effective prospectively for fiscal years and interim reporting periods within those years beginning after December 15, 2014, with early adoption permitted for transactions that have not been reported in financial statements previously issued or available for issuance. The standard will be effective for the Company's fiscal year beginning April 1, 2015 and will be applied to relevant future transactions.

In May 2014, the FASB issued new authoritative literature, Revenue from Contracts with Customers. The issuance is part of a joint effort by the FASB and the International Accounting Standards Board (IASB) to enhance financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards and, thereby, improving the consistency of requirements, comparability of practices and usefulness of disclosures. The new standard will supersede much of the existing authoritative literature for revenue recognition. The standard and related amendments will be effective for the Company for its annual reporting period beginning April 1, 2017, including interim periods within that reporting period. Early application is not permitted. Entities are allowed to transition to the new standard by either retrospective application or recognizing the cumulative effect. The Company is currently evaluating the newly issued guidance, including which transition approach will be applied and the estimated impact it will have on our consolidated financial statements.

In June 2014, the FASB issued authoritative guidance regarding Compensation - Stock Compensation, which provides guidance on how to treat performance targets that can be achieved after the requisite service period. The updated guidance requires that a performance target that affects vesting and could be achieved after the requisite service period be treated as a performance condition and accounted for under current guidance as opposed to a nonvesting condition that would impact the grant-date fair value of the award. The guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015 with early adoption permitted. Entities may apply the amendments either (i) prospectively to all awards granted or modified after the effective date; or (ii) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter with the cumulative effect as an adjustment to the opening retained earnings balance as of the beginning of the earliest annual period presented. The Company does not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In August 2014, the FASB issued authoritative guidance regarding Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, which requires management to assess an entity’s ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. The updated guidance requires management to perform interim and annual assessments on whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

statements are issued and to provide related disclosures, if required. The standard will be effective for the Company's fiscal year ending March 31, 2017, although early adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In January 2015, the FASB issued authoritative guidance on Extraordinary and Unusual Items, eliminating the concept of extraordinary items. The issuance is part of the FASB's initiative to reduce complexity in accounting standards. Under the current guidance, an entity is required to separately classify, present and disclose events and transactions that meet the criteria for extraordinary classification. Under the new guidance, reporting entities will no longer be required to consider whether an underlying event or transaction is extraordinary, however, presentation and disclosure guidance for items that are unusual in nature or occur infrequently was retained and expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for the Company's fiscal year beginning April 1, 2016, although early adoption is permitted if applied from the beginning of a fiscal year. The Company does not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

Note 3. Significant Transactions

Acquisition of Remaining Interest in Clearwire

On July 9, 2013, Sprint Communications completed the Clearwire Acquisition. The cash consideration paid totaled approximately $3.5 billion, net of cash acquired of $198 million. Approximately $125 million of the cash consideration was accrued as "Accrued expenses and other current liabilities" on the consolidated balance sheet for dissenting shares relating to stockholders who exercised their appraisal rights.

The fair value of consideration, which is measured at the estimated fair value of each element of consideration transferred as of the Clearwire Acquisition Date, was determined as the sum of (a) approximately $3.7 billion of cash transferred to Clearwire stockholders, which included $125 million of cash relating to dissenting shares, (b) approximately $3.3 billion representing the estimated fair value of Clearwire shares held by Sprint Communications immediately preceding the acquisition and (c) approximately $59 million of share-based payment awards (replacement awards) exchanged for awards held by Clearwire employees.

Purchase Price Allocation

The consideration transferred has been allocated to assets acquired and liabilities assumed based on their estimated fair values at the time of the Clearwire Acquisition. The allocation of consideration transferred was based on management's judgment after evaluating several factors, including a valuation assessment. Management finalized its purchase price allocation during the quarter ended June 30, 2014. Adjustments made since the initial purchase price allocation decreased recorded goodwill by approximately $269 million and were primarily attributable to a reduction of approximately $270 million made to deferred tax liabilities as a result of additional analysis. The remaining adjustments were insignificant.

The following table summarizes the purchase price allocation of consideration in the Clearwire Acquisition:

Purchase Price Allocation (in millions):	
Current assets	$778
Property, plant and equipment	1,245
Identifiable intangibles	12,870
Goodwill	437
Other assets	25
Current liabilities	(1,070)
Long-term debt	(4,288)

Deferred tax liabilities	(2,130)
Other liabilities	(876)
Net assets acquired	$6,991

The excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed was recorded as goodwill.

8

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SoftBank Transaction
As discussed above, the SoftBank Merger was completed on July 10, 2013. Sprint Communications, Inc. stockholders received consideration in a combination of both cash and stock, subject to proration. Consideration paid in the SoftBank Merger was $14.1 billion, net of cash acquired of $2.5 billion, and the estimated fair value of the 22% interest in Sprint Corporation issued to the then existing stockholders of Sprint Communications, Inc.
In addition, pursuant to the Bond Agreement, on October 15, 2012, Sprint Communications, Inc. issued a Bond to Starburst II with a principal amount of $3.1 billion, interest rate of 1%, and maturity date of October 15, 2019, which was converted into 590,476,190 shares of Sprint Communications, Inc. common stock at $5.25 per share immediately prior to the close of the SoftBank Merger. As a result of the completion of the SoftBank Merger and subsequent open market stock purchases, SoftBank owned approximately 80% of the outstanding voting common stock of Sprint Corporation as of December 31, 2014. Other Sprint stockholders owned the remaining approximately 20% as of December 31, 2014.
Consideration Transferred and Investments by SoftBank
The fair value of consideration transferred, which is measured at the estimated fair value of each element of consideration transferred as of the SoftBank Merger Date, was determined as the sum of (a) approximately $16.6 billion of cash transferred to Sprint Communications, Inc. stockholders, (b) approximately $5.3 billion representing shares of Sprint issued to Sprint Communications, Inc. stockholders and (c) approximately $193 million of share-based payment awards (replacement awards) exchanged for awards held by Sprint employees.
Additionally, SoftBank invested approximately $5.0 billion of capital contributions in Sprint. The fair value of the investments by SoftBank was determined based on the cash transferred, including $3.1 billion to purchase the Bond and $1.9 billion at the close of the SoftBank Merger.
Purchase Price Allocation
The consideration transferred has been allocated to assets acquired and liabilities assumed based on their estimated fair values as of the SoftBank Merger Date, inclusive of the Clearwire Acquisition described above. The excess of the consideration transferred over the estimated fair values of assets acquired and liabilities assumed was recorded as goodwill. Goodwill resulting from the SoftBank Merger is allocated to the Wireless segment. The allocation of consideration transferred was based on management's judgment after evaluating several factors, including a valuation assessment. Management finalized its purchase price allocation during the quarter ended June 30, 2014. Adjustments made since the initial purchase price allocation decreased recorded goodwill by approximately $476 million. Indefinite-lived intangible assets increased by approximately $300 million due to additional analyses performed by management during the quarter ended December 31, 2013 and the quarter ended June 30, 2014 related to the value assigned to certain Federal Communications Commission (FCC) licenses. The remainder of the decrease was due to insignificant changes in various accounts.
The following table summarizes the purchase price allocation of consideration transferred:

Purchase Price Allocation (in millions):		
Current assets	$8,576	
Investments	133	
Property, plant and equipment	14,558	
Identifiable intangibles	50,672	
Goodwill	6,343	
Other assets	244	
Current liabilities	(10,623	)
Long-term debt	(29,481	)

Deferred tax liabilities	(14,256)
Other liabilities	(3,989)
Net assets acquired, prior to conversion of the Bond	22,177
Conversion of Bond	3,100
Net assets acquired, after conversion of the Bond	$25,277

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable Facility
Transaction Overview
On May 16, 2014, certain wholly-owned subsidiaries of Sprint entered into a two-year committed facility (Receivables Facility) to sell certain accounts receivable (the Receivables) on a revolving basis, subject to a maximum funding limit of $1.3 billion. The actual amount available to draw upon varies based on eligible receivables as defined in the agreement, therefore, the amount available to withdraw will vary. In connection with the Receivables Facility, Sprint formed wholly-owned subsidiaries that are bankruptcy-remote special purpose entities (SPEs). Pursuant to the Receivables Facility, certain Sprint subsidiaries (Originators) will transfer selected Receivables to the SPEs. The SPEs will then sell the Receivables to a bank agent on behalf of unaffiliated multi-seller asset-backed commercial paper conduits (Conduits) or their sponsoring banks. Sales of eligible Receivables to the Conduits may occur daily and are settled on a monthly basis. Sprint pays a fee for the drawn and undrawn portions of the Receivables Facility, respectively. The Receivables primarily consist of wireless service charges currently due from subscribers and are short-term in nature. A subsidiary of Sprint will service the Receivables in exchange for a monthly servicing fee, and Sprint guarantees the performance of obligations of the servicer and the Originators under the Receivables Facility. As of December 31, 2014, Sprint had not sold any Receivables to the Conduits and the amount available under the Receivables Facility was $1.0 billion.
Receivables sold will be treated as a sale for accounting purposes. The expected accounting impacts include the derecognition of Receivables sold by the SPEs to the Conduits, recognition of cash received in exchange for the sale and recognition at fair value of a receivable due to Sprint from the Conduits for the difference between the Receivables sold and the cash received, less estimated fees and other items.
Each SPE’s sole business consists of the purchase or acceptance through capital contributions of the Receivables from the Originators and the subsequent retransfer of, or granting of a security interest in, such Receivables to the bank agent under the Receivables Facility. In addition, each SPE is a separate legal entity with its own separate creditors who will be entitled, upon its liquidation, to be satisfied out of the SPE’s assets prior to any assets or value in the SPE becoming available to the Originators or Sprint, and the assets of the SPE are not available to pay creditors of Sprint or any of its affiliates (other than any other SPE).
Variable Interest Entity
Sprint determined the Conduits are considered variable interest entities (VIEs) because they lack sufficient equity to finance their activities. Sprint's interests in the Receivables purchased by the Conduits, which are comprised of the net receivables due to Sprint, are not considered variable interests because they are in assets which represent less than 50% of the total activity of the Conduits.

Note 4. Installment Receivables
Certain subscribers have the option to purchase devices in installments over a 24-month period. The carrying value of installment receivables approximates fair value because the receivables are recorded at their present value, net of the deferred interest and allowance for credit losses. At the time of sale, we impute the interest on the installment receivable and record it as a reduction to equipment revenue and as a reduction to the face amount of the related receivable. Interest income is recognized over the term of the installment contract as operating revenue. Short-term installment receivables are recorded in "Accounts and notes receivable, net" and long-term installment receivables are recorded in "Other assets" in the consolidated balance sheets.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the installment receivables:

	Successor	
	December 31, 2014	March 31, 2014
	(in millions)	
Installment receivables, gross	$1,790	$740
Deferred interest	(153)	(77)
Installment receivables, net of deferred interest	1,637	663
Allowance for credit losses	(166)	(47)
Installment receivables, net	$1,471	$616
Classified on the consolidated balance sheets as:		
Accounts and notes receivable, net	$1,012	$299
Other assets	459	317
Installment receivables, net	$1,471	$616

We categorize our installment receivables as prime and subprime based upon subscriber credit profiles and as unbilled, billed-current and billed-past due based upon the age of the receivable. We use proprietary scoring systems that measure the credit quality of our receivables using several factors, such as credit bureau information, subscriber credit risk scores and service plan characteristics. Payment history is subsequently monitored to further evaluate credit profiles. Prime subscriber receivables are those with lower delinquency risk and subprime subscriber receivables are those with higher delinquency risk. Subscribers within the subprime category may be required to pay a down payment on their device and accessory purchases. Installment receivables for which invoices have not yet been generated for the customer are considered unbilled. Installment receivables for which invoices have been generated but which are not past the contractual due date are considered billed - current. Installment receivables for which invoices have been generated and the payment is approximately ten days past the contractual due date are considered billed - past due. Account balances are written-off if collection efforts were unsuccessful and future collection is unlikely based on the length of time from the day accounts become past due.

The balance and aging of installment receivables on a gross basis by credit category were as follows:

	Successor					
	December 31, 2014			March 31, 2014		
	Prime	Subprime	Total	Prime	Subprime	Total
	(in millions)					
Unbilled	$1,296	$369	$1,665	$466	$242	$708
Billed - current	60	22	82	16	9	25
Billed - past due	23	20	43	5	2	7
Installment receivables, gross	$1,379	$411	$1,790	$487	$253	$740

Activity in the deferred interest and allowance for credit losses for the installment receivables for the nine-month period ended December 31, 2014 was as follows:

	Successor	
	Nine Months Ended December	Three Months Ended March 31,

	31, 2014	2014
	(in millions)	
Deferred interest and allowance for credit losses, beginning of period	$124	$13
Bad debt expense	303	44
Write-offs, net of recoveries	(184)	—
Change in deferred interest on short-term and long-term installment receivables	76	67
Deferred interest and allowance for credit losses, end of period	$319	$124

11

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Financial Instruments

Cash and cash equivalents, accounts and notes receivable, and accounts payable are carried at cost, which approximates fair value. Short-term investments (consisting primarily of commercial paper), totaling approximately $254 million and $1.2 billion as of the Successor periods ended December 31, 2014 and March 31, 2014, respectively, are recorded at amortized cost, and the respective carrying amounts approximate fair value. The fair value of marketable equity securities totaling $43 million and $50 million as of the Successor periods ended December 31, 2014 and March 31, 2014, respectively, are measured on a recurring basis using quoted prices in active markets. The estimated fair value of the majority of our current and long-term debt, excluding our credit facilities, is determined based on quoted prices in active markets or by using other observable inputs that are derived principally from, or corroborated by, observable market data.

The following table presents carrying amounts and estimated fair values of current and long-term debt:

	Successor				
	Carrying amount at December 31, 2014	Estimated Fair Value Using Input Type			
		Quoted prices in active markets	Observable	Unobservable	Total estimated fair value
	(in millions)				
Current and long-term debt	$32,038	$25,215	$4,870	$1,435	$31,520

	Successor				
	Carrying amount at March 31, 2014	Estimated Fair Value Using Input Type			
		Quoted prices in active markets	Observable	Unobservable	Total estimated fair value
	(in millions)				
Current and long-term debt	$32,277	$27,516	$5,421	$1,262	$34,199

Note 6. Property, Plant and Equipment

Property, plant and equipment consists primarily of network equipment, leased devices, and other long-lived assets used to provide service to our subscribers. The following table presents the components of property, plant and equipment and the related accumulated depreciation:

	Successor	
	December 31, 2014	March 31, 2014
	(in millions)	
Land	$266	$265
Network equipment, site costs and related software	17,317	14,902
Buildings and improvements	744	745
Non-network internal use software, office equipment, leased devices and other	2,025	866
Construction in progress	2,956	1,970
Less: accumulated depreciation	(4,455)	(2,449)
Property, plant and equipment, net	$18,853	$16,299

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In September 2014, Sprint introduced a leasing program, whereby qualified subscribers can lease a device for a contractual period of time. At the end of the lease term, the subscriber has the option to turn in their device, continue leasing their device, or purchase the device. As of December 31, 2014, our device leases were all classified as operating leases. At lease inception, the devices leased through Sprint retail stores are reclassified from inventory to property, plant and equipment. For those devices leased through indirect channels, Sprint will purchase the device to be leased from the retailer at lease inception. The devices are then depreciated to their estimated residual value and equipment revenue is recognized ratably, both over the term of the lease. The following table presents leased devices and the related accumulated depreciation:

	Successor	
	December 31, 2014	March 31, 2014
	(in millions)	
Leased devices	$993	$—
Less: accumulated depreciation	(55)	—
Leased devices, net	$938	$—

Excluding leased devices, there were non-cash additions to property, plant and equipment of $695 million and $30 million during the nine-month periods ended December 31, 2014 and 2013, respectively, which represents property, plant and equipment owned but for which there were outstanding amounts included in “Accounts payable” or “Accrued expenses and other current liabilities” as of the respective balance sheet date. During the nine-month period ended December 31, 2014 there were non-cash additions to leased devices of approximately $850 million along with a corresponding decrease in "Device and accessory inventory" of approximately $700 million and a corresponding increase in "Accounts payable" of approximately $150 million for devices purchased from indirect dealers that were leased to our subscribers.

Assessment of Impairment

During the quarter ended December 31, 2014, we tested the recoverability of the Wireline long-lived assets due to continued declines in our Wireline segment earnings and our current forecast that projects continued losses in future periods. As a result of the test, we recorded an impairment loss of $233 million, which is included in “Impairments” in our consolidated statements of comprehensive loss, to reduce the carrying value of the Wireline asset group, which includes the Wireline long-lived assets, to its estimated fair value of $918 million as of December 31, 2014. The fair value of the Wireline long-lived assets was estimated using a market approach, which included significant unobservable inputs including liquidation curves, useful life assumptions, and scrap values. As the assumptions are largely unobservable, the estimate of fair value is considered to be unobservable within the fair value hierarchy.

Note 7. Intangible Assets

Indefinite-Lived Intangible Assets

Our indefinite-lived intangible assets consist of FCC licenses, which were acquired primarily through FCC auctions and business combinations, certain of our trademarks, and goodwill. At December 31, 2014, we held 1.9 GHz, 800 MHz and 2.5 GHz FCC licenses authorizing the use of radio frequency spectrum to deploy our wireless services. As long as the Company acts within the requirements and constraints of the regulatory authorities, the renewal and extension of these licenses is reasonably certain at minimal cost. Accordingly, we have concluded that FCC licenses are indefinite-lived intangible assets. Goodwill represents the excess of consideration paid over the estimated fair value of net tangible and identifiable intangible assets acquired in business combinations (see Note 3. Significant Transactions).

13

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

During the quarter ended June 30, 2014, the Company entered into definitive agreements with various counterparties to sell certain FCC licenses held by its Wireless segment. During the quarter ended September 30, 2014, an agreement totaling $100 million received regulatory approval and was settled. As of December 31, 2014, the carrying value of FCC licenses still pending regulatory approval that was reclassified from FCC licenses into held for sale was approximately $200 million and is included within “Prepaid expenses and other current assets” on the consolidated balance sheets. In January 2015, we received regulatory approval and the transactions pending as of December 31, 2014 were settled. These transactions did not have a material impact on the Company's consolidated results of operations.

	Successor March 31, 2014	Net Reductions		December 31, 2014
	(in millions)			
FCC licenses	$36,043	$(136	)	$35,907
Trademarks	5,935	(1,900	) (1)	4,035
Goodwill	6,383	(40	) (2)	6,343
	$48,361	$(2,076	)	$46,285

---

(1) Net reduction to trademarks for the Successor nine-month period ended December 31, 2014 of approximately $1.9 billion was related to the impairment of the Sprint trade name. See discussion below.

(2) Net reduction to goodwill for the Successor nine-month period ended December 31, 2014 of approximately $40 million was the result of purchase price allocation adjustments, which consisted of a $44 million decrease associated with the SoftBank Merger and a $4 million increase associated with the Clearwire Acquisition.

Assessment of Impairment

Our annual impairment testing date for goodwill and indefinite-lived intangible assets is January 1 of each year; however, we test for impairment between our annual tests if an event occurs or circumstances change that indicate that the asset may be impaired, or in the case of goodwill, that the fair value of the reporting unit is below its carrying amount. Since the SoftBank Merger Date, actual results and expectations of net postpaid handset subscriber additions have been lower than the forecasts used to allocate the purchase price to the assets acquired and liabilities assumed. During the quarter ended December 31, 2014, the stock price and our related market capitalization decreased significantly and our credit rating was downgraded by one of the ratings service providers. We also updated our long-term forecasted cash flows for the Company, including for the Wireless reporting unit, during the fourth quarter. This update considered current economic conditions and trends, estimated future operating results, our views of growth rates, anticipated future economic and regulatory conditions, future cost savings initiatives and the availability of the necessary network infrastructure, handsets and other devices. Based on these events and changes in circumstances, we determined that recoverability of the carrying amount of goodwill and the Sprint trade name should be evaluated for impairment.

The impairment test for an indefinite-lived intangible asset consists of a comparison of the fair value of the asset to its carrying amount. If the carrying amount exceeds its fair value, an impairment loss is recognized equal to that excess. We estimated the fair value of the Sprint trade name assigned to the Wireless segment using the relief-from-royalty method, which uses several significant assumptions, including management projections of future revenue, a royalty rate, a long-term growth rate, and a discount rate. As these assumptions are largely unobservable, the estimate of fair value is considered to be unobservable within the fair value hierarchy. The significant unobservable inputs included projected revenues with annual growth rates, a royalty rate, a growth rate of 1.5% in the terminal year and a discount rate of 16%. The carrying value of the Sprint trade name exceeded its estimated fair value of $3.3 billion. Accordingly, during the quarter ended December 31, 2014 we recorded an impairment loss of $1.9 billion, which is included in “Impairments” in our consolidated statements of comprehensive loss.

The analysis of potential impairment of goodwill requires a two-step approach. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. We estimated the fair value of the Wireless reporting unit using both discounted cash flow and market-based valuation models. The determination of the fair value of the reporting unit requires significant estimates and assumptions, including significant unobservable inputs. The key inputs include, but are not limited to, a discount rate of 8%, a terminal growth rate of 1.5%, management’s internal forecasts which include numerous assumptions such as share of

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

industry gross additions, churn, mix of plans, rate changes, expenses, EBITDA margins, and capital expenditures, among others. We compared the estimated fair value to the carrying amount of the Wireless reporting unit and concluded that the second step of a goodwill impairment test was not required because the estimated fair value exceeded the carrying amount.

The determination of fair value requires considerable judgment and is highly sensitive to changes in underlying assumptions. Consequently, there can be no assurance that the estimates and assumptions made for the purposes of the goodwill and Sprint trade name impairment tests will prove to be an accurate prediction of the future. Continued, sustained declines in the Company's operating results, future forecasted cash flows, growth rates and other assumptions, as well as significant, sustained declines in the Company's stock price and related market capitalization could impact the underlying key assumptions and our estimated fair values, potentially leading to a future material impairment of goodwill or other indefinite-lived intangible assets.

Intangible Assets Subject to Amortization

Customer relationships are amortized using the sum-of-the-months' digits method, while all other definite-lived intangible assets are amortized using the straight line method over the estimated useful lives of the respective assets. We reduce the gross carrying value and associated accumulated amortization when specified intangible assets become fully amortized. Amortization expense related to favorable spectrum and tower leases is recognized in cost of services.

		Successor					
		December 31, 2014			March 31, 2014		
	Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
		(in millions)					
Customer relationships	4 to 8 years	$6,923	$ (2,438)	$4,485	$6,923	$ (1,289)	$5,634
Other intangible assets:							
Favorable spectrum leases	23 years	884	(61)	823	884	(30)	854
Favorable tower leases	3 to 7 years	589	(161)	428	589	(80)	509
Trademarks	34 years	520	(23)	497	520	(12)	508
Other	4 to 10 years	70	(15)	55	60	(7)	53
Total other intangible assets		2,063	(260)	1,803	2,053	(129)	1,924
Total definite-lived intangible assets		$8,986	$ (2,698)	$6,288	$8,976	$ (1,418)	$7,558

Note 8. Accounts Payable

Accounts payable at December 31, 2014 and March 31, 2014 include liabilities in the amounts of $85 million and $91 million, respectively, for checks issued in excess of associated bank balances but not yet presented for collection.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 9. Long-Term Debt, Financing and Capital Lease Obligations

	Interest Rates	Maturities	Successor December 31, 2014	March 31, 2014
			(in millions)	
Notes				
Senior notes				
Sprint Corporation	7.13 - 7.88%	2021 - 2024	$9,000	$9,000
Sprint Communications, Inc.	6.00 - 11.50%	2016 - 2022	9,280	9,280
Sprint Capital Corporation	6.88 - 8.75%	2019 - 2032	6,204	6,204
Guaranteed notes				
Sprint Communications, Inc.	7.00 - 9.00%	2018 - 2020	4,000	4,000
Secured notes				
iPCS, Inc.	3.49%	2014	—	181
Clearwire Communications LLC (1)	14.75%	2016	300	300
Exchangeable notes				
Clearwire Communications LLC (1)	8.25%	2040	629	629
Credit facilities				
Bank credit facility	3.31%	2018	—	—
Export Development Canada (EDC)	4.00% - 4.08%	2015 - 2019	800	500
Eksportkreditnamnden (EKN) Secured equipment credit facility	2.03%	2017	635	762
Financing obligation	6.09%	2021	288	327
Capital lease obligations and other	2.35 - 10.52%	2015 - 2023	143	187
Net premiums			1,183	1,408
			32,462	32,778
Less current portion			(1,302)	(991)
Long-term debt, financing and capital lease obligations			$31,160	$31,787

(1) Notes of Clearwire Communications LLC are also direct obligations of Clearwire Finance, Inc. and are guaranteed by certain Clearwire subsidiaries.

As of December 31, 2014, Sprint Corporation, the parent corporation, had $9.0 billion in principal amount of senior notes outstanding. In addition, as of December 31, 2014, the outstanding principal amount of senior notes issued by Sprint Communications, Inc. and Sprint Capital Corporation, guaranteed notes issued by Sprint Communications, Inc., exchangeable notes issued by Clearwire Communications LLC, the EDC agreement, and the EKN secured equipment credit facility, totaling $21.5 billion in principal amount of our long-term debt issued by 100% owned subsidiaries, was fully and unconditionally guaranteed by Sprint Corporation. The indentures and financing arrangements governing certain of our subsidiaries' debt contain provisions that limit cash dividend payments on subsidiary common stock. Except in the case of secured notes issued by Clearwire Communications LLC, the transfer of cash from subsidiaries to the parent corporation generally is not restricted.

Cash interest payments, net of amounts capitalized of $41 million and $30 million, totaled $1.8 billion and $1.0 billion during the Successor nine-month periods ended December 31, 2014 and 2013, respectively. Cash interest payments,

net of amounts capitalized of $14 million, totaled $509 million during the Predecessor 101-day period ended July 10, 2013, respectively.
Notes
As of December 31, 2014, our outstanding notes consisted of senior notes, guaranteed notes, and exchangeable notes, all of which are unsecured, as well as secured notes of Clearwire Communications LLC, which are secured solely by assets of Clearwire Communications LLC and certain of its subsidiaries. Cash interest on all of the notes is generally payable

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

semi-annually in arrears. As of December 31, 2014, approximately $28.6 billion aggregate principal amount of the notes was redeemable at the Company's discretion at the then-applicable redemption prices plus accrued interest.

As of December 31, 2014, approximately $20.1 billion aggregate principal amount of our senior notes and guaranteed notes provide holders with the right to require us to repurchase the notes if a change of control triggering event (as defined in the applicable indentures and supplemental indentures) occurs. As of December 31, 2014, approximately $300 million aggregate principal amount of Clearwire Communications LLC notes provide holders with the right to require us to repurchase the notes if a change of control occurs (as defined in the applicable indentures and supplemental indentures). If we are required to make such a change of control offer, we will offer a cash payment equal to 101% of the aggregate principal amount of notes repurchased plus accrued and unpaid interest.

Upon the close of the Clearwire Acquisition, the Clearwire Communications, LLC 8.25% Exchangeable Notes due 2040 became exchangeable at any time, at the holder’s option, for a fixed amount of cash equal to $706.21 for each $1,000 principal amount of notes surrendered. As a result, $444 million, which is the total cash consideration payable upon an exchange of all $629 million principal amount of notes outstanding, is now classified as a current debt obligation. The remaining carrying value of these notes is classified as a long-term debt obligation.

Debt retirements

On May 1, 2014, the Company retired the remaining $181 million in principal amount upon maturity of its outstanding iPCS, Inc. Second Lien Secured Floating Rate Notes due 2014 plus accrued and unpaid interest.

Credit Facilities

Bank credit facility

The Company has a $3.3 billion unsecured revolving bank credit facility that expires in February 2018. Borrowings under the revolving bank credit facility bear interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus a spread that varies depending on the Company’s credit ratings. As of December 31, 2014, $500 million in letters of credit were outstanding under this credit facility, including the letter of credit required by the Report and Order (see Note 12. Commitments and Contingencies). As a result of the outstanding letters of credit, which directly reduce the availability of borrowings, the Company had $2.8 billion of borrowing capacity available under this facility as of December 31, 2014. In October 2014, we amended our revolving bank credit facility to, among other things, modify the required ratio (Leverage Ratio) of total indebtedness to trailing four quarters earnings before interest, taxes, depreciation and amortization and other non-recurring items, as defined by the credit facility (adjusted EBITDA), not to exceed 6.5 to 1.0 through the quarter ended December 31, 2015, 6.25 to 1.0 through the quarter ended December 31, 2016 and 6.0 to 1.0 each fiscal quarter ending thereafter through expiration of the facility. The amended facility allows us to reduce our total indebtedness for purposes of calculating the Leverage Ratio by subtracting from total indebtedness the amount of any cash contributed into a segregated reserve account, provided that, after such cash contribution, our cash remaining on hand for operations exceeds $2.0 billion. Upon transfer, the cash contribution will remain restricted until and to the extent it is no longer required for the Leverage Ratio to remain in compliance. The amendment also added Sprint Corporation as a guarantor of this credit facility.

The unsecured EDC agreement was amended in December 2014 to modify the Leverage Ratio to provide for terms similar to those of the revolving bank credit facility, as was amended in October 2014 mentioned above, as well as to add Sprint Corporation as guarantor. As part of the amendment to the EDC agreement, we increased our borrowing capacity by an additional $300 million due in 2019. As of December 31, 2014, the EDC agreement was fully drawn totaling $800 million. Under the terms of the EDC agreement, repayments of outstanding amounts cannot be re-drawn.

EKN secured equipment credit facility

The EKN secured equipment credit facility was amended in December 2014 to modify the terms and conditions as it relates to the Leverage Ratio to provide for terms similar to those of the revolving bank credit facility as was amended in October 2014 mentioned above, as well as to add Sprint Corporation as a guarantor. As of December 31, 2014, both tranches of the EKN secured equipment credit facility totaling $1.0 billion were fully drawn. We made a regularly scheduled principal repayment of $127 million in September 2014 and the balance outstanding at December 31, 2014 was $635 million. Under the terms of the EKN secured equipment credit facility, repayments of outstanding amounts cannot be re-drawn.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Finnvera secured equipment credit facility
In December 2014, we and certain of our subsidiaries entered into a secured equipment credit facility insured by Finnvera plc (Finnvera), the Finnish export credit agency, with the ability to borrow up to $800 million, to finance network equipment-related purchases from Nokia Solutions and Networks US LLC, USA. The facility is divided into three consecutive tranches of varying size, with borrowings available through October 2017, contingent upon the amount of equipment-related purchases made by Sprint. Interest and fully-amortizing principal payments are due semi-annually, by tranche, beginning in March 2015 until June 2021. Although the facility was available for borrowing as of December 31, 2014, we had not yet drawn on the facility.
K-sure secured equipment credit facility
In December 2014, we and certain of our subsidiaries entered into a secured equipment credit facility insured by K-sure, the Korean export credit agency, with the ability to borrow up to $750 million, to finance network equipment-related purchases from Samsung Telecommunications America, LLC. The facility is divided into three consecutive tranches of varying size, and draws became available in January 2015 and will be available until May 2018 or until fully drawn, contingent upon the amount of equipment-related purchases by Sprint. Interest and fully-amortizing principal payments are due semi-annually by tranche beginning in June 2015 until December 2022.
Delcredere | Ducroire secured equipment credit facility
In December 2014, we and certain of our subsidiaries entered into a secured equipment credit facility insured by Delcredere | Ducroire (D/D), the Belgian export credit agency, with the ability to borrow up to $250 million, to finance network equipment-related purchases from Alcatel-Lucent USA Inc. The facility will be available to draw in early 2015 until December 2016. Interest and fully-amortizing principal payments are due semi-annually beginning in June 2015 until December 2021. The facility was not available to be drawn in December 2014.
Borrowings under the EKN, Finnvera, K-sure and D/D secured equipment credit facilities are each secured by liens on the respective equipment purchased pursuant to each of the facilities. Each of these facilities is fully and unconditionally guaranteed by both Sprint Communications, Inc. and Sprint Corporation. The covenants under each of the four secured equipment credit facilities are similar to one another and to the covenants of our revolving bank credit facility and EDC agreement.
Financing, Capital Lease and Other Obligations
We have approximately 3,000 cell sites that we sold and subsequently leased back. Terms extend through 2021, with renewal options for an additional 20 years. These cell sites continue to be reported as part of our property, plant and equipment due to our continued involvement with the property sold and the transaction is accounted for as a financing. Our capital lease and other obligations are primarily for the use of wireless network equipment.
Covenants
Certain indentures and financing arrangements governing our debt also require compliance with various covenants, including covenants that limit the ability of the Company and its subsidiaries to sell all or substantially all of its assets, limit the ability of the Company and its subsidiaries to incur indebtedness and liens, and require that we maintain certain financial ratios, each as defined by the terms of the indentures, supplemental indentures and financing arrangements.
As of December 31, 2014, the Company was in compliance with all restrictive and financial covenants associated with its borrowings. A default under any of our borrowings could trigger defaults under certain of our other debt obligations, which in turn could result in the maturities being accelerated.
Under our revolving bank credit facility and other finance agreements, we are currently restricted from paying cash dividends because our ratio of total indebtedness to adjusted EBITDA (each as defined in the applicable agreements) exceeds 2.5 to 1.0.

18

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Severance and Exit Costs
For the Successor three and nine-month periods ended December 31, 2014, we recognized lease exit costs primarily associated with facility closures as well as our network modernization plan and severance costs associated with reductions in our work force. In addition, we recognized access exit costs related to payments that will continue to be made under our backhaul access contracts for which we will no longer be receiving any economic benefit.
As a result of the United States Cellular (U.S. Cellular) asset acquisition, which closed in May 2013, we recorded a liability related to network shut-down costs for which we agreed to reimburse U.S. Cellular. During the quarter ended December 31, 2014, we identified favorable trends in actual costs and, as a result, we released some of the reserve resulting in a gain of approximately $41 million included in "Other, net" on the consolidated statements of comprehensive loss.
As a result of our network modernization and the completion of the significant transactions (see Note 3. Significant Transactions), we have begun to incur and, in the future expect to incur, additional exit costs related to the transition of our existing backhaul architecture to a replacement technology for our network and the efforts associated with the integration of our Significant Transactions, such as further evaluation of the future use of Clearwire cell sites, among other initiatives. These additional exit costs are expected to range between approximately $100 million to $200 million, of which the majority is expected to be incurred by March 31, 2016.
The following provides the activity in the severance and exit costs liability included in "Accounts payable," "Accrued expenses and other current liabilities" and "Other liabilities" within the consolidated balance sheets:

	Successor				
	March 31, 2014	Net (Benefit) Expense		Cash Payments and Other	December 31, 2014
	(in millions)				
Lease exit costs	$650	$(21)	(1)	$(288)	$341
Severance costs	197	272	(2)	(242)	227
Access exit costs	124	41	(3)	(97)	68
	$971	$292		$(627)	$636

(1) In addition to the $41 million gain (Wireless only) related to U.S. Cellular recognized in both the Successor three and nine-month periods ended December 31, 2014, we recognized costs of $7 million ($6 million Wireless, $1 million Wireline) and $20 million ($19 million Wireless and $1 million Wireline), respectively.
(2) For the Successor three and nine-month periods ended December 31, 2014, we recognized costs of $3 million ($2 million Wireless, $1 million Wireline) and $272 million ($235 million Wireless, $37 million Wireline), respectively.
(3) For the Successor three and nine-month periods ended December 31, 2014, we recognized costs of $12 million (Wireless only) and $41 million ($36 million Wireless, $5 million Wireline), respectively.

Note 11. Income Taxes
The differences that caused our effective income tax rates to vary from the 35% U.S. federal statutory rate for income taxes were as follows:

	Successor	Predecessor
	Nine Months Ended	101 Days
	December 31,	Ended

	2014	2013	July 10, 2013
	(in millions)		
Income tax benefit (expense) at the federal statutory rate	$1,303	$632	$(367)
Effect of:			
State income taxes, net of federal income tax effect	96	47	(31)
Change in federal and state valuation allowance	(797)	(708)	(1,145)
Other, net	(1)	(15)	(20)
Income tax benefit (expense)	$601	$(44)	$(1,563)
Effective income tax rate	16.1%	(2.4)%	149.1%

19

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The realization of deferred tax assets, including net operating loss carryforwards, is dependent on the generation of future taxable income sufficient to realize the tax deductions, carryforwards and credits. However, our history of annual losses reduces our ability to rely on expectations of future income in evaluating the ability to realize our deferred tax assets. Valuation allowances on deferred tax assets are recognized if it is determined that it is more likely than not that the asset will not be realized. As a result, the Company recognized an increase in its valuation allowance of $797 million during the Successor nine-month period ended December 31, 2014 primarily attributable to the net increase in deferred tax assets related to the federal and state net operating loss carryforwards generated during the period offset by a $73 million decrease related to the planned disposition of certain FCC licenses. The planned disposition of the FCC licenses results in the ability to schedule the reversal of the temporary difference to generate future taxable income during the net operating loss carryforward period when evaluating the ability to realize our deferred tax assets. The Company recognized income tax expense to increase the valuation allowance by $708 million and $1.1 billion during the Successor nine-month period ended December 31, 2013 and Predecessor 101-day period ended July 10, 2013, respectively, on deferred tax assets primarily related to losses incurred during the period. We do not expect to record significant tax benefits on future net operating losses until our circumstances justify the recognition of such benefits.
Income tax benefit of $657 million and $601 million for the Successor three and nine-month periods ended December 31, 2014 is primarily attributable to recognition of a tax benefit on the $1.9 billion Sprint trade name impairment loss partially offset by tax expense on taxable temporary differences from the tax amortization of FCC licenses during the period. Income tax expense of $44 million for the Successor nine-month period ended December 31, 2013 is primarily attributable to taxable temporary differences from amortization of FCC licenses. Income tax expense of $1.6 billion for the Predecessor 101-day period ended July 10, 2013 is primarily attributable to taxable temporary differences from the $2.9 billion gain on the previously-held equity interests in Clearwire. The gain on the previously-held equity interests in Clearwire was principally attributable to the increase in the fair value of FCC licenses held by Clearwire. FCC licenses are amortized over 15 years for income tax purposes but, because these licenses have an indefinite life, they are not amortized for financial statement reporting purposes. These temporary differences result in net deferred income tax expense since they cannot be scheduled to reverse during the loss carryforward period.
As of December 31, 2014 and March 31, 2014, we maintained unrecognized tax benefits of $161 million and $160 million, respectively. Cash paid for income taxes, net was $36 million for the Successor nine-month period ended December 31, 2014 and insignificant for the Successor nine-month period ended December 31, 2013 as well as during the Predecessor 101-day period ended July 10, 2013.

Note 12. Commitments and Contingencies
Litigation, Claims and Assessments
In March 2009, a stockholder brought suit, Bennett v. Sprint Nextel Corp., in the U.S. District Court for the District of Kansas, alleging that Sprint Communications and three of its former officers violated Section 10(b) of the Exchange Act and Rule 10b-5 by failing adequately to disclose certain alleged operational difficulties subsequent to the Sprint-Nextel merger, and by purportedly issuing false and misleading statements regarding the write-down of goodwill. The plaintiff sought class action status for purchasers of Sprint Communications common stock from October 26, 2006 to February 27, 2008. On January 6, 2011, the Court denied the motion to dismiss. Subsequently, our motion to certify the January 6, 2011 order for an interlocutory appeal was denied. On March 27, 2014, the court certified a class including bondholders as well as stockholders. On April 11, 2014, we filed a petition to appeal that certification order to the Tenth Circuit Court of Appeals. The petition was denied on May 23, 2014. After mediation,

the parties have reached an agreement in principle to settle the matter, and the settlement amount is expected to be substantially paid by the Company's insurers. The proposed settlement is subject to court approval. We do not expect the resolution of this matter to have a material adverse effect on our financial position or results of operations.

In addition, five related stockholder derivative suits were filed against Sprint Communications and certain of its present and/or former officers and directors. The first, Murphy v. Forsee, was filed in state court in Kansas on April 8, 2009, was removed to federal court, and was stayed by the court pending resolution of the motion to dismiss the Bennett case; the second, Randolph v. Forsee, was filed on July 15, 2010 in state court in Kansas, was removed to federal court, and was remanded back to state court; the third, Ross-Williams v. Bennett, et al., was filed in state court in Kansas on February 1,

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2011; the fourth, Price v. Forsee, et al., was filed in state court in Kansas on April 15, 2011; and the fifth, Hartleib v. Forsee, et. al., was filed in federal court in Kansas on July 14, 2011. These cases are essentially stayed while the Bennett case is in the discovery phase. We do not expect the resolution of these matters to have a material adverse effect on our financial position or results of operations.

On April 19, 2012, the New York Attorney General filed a complaint alleging that Sprint Communications has fraudulently failed to collect and pay more than $100 million in New York sales taxes on receipts from its sale of wireless telephone services since July 2005. The complaint seeks recovery of triple damages as well as penalties and interest. Sprint Communications moved to dismiss the complaint on June 14, 2012. On July 1, 2013, the court entered an order denying the motion to dismiss in large part, although it did dismiss certain counts or parts of certain counts. Sprint Communications has appealed that order and the intermediate appellate court affirmed the order of the trial court. Our petition for leave to bring an interlocutory appeal to the highest court in New York was granted and briefing of that appeal was completed in January 2015. We believe the complaint is without merit and intend to continue to defend this matter vigorously. We do not expect the resolution of this matter to have a material adverse effect on our financial position or results of operations.

Eight related stockholder derivative suits have been filed against Sprint Communications and certain of its current and former officers and directors. Each suit alleges generally that the individual defendants breached their fiduciary duties to Sprint Communications and its stockholders by allegedly permitting, and failing to disclose, the actions alleged in the suit filed by the New York Attorney General. One suit, filed by the Louisiana Municipal Police Employees Retirement System, was dismissed by a federal court. Two suits were filed in state court in Johnson County, Kansas and one of those suits was dismissed as premature; and five suits are pending in federal court in Kansas. The remaining Kansas suits have been stayed. We do not expect the resolution of these matters to have a material adverse effect on our financial position or results of operations.

Sprint Communications, Inc. is also a defendant in a complaint filed by stockholders of Clearwire Corporation asserting claims for breach of fiduciary duty by Sprint Communications, and related claims and otherwise challenging the Clearwire Acquisition. ACP Master, LTD, et al. v. Sprint Nextel Corp., et al., was filed April 26, 2013, in Chancery Court in Delaware. Our motion to dismiss the suit was denied, and discovery has begun. Plaintiffs in the ACP Master, LTD suit have also filed suit requesting an appraisal of the fair value of their Clearwire stock, and discovery is proceeding in that case. Sprint Communications intends to defend the ACP Master, LTD cases vigorously, and, because they are still in the preliminary stage, we have not yet determined what effect the lawsuit will have, if any, on our financial position or results of operations.

Sprint is currently involved in numerous court actions alleging that Sprint is infringing various patents. Most of these cases effectively seek only monetary damages. A small number of these cases are brought by companies that sell products and seek injunctive relief as well. These cases have progressed to various degrees and a small number may go to trial if they are not otherwise resolved. Adverse resolution of these cases could require us to pay significant damages, cease certain activities, or cease selling the relevant products and services. In many circumstances, we would be indemnified for monetary losses that we incur with respect to the actions of our suppliers or service providers. We do not expect the resolution of these cases to have a material adverse effect on our financial position or results of operations.

In October 2013, the FCC Enforcement Bureau began to issue notices of apparent liability (NALs) to other Lifeline providers, imposing fines for intracarrier duplicate accounts identified by the government during its audit function. Those audits also identified a small percentage of potentially duplicative intracarrier accounts related to our Assurance Wireless business. No NAL has yet been issued with respect to Sprint and we do not know if one will be issued. Further, we are not able to reasonably estimate the amount of any claim for penalties that might be asserted.

However, based on the information currently available, if a claim is asserted by the FCC, Sprint does not believe that any amount ultimately paid would be material to the Company’s results of operations or financial position.
Beginning in early 2012, a group of state attorneys general began an investigation into the practice of wireless carriers including on their bills charges for certain content from third party providers, particularly premium short message services, and the measures taken by carriers to ensure that such charges were appropriately authorized. Late in 2013, the Consumer Financial Protection Bureau (CFPB) also began a separate investigation into the issue, and the FCC began its own investigation in mid-2014. In July 2014, the Federal Trade Commission (FTC) brought suit against T-Mobile, alleging that it included unauthorized charges on its bills; in December 2014, T-Mobile entered into a settlement agreement with the FTC,

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FCC and state attorneys general. In October 2014, the FTC, FCC and states announced a settlement with AT&T regarding third-party billing issues. In December, 2014, the CFPB brought suit against Sprint regarding third-party billing issues. We believe that the suit is without merit, and do not expect any resolution of this suit or these investigations to be material to the Company’s results of operations or financial position.

Various other suits, inquiries, proceedings and claims, either asserted or unasserted, including purported class actions typical for a large business enterprise and intellectual property matters, are possible or pending against us or our subsidiaries. If our interpretation of certain laws or regulations, including those related to various federal or state matters such as sales, use or property taxes, or other charges were found to be mistaken, it could result in payments by us. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial position or results of operations.

Spectrum Reconfiguration Obligations

In 2004, the FCC adopted a Report and Order that included new rules regarding interference in the 800 MHz band and a comprehensive plan to reconfigure the 800 MHz band. The Report and Order provides for the exchange of a portion of our 800 MHz FCC spectrum licenses, and requires us to fund the cost incurred by public safety systems and other incumbent licensees to reconfigure the 800 MHz spectrum band. Also, in exchange, we received licenses for 10 MHz of nationwide spectrum in the 1.9 GHz band.

The minimum cash obligation is $2.8 billion under the Report and Order. We are, however, obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed $2.8 billion. As required under the terms of the Report and Order, a letter of credit has been secured to provide assurance that funds will be available to pay the relocation costs of the incumbent users of the 800 MHz spectrum. Since the inception of the program, we have incurred payments of approximately $3.5 billion directly attributable to our performance under the Report and Order, including approximately $114 million during the Successor nine-month period ended December 31, 2014. When incurred, these costs are generally accounted for either as property, plant and equipment or as additions to FCC licenses. Although costs incurred through December 31, 2014 have exceeded $2.8 billion, not all of those costs have been reviewed and accepted as eligible by the transition administrator. During the Successor three-month period ended June 30, 2014, we received a cash payment of approximately $95 million, which represented a reimbursement of prior reconfiguration costs incurred by us that also benefited spectrum recently auctioned by the FCC. We do not expect any further reimbursements.

Completion of the 800 MHz band reconfiguration was initially required by June 26, 2008. The FCC continues to grant 800 MHz public safety licensees additional time to complete their band reconfigurations which, in turn, delays our access to some of our 800 MHz replacement channels. Accordingly, we will continue to transition to our 800 MHz replacement channels consistent with public safety licensees' reconfiguration progress. On May 24, 2012, the FCC revised its rules to authorize Sprint to deploy wireless broadband services, such as CDMA and LTE, on its 800 MHz spectrum, including channels that become available to Sprint upon completion of the 800 MHz band reconfiguration program. We anticipate that the continuing reconfiguration progress will be sufficient to support the 800 MHz portion of our network modernization. In January 2013, we submitted a Request for Declaratory Ruling to the FCC requesting two items: (i) that it declare that Sprint will not owe any anti-windfall payment to the US Treasury, because we have exceeded the $2.8 billion of required expenditures, and (ii) that the FCC remove the $850 million minimum for the letter of credit and allow further reductions based on quarterly estimates of remaining obligations. In September 2014, the FCC granted, in part, our request by authorizing our letter of credit to be reduced to $457 million, which was executed on October 6, 2014. An additional reduction was executed on December 22, 2014 reducing our letter of credit to $434 million and further quarterly reductions are allowed upon approval of any requests. In addition, it directed the transition administrator to undertake an assessment of the anti-windfall calculation.

Guarantee Liabilities

Under certain of our wireless service plans, we offer an option to our subscribers to purchase, on a monthly basis, an annual trade-in right (the option). At the trade-in date, a subscriber who has elected to purchase a handset in an installment billing arrangement will receive a credit in the amount of the outstanding balance of the installment contract provided the subscriber trades-in an eligible used handset in good working condition and purchases a new handset from Sprint.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Additionally, the subscriber must have purchased the option for the 12 consecutive months preceding the trade-in. When a subscriber elects the option, the total estimated arrangement proceeds associated with the subscriber are reduced by the estimated fair value of current customer obligation of the fixed-price trade-in credit (guarantee liability) and the remaining proceeds are allocated amongst the other deliverables in the arrangement. The guarantee liability is estimated based on assumptions, including, but not limited to, the expected fair value of the used handset at trade-in, subscribers’ estimated remaining balance of the remaining installment payments, and the probability and timing of the trade-in. When the subscriber elects to exercise the trade-in right, the difference between the outstanding balance of the installment receivable and the estimated fair value of the returned handset is recorded as a reduction of the guarantee liability. If the subscriber elects to stop purchasing the option prior to, or after, becoming eligible to exercise the trade-in right, we recognize the amount of the associated guarantee liability as operating revenue. At each reporting date, we reevaluate our estimate of the guarantee liability. If all subscribers who elected the option were to claim their benefit at the earliest contractual time of eligible trade-in, the maximum amount of the guarantee liability (i.e., the estimated unpaid balance of the subscribers' installment contracts) would be approximately $342 million at December 31, 2014. This amount is not an indication of the Company's expected loss exposure because it does not consider the expected fair value of the used handset, which is required to be returned to us in good working condition at trade-in, nor does it consider the probability and timing of trade-in. The total guarantee liabilities associated with the option, which are recorded in "Accrued expenses and other current liabilities" in the consolidated balance sheets, were immaterial for all periods presented.

Note 13. Per Share Data
Basic net loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per common share adjusts basic net loss per common share, computed using the treasury stock method, for the effects of potentially dilutive common shares, if the effect is not antidilutive. Outstanding options and restricted stock units (exclusive of participating securities included in basic weighted average common shares outstanding) that had no effect on our computation of dilutive weighted average number of shares outstanding as their effect would have been antidilutive were approximately 78 million and 70 million as of the Successor periods ended December 31, 2014 and 2013, respectively, in addition to all 55 million shares issuable under the warrant held by SoftBank. The warrant was issued to SoftBank at the close of the SoftBank Merger and is exercisable at $5.25 per share at the option of SoftBank, in whole or in part, at any time on or prior to July 10, 2018. For the Predecessor 101-day period ended July 10, 2013, outstanding options and restricted stock units (exclusive of participating securities) that had no effect on our computation of dilutive weighted average number of shares outstanding as their effect would have been antidilutive were approximately 61 million, in addition to all 590 million shares issuable under the convertible bond issued by Sprint Communications to Starburst II in 2012.

Note 14. Segments
Sprint operates two reportable segments: Wireless and Wireline.

- Wireless primarily includes retail, wholesale, and affiliate revenue from a wide array of wireless voice and data transmission services and equipment revenue from the sale of wireless devices (handsets and tablets) and accessories in the U.S., Puerto Rico and the U.S. Virgin Islands.
- Wireline primarily includes revenue from domestic and international wireline voice and data communication services provided to other communications companies and targeted business and consumer subscribers, in addition to our Wireless segment.

We define segment earnings as wireless or wireline operating (loss) income before other segment expenses such as depreciation, amortization, severance, exit costs, goodwill impairments, asset impairments, and other items, if any, solely and directly attributable to the segment representing items of a non-recurring or unusual nature. Expense and income items excluded from segment earnings are managed at the corporate level. Transactions between segments are generally accounted for based on market rates, which we believe approximate fair value. The Company generally re-establishes these rates at the beginning of each fiscal year. Over the past several years, there has been an industry-wide trend of lower rates due to increased competition from other wireline and wireless communications companies as well as cable and Internet service providers.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segment financial information is as follows:
Successor

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended December 31, 2014				
Net operating revenues	$ 8,433	$ 536	$ 4	$ 8,973
Inter-segment revenues(1)	—	156	(156)	—
Total segment operating expenses	(7,399)	(681)	151	(7,929)
Segment earnings	$ 1,034	$ 11	$ (1)	1,044
Less:				
Depreciation				(940)
Amortization				(380)
Impairments(2)				(2,133)
Other, net(3)				(131)
Operating loss				(2,540)
Interest expense				(506)
Other income, net				10
Loss before income taxes				$ (3,036)

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended December 31, 2013				
Net operating revenues	$ 8,483	$ 654	$ 5	$ 9,142
Inter-segment revenues(1)	—	205	(205)	—
Total segment operating expenses	(7,430)	(754)	196	(7,988)
Segment earnings	$ 1,053	$ 105	$ (4)	1,154
Less:				
Depreciation				(1,084)
Amortization				(447)
Other, net(3)				(199)
Operating loss				(576)
Interest expense				(502)
Other income, net				55
Loss before income taxes				$ (1,023)

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Nine Months Ended December 31, 2014				
Net operating revenues	$24,555	$1,684	$ 11	$ 26,250
Inter-segment revenues(1)	—	462	(462)	—
Total segment operating expenses	(20,358)	(2,073)	438	(21,993)
Segment earnings	$4,197	$73	$ (13)	4,257
Less:				
Depreciation				(2,706)
Amortization				(1,189)
Impairments(2)				(2,133)
Other, net(3)				(442)
Operating loss				(2,213)
Interest expense				(1,528)
Other income, net				19
Loss before income taxes				$ (3,722)

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Nine Months Ended December 31, 2013				
Net operating revenues	$15,642	$1,240	$ 9	$ 16,891
Inter-segment revenues(1)	—	396	(396)	—
Total segment operating expenses	(13,464)	(1,414)	367	(14,511)
Segment earnings	$2,178	$222	$ (20)	2,380
Less:				
Depreciation				(2,026)
Amortization				(908)
Other, net(3)				(402)
Operating loss				(956)
Interest expense				(918)
Other income, net				67
Loss before income taxes				$ (1,807)

Other Information	Wireless	Wireline	Corporate and Other	Consolidated
	(in millions)			
Capital expenditures for the nine months ended December 31, 2014	$3,485	$205	$ 267	$ 3,957
Capital expenditures for the nine months ended December 31, 2013	$3,535	$153	$ 159	$ 3,847

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Predecessor

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
101 Days Ended July 10, 2013				
Net operating revenues	$9,036	$769	$4	$ 9,809
Inter-segment revenues[1]	—	239	(239)	—
Total segment operating expenses	(7,661)	(864)	235	(8,290)
Segment earnings	$1,375	$144	$ —	1,519
Less:				
Depreciation				(1,676)
Amortization				(77)
Other, net[3]				(680)
Operating loss				(914)
Interest expense				(703)
Equity in losses of unconsolidated investments			$ (280)	
Gain on previously-held equity interests			2,926	2,646
Other income, net				19
Income before income taxes				$ 1,048

Other Information	Wireless	Wireline	Corporate and Other	Consolidated
	(in millions)			
Capital expenditures for the 101 days ended July 10, 2013	$1,570	$110	$ 79	$ 1,759

(1) Inter-segment revenues consist primarily of wireline services provided to the Wireless segment for resale to, or use by, wireless subscribers.

(2) Impairments for the Successor three and nine-month periods ended December 31, 2014 consist of a $1.9 billion trade name impairment related to the Wireless segment and a $233 million impairment related to Wireline long-lived assets.

(3) Other, net for the Successor three and nine-month periods ended December 31, 2014 consists of $22 million and $333 million, respectively, of severance and exit costs. In addition, both the three and nine-month periods ended December 31, 2014 included $91 million for legal reserves related to various pending legal suits and proceedings and $59 million for a partial pension settlement, partially offset by a $41 million release of liability reserves associated with the May 2013 U.S. Cellular asset acquisition. Other, net for the Successor three-month period ended December 31, 2013 consists of $206 million of severance and exit costs, partially offset by $7 million of insurance reimbursement towards hurricane-related charges (included in our wireless segment and classified as a contra-expense in cost of services expense). Other, net for the Successor nine-month period ended December 31, 2013 consists of $309 million of severance and exit costs and $100 million of business combination fees paid to unrelated parties necessary for the transactions with SoftBank and Clearwire (included in our corporate segment and classified in our consolidated statements of comprehensive loss as selling, general and administrative

expenses), partially offset by $7 million of insurance reimbursement towards hurricane-related charges (included in our wireless segment and classified as a contra-expense in cost of services expense). Other, net for the 101-day period ended July 10, 2013 consists of severance and exit costs of $627 million and $53 million of business combination fees paid to unrelated parties in connection with the transactions with SoftBank and Clearwire (included in our corporate segment and classified in our consolidated statements of comprehensive loss as selling, general and administrative expenses).

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Successor

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[(1)]	Consolidated
	(in millions)			
Three Months Ended December 31, 2014				
Wireless services	$6,523	$—	$ —	$ 6,523
Wireless equipment	1,701	—	—	1,701
Voice	—	289	(94)	195
Data	—	52	(22)	30
Internet	—	333	(42)	291
Other	209	18	6	233
Total net operating revenues	$8,433	$692	$ (152)	$ 8,973

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[(1)]	Consolidated
	(in millions)			
Three Months Ended December 31, 2013				
Wireless services	$7,180	$—	$ —	$ 7,180
Wireless equipment	1,161	—	—	1,161
Voice	—	386	(120)	266
Data	—	81	(46)	35
Internet	—	374	(35)	339
Other	142	18	1	161
Total net operating revenues	$8,483	$859	$ (200)	$ 9,142

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[(1)]	Consolidated
	(in millions)			
Nine Months Ended December 31, 2014				
Wireless services	$20,124	$—	$ —	$ 20,124
Wireless equipment	3,846	—	—	3,846
Voice	—	910	(271)	639
Data	—	161	(68)	93
Internet	—	1,018	(121)	897
Other	585	57	9	651
Total net operating revenues	$24,555	$2,146	$ (451)	$ 26,250

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[(1)]	Consolidated

	(in millions)			
Nine Months Ended December 31, 2013				
Wireless services	$13,579	$—	$ —	$ 13,579
Wireless equipment	1,797	—	—	1,797
Voice	—	719	(240)	479
Data	—	138	(69)	69
Internet	—	747	(81)	666
Other	266	32	3	301
Total net operating revenues	$15,642	$1,636	$ (387)	$ 16,891

27

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Predecessor

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
	(in millions)			
101 Days Ended July 10, 2013				
Wireless services	$7,996	$—	$ —	$ 7,996
Wireless equipment	894	—	—	894
Voice	—	419	(137)	282
Data	—	94	(47)	47
Internet	—	479	(53)	426
Other	146	16	2	164
Total net operating revenues	$9,036	$1,008	$ (235)	$ 9,809

(1) Revenues eliminated in consolidation consist primarily of wireline services provided to the Wireless segment for resale to or use by wireless subscribers.

Note 15. Related-Party Transactions
Clearwire Related-Party Transactions
Sprint's relationship with Clearwire, which is now a wholly-owned subsidiary of Sprint, includes agreements by which we resell wireless data services utilizing Clearwire's 4G network. In addition, Clearwire subscribers utilize the third generation (3G) Sprint network which provides dual-mode service to subscribers in those areas where access to Clearwire's 4G network is not available.
Immediately prior to the Clearwire Acquisition, Sprint Communications held approximately 50.1% of non-controlling voting interest and a 6.0% non-controlling economic interest in Clearwire Corporation as well as a 44.1% non-controlling economic interest in Clearwire Communications LLC for which the carrying value totaled $325 million. Prior to the close of the Clearwire Acquisition, we applied equity method accounting to the investment in Clearwire.
Equity in losses from Clearwire were $280 million for the Predecessor 100-day period ended July 9, 2013. The equity in losses from our investment in Clearwire consisted of our share of Clearwire's net loss and other adjustments, if any, such as non-cash impairment of our investment, gains or losses associated with the dilution of our ownership interest resulting from Clearwire's equity issuances, derivative losses associated with the change in fair value of the embedded derivative included in exchangeable notes between Clearwire and Sprint, and other items recognized by Clearwire Corporation that did not affect our economic interest. Sprint's equity in losses for the Predecessor 100-day period ended July 9, 2013, include a $65 million derivative loss associated with the change in fair value of the embedded derivative. Subsequent to the Clearwire Acquisition, Clearwire is consolidated as a wholly-owned subsidiary of Sprint. Cost of services and products included in our consolidated statements of comprehensive loss related to our agreement to purchase 4G services from Clearwire totaled $106 million for the Predecessor 100-day period ended July 9, 2013.
Summarized financial information for Clearwire for the 100-day period ended July 9, 2013, which preceded the Clearwire Acquisition, is as follows:

	100 Days Ended July 9, 2013 (in millions)
Revenues	$348
Operating expenses	(663)
Operating loss	$(315)
Net loss from continuing operations before non-controlling interests	$(447)

SoftBank Related-Party Transactions

In addition to agreements arising out of or relating to the SoftBank Merger, Sprint has entered into various other arrangements with SoftBank or its controlled affiliates (SoftBank Parties) or with third parties to which SoftBank Parties are

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

also parties, including for international wireless roaming, wireless and wireline call termination, real estate, device and accessory purchasing, and other services.

Specifically, we have arrangements with Brightstar US, Inc. (Brightstar), a wholly-owned subsidiary of SoftBank, whereby Brightstar provides supply chain and inventory management services to us in our indirect channels and whereby Sprint may sell new and used handsets and new accessories to Brightstar for its own purposes. The supply chain and inventory management agreement contemplates that Brightstar will purchase inventory from the original equipment manufacturers (OEMs) to sell directly to our indirect dealers. As compensation for these services, we remit per unit fees to Brightstar for each device sold to dealers or retailers in our indirect channels. Until Brightstar successfully negotiates contracts with, and procures credit from, our existing OEMs, Brightstar will purchase handset and accessory inventory from us in order to fulfill orders within our indirect channel. In October 2014, we provided a $1.0 billion credit line to Brightstar to facilitate certain of these arrangements. As a result, we are shifting our concentration of credit risk away from our indirect channel partners to Brightstar. Because Brightstar is a wholly-owned subsidiary of SoftBank, we expect SoftBank will provide the necessary support to ensure that Brightstar will fulfill its obligations to us under these agreements. However, we have no assurance that SoftBank will provide such support.

Amounts included in our consolidated financial statements associated with these arrangements with Brightstar were as follows:

Consolidated balance sheets:	Successor	
	December 31, 2014	March 31, 2014
	(in millions)	
Accounts receivable	$687	$—
Accounts payable	$49	$—

Consolidated statements of comprehensive loss:	Successor (1)	
	Three Months Ended December 31, 2014	Nine Months Ended December 31, 2014
	(in millions)	
Net operating revenues	$1,030	$1,149
Cost of services and products	$1,071	$1,165

(1) Amounts for all other reported periods were immaterial.

Additionally, we have arrangements with a wholly-owned subsidiary of Brightstar (Brightstar Subsidiary) to procure devices and accessories on our behalf with certain third-party vendors under existing purchase arrangements Sprint has with those vendors as well as new vendor purchase arrangements entered into by the Brightstar Subsidiary. The procurement services include placing orders, processing invoices, receiving payments from us, making payments to our suppliers on our behalf and reselling devices to us. As compensation, under the device arrangement we pay a portion of certain costs that Brightstar Subsidiary incurs plus a profit percentage. Under the accessory arrangement, we pay a percentage mark-up on the cost of accessory purchases. During the Successor three and nine-month periods ended December 31, 2014, we procured, through the Brightstar Subsidiary, approximately $1.9 billion and $4.6

billion, respectively, of device and accessory inventory, which was sold in direct and indirect channels for which we paid immaterial fees to the Brightstar Subsidiary. As of mid-December 2014, the Brightstar Subsidiary will no longer procure devices on our behalf.

Amounts included in our consolidated balance sheets associated with these arrangements with the Brightstar Subsidiary were as follows:

	Successor	
	December 31, 2014	March 31, 2014
	(in millions)	
Device and accessory inventory	$775	$266
Accounts payable	$795	$205

29

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 16. Benefit Plans
The Company provides a defined benefit pension plan and certain other postretirement benefits to certain employees. The Sprint Retirement Pension Plan (the Plan) provides for normal, early retirement, special early retirement, death and disability retirement, and deferred vested retirement upon meeting certain conditions. As of December 31, 2005, the accrual of additional benefits ceased for current Plan participants. The Company continues to make cash contributions to the Plan in an amount necessary to meet minimum funding requirements according to applicable benefit plan regulations.
In June 2014, the Company’s Board of Directors approved a plan amendment to the Plan to offer certain terminated participants, who had not begun to receive Plan benefits, the opportunity to voluntarily elect to receive their benefits as an immediate lump sum distribution. Upon expiration of the election period and completion of cash payments on November 28, 2014, the lump sum distribution, totaling approximately $560 million, created a settlement event that resulted in a $59 million charge, which is reflected in "Other, net" in the consolidated statement of comprehensive loss, as well as a reduction in the Company's projected benefit obligation of approximately $300 million compared to March 31, 2014.

Note 17. Guarantor Financial Information
On September 11, 2013, Sprint Corporation issued $2.25 billion aggregate principal amount of 7.250% notes due 2021 and $4.25 billion aggregate principal amount of 7.875% notes due 2023 in a private placement transaction with registration rights. On December 12, 2013, Sprint Corporation issued $2.5 billion aggregate principal amount of 7.125% notes due 2024 in a private placement transaction with registration rights. Each of these issuances is fully and unconditionally guaranteed by Sprint Communications, Inc. (Subsidiary Guarantor), which is a 100 percent owned subsidiary of Sprint Corporation (Parent/Issuer). In connection with the foregoing, the registration rights agreements with respect to the notes required the Company and Sprint Communications, Inc. to use their reasonable best efforts to cause an offer to exchange the notes for a new issue of substantially identical exchange notes registered under the Securities Act of 1933. Accordingly, in November 2014, we completed an exchange offer for these notes in compliance with our registration obligations. We did not receive any proceeds from this exchange offer.
Under the Subsidiary Guarantor's revolving bank credit facility and other finance agreements, the Subsidiary Guarantor is currently restricted from paying cash dividends to the Parent/Issuer or any Non-Guarantor Subsidiary because the ratio of total indebtedness to adjusted EBITDA (each as defined in the applicable agreement) exceeds 2.5 to 1.0.
In May 2014, certain wholly-owned subsidiaries of Sprint entered into a Receivables Facility arrangement to sell certain accounts receivable on a revolving basis, subject to a maximum funding limit of $1.3 billion. In connection with this arrangement, Sprint formed certain wholly-owned subsidiaries, which are bankruptcy remote SPEs and are included in the Non-Guarantor Subsidiaries condensed consolidated financial information (see Note 3. Significant Transactions).
The guarantor financial information distinguishes between the Predecessor period relating to Sprint Communications for periods prior to the SoftBank Merger and the Successor period relating to Sprint Corporation (formerly Starburst II), for periods subsequent to the incorporation of Starburst II on October 5, 2012. Additionally, because the Parent/Issuer column represents the activities of Sprint Corporation (formerly Starburst II), no Parent/Issuer financial information exists for the Predecessor periods, which are prior to the SoftBank Merger. We have accounted for investments in subsidiaries using the equity method. Presented below is the condensed consolidating financial information as of the Successor periods ended December 31, 2014 and March 31, 2014, and for the Successor three and nine-month periods ended December 31, 2014 and 2013 and the Predecessor 101-day period ended July 10, 2013.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING BALANCE SHEET
Successor

	As of December 31, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$ 2,823	$ 632	$ —	$ 3,455
Short-term investments	—	199	55	—	254
Accounts and notes receivable, net	153	137	4,231	(159)	4,362
Device and accessory inventory	—	—	1,513	—	1,513
Deferred tax assets	—	—	101	—	101
Prepaid expenses and other current assets	—	11	762	—	773
Total current assets	153	3,170	7,294	(159)	10,458
Investments	—	1,115	56	(1,019)	152
Investments in subsidiaries	22,091	22,930	—	(45,021)	—
Property, plant and equipment, net	—	—	18,853	—	18,853
Due from consolidated affiliate	—	20,357	—	(20,357)	—
Note receivable from consolidated affiliate	9,000	—	—	(9,000)	—
Intangible assets					
Goodwill	—	—	6,343	—	6,343
FCC licenses and other	—	—	39,942	—	39,942
Definite-lived intangible assets, net	—	—	6,288	—	6,288
Other assets	123	127	875	(123)	1,002
Total assets	$31,367	$ 47,699	$ 79,651	$ (75,679)	$ 83,038
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$ —	$ 5,220	$ —	$ 5,220
Accrued expenses and other current liabilities	155	627	5,099	(159)	5,722
Current portion of long-term debt, financing and capital lease obligations	—	500	802	—	1,302
Total current liabilities	155	1,127	11,121	(159)	12,244
Long-term debt, financing and capital lease obligations	9,000	14,640	8,539	(1,019)	31,160
Deferred tax liabilities	—	—	13,681	—	13,681
Note payable due to consolidated affiliate	—	9,000	—	(9,000)	—
Other liabilities	—	841	3,023	—	3,864
Due to consolidated affiliate	123	—	20,357	(20,480)	—
Total liabilities	9,278	25,608	56,721	(30,658)	60,949
Commitments and contingencies					
Total stockholders' equity	22,089	22,091	22,930	(45,021)	22,089
Total liabilities and stockholders' equity	$31,367	$ 47,699	$ 79,651	$ (75,679)	$ 83,038

31

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING BALANCE SHEET
Successor

	As of March 31, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$ 4,125	$ 845	$ —	$ 4,970
Short-term investments	—	1,220	—	—	1,220
Accounts and notes receivable, net	74	27	3,607	(101)	3,607
Device and accessory inventory	—	—	982	—	982
Deferred tax assets	—	—	128	—	128
Prepaid expenses and other current assets	—	14	658	—	672
Total current assets	74	5,386	6,220	(101)	11,579
Investments	—	1,104	61	(1,019)	146
Investments in subsidiaries	25,316	25,588	—	(50,904)	—
Property, plant and equipment, net	—	—	16,299	—	16,299
Due from consolidated affiliate	—	18,234	—	(18,234)	—
Note receivable from consolidated affiliate	9,000	—	—	(9,000)	—
Intangible assets					
Goodwill	—	—	6,383	—	6,383
FCC licenses and other	—	—	41,978	—	41,978
Definite-lived intangible assets, net	—	—	7,558	—	7,558
Other assets	133	133	613	(133)	746
Total assets	$34,523	$ 50,445	$ 79,112	$ (79,391)	$ 84,689
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$ —	$ 3,163	$ —	$ 3,163
Accrued expenses and other current liabilities	78	493	5,074	(101)	5,544
Current portion of long-term debt, financing and capital lease obligations	—	—	991	—	991
Total current liabilities	78	493	9,228	(101)	9,698
Long-term debt, financing and capital lease obligations	9,000	15,027	8,779	(1,019)	31,787
Deferred tax liabilities	—	—	14,207	—	14,207
Note payable due to consolidated affiliate	—	9,000	—	(9,000)	—
Other liabilities	—	609	3,076	—	3,685
Due to consolidated affiliate	133	—	18,234	(18,367)	—
Total liabilities	9,211	25,129	53,524	(28,487)	59,377
Commitments and contingencies					
Total stockholders' equity	25,312	25,316	25,588	(50,904)	25,312

Total liabilities and stockholders' equity	$34,523	$ 50,445	$ 79,112	$ (79,391)	$ 84,689

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Successor

	For the Three Months Ended December 31, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	$—	$ —	$ 8,973	$ —	$ 8,973
Net operating expenses:					
Cost of services and products (exclusive of depreciation and amortization included below)	—	—	5,282	—	5,282
Selling, general and administrative	—	—	2,647	—	2,647
Impairments	—	—	2,133	—	2,133
Severance and exit costs	—	—	22	—	22
Depreciation	—	—	940	—	940
Amortization	—	—	380	—	380
Other, net	—	1	108	—	109
	—	1	11,512	—	11,513
Operating loss	—	(1)	(2,539)	—	(2,540)
Other income (expense):					
Interest income	169	22	1	(189)	3
Interest expense	(169)	(360)	(166)	189	(506)
(Losses) earnings of subsidiaries	(2,379)	(2,041)	—	4,420	—
Other income, net	—	1	6	—	7
	(2,379)	(2,378)	(159)	4,420	(496)
(Loss) income before income taxes	(2,379)	(2,379)	(2,698)	4,420	(3,036)
Income tax benefit	—	—	657	—	657
Net (loss) income	(2,379)	(2,379)	(2,041)	4,420	(2,379)
Other comprehensive (loss) income	(220)	(220)	(208)	428	(220)
Comprehensive (loss) income	$(2,599)	$ (2,599)	$ (2,249)	$ 4,848	$ (2,599)

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Successor

	For the Three Months Ended December 31, 2013				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	$—	$ —	$ 9,142	$ —	