SPRINT Corp
Form 10-Q
November 06, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 OCTOBER 31, 2014:

Sprint Corporation Common Stock	3,955,981,006

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SPRINT CORPORATION
CONSOLIDATED BALANCE SHEETS

	Successor	
	September 30, 2014	March 31, 2014
	(in millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,135	$ 4,970
Short-term investments	1,167	1,220
Accounts and notes receivable, net of allowance for doubtful accounts and deferred interest of $303 and $197	3,942	3,607
Device and accessory inventory	1,124	982
Deferred tax assets	90	128
Prepaid expenses and other current assets	812	672
Total current assets	11,270	11,579
Property, plant and equipment, net	17,557	16,299
Intangible assets		
Goodwill	6,343	6,383
FCC licenses and other	41,800	41,978
Definite-lived intangible assets, net	6,696	7,558
Other assets	1,044	892
Total assets	$ 84,710	$ 84,689
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 4,351	$ 3,163
Accrued expenses and other current liabilities	5,439	5,544
Current portion of long-term debt, financing and capital lease obligations	808	991
Total current liabilities	10,598	9,698
Long-term debt, financing and capital lease obligations	31,458	31,787
Deferred tax liabilities	14,331	14,207
Other liabilities	3,660	3,685
Total liabilities	60,047	59,377
Commitments and contingencies		
Stockholders' equity:		
Common stock, voting, par value $0.01 per share, 9.0 billion authorized, 3.955 billion and 3.941 billion issued at September 30, 2014 and March 31, 2014	40	39
Paid-in capital	27,453	27,354
Accumulated deficit	(2,780)	(2,038)
Accumulated other comprehensive loss	(50)	(43)
Total stockholders' equity	24,663	25,312
Total liabilities and stockholders' equity	$ 84,710	$ 84,689

See Notes to the Consolidated Financial Statements

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SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Successor				Predecessor	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended
	September 30,		September 30,		July 10,	
	2014	2013	2014	2013	2013	2013
	(in millions, except per share amounts)					
Net operating revenues	$8,488	$7,749	$17,277	$7,749	$932	$9,809
Net operating expenses:						
Cost of services and products (exclusive of depreciation and amortization included below)	4,801	4,342	9,479	4,342	567	5,612
Selling, general and administrative	2,301	2,259	4,585	2,281	289	2,731
Severance and exit costs	284	103	311	103	(5)	627
Depreciation	898	942	1,766	942	113	1,676
Amortization	396	461	809	461	8	77
	8,680	8,107	16,950	8,129	972	10,723
Operating (loss) income	(192)	(358)	327	(380)	(40)	(914)
Other (expense) income:						
Interest expense	(510)	(416)	(1,022)	(416)	(275)	(703)
Equity in losses of unconsolidated investments, net	—	—	—	—	(23)	(280)
Gain on previously-held equity interests	—	—	—	—	2,926	2,926
Other income, net	8	165	9	12	2	19
	(502)	(251)	(1,013)	(404)	2,630	1,962
(Loss) income before income taxes	(694)	(609)	(686)	(784)	2,590	1,048
Income tax expense	(71)	(90)	(56)	(29)	(1,508)	(1,563)
Net (loss) income	$(765)	$(699)	$(742)	$(813)	$1,082	$(515)
Basic net (loss) income per common share	$(0.19)	$(0.18)	$(0.19)	$(0.24)	$0.35	$(0.17)
Diluted net (loss) income per common share	$(0.19)	$(0.18)	$(0.19)	$(0.24)	$0.30	$(0.17)
Basic weighted average common shares outstanding	3,949	3,802	3,947	3,439	3,086	3,038
Diluted weighted average common shares outstanding	3,949	3,802	3,947	3,439	3,640	3,038
Other comprehensive (loss) income, net of tax:						
Net unrealized holding (losses) gains on securities and other	$(6)	$4	$(6)	$100	$(47)	$(11)
Net unrecognized net periodic pension and other postretirement benefits	(1)	—	(1)	—	5	20
Other comprehensive (loss) income	(7)	4	(7)	100	(42)	9
Comprehensive (loss) income	$(772)	$(695)	$(749)	$(713)	$1,040	$(506)

See Notes to the Consolidated Financial Statements

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SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor		Predecessor
	Six Months Ended		101 Days Ended
	September 30,		July 10,
	2014	2013	2013
	(in millions)		
Cash flows from operating activities:			
Net loss	$(742)	$(813)	$ (515)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	2,575	1,403	1,753
Provision for losses on accounts receivable	493	119	111
Share-based and long-term incentive compensation expense	65	58	20
Deferred income tax expense	28	23	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)	—	—
Amortization and accretion of long-term debt premiums and discounts	(149)	(86)	(5)
Other changes in assets and liabilities:			
Accounts and notes receivable	(828)	(54)	(65)
Inventories and other current assets	(155)	(72)	55
Accounts payable and other current liabilities	503	159	1,014
Non-current assets and liabilities, net	(124)	(153)	191
Other, net	63	118	9
Net cash provided by operating activities	1,707	702	1,731
Cash flows from investing activities:			
Capital expenditures	(2,389)	(1,878)	(1,759)
Expenditures relating to FCC licenses	(79)	(31)	(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	1,842	479	1,164
Purchases of short-term investments	(1,789)	(815)	(295)
Increase in restricted cash	—	(3,050)	—
Proceeds from sales of assets and FCC licenses	101	3	4
Other, net	(6)	(3)	(4)
Net cash used in investing activities	(2,225)	(19,407)	(5,227)
Cash flows from financing activities:			
Proceeds from debt and financings	—	6,826	—
Repayments of debt, financing and capital lease obligations	(363)	(497)	(303)
Debt financing costs	—	(107)	(1)

Proceeds from issuance of common stock and warrants, net	46	18,552	53
Other, net	—	(14)	—
Net cash (used in) provided by financing activities	(317)	24,760	(251)
Net (decrease) increase in cash and cash equivalents	(835)	6,055	(3,747)
Cash and cash equivalents, beginning of period	4,970	3	6,275
Cash and cash equivalents, end of period	$4,135	$6,058	$ 2,528

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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	—	—	—	(742)	—	(742)
Other comprehensive loss, net of tax	—	—	—	—	(7)	(7)
Issuance of common stock, net	14	1	45	—	—	46
Share-based compensation expense	—	—	54	—	—	54
Balance, September 30, 2014	3,955	$40	$27,453	$ (2,780)	$ (50)	$24,663

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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 10-day and 101-day periods 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.

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Note 2. New Accounting Pronouncements

In April 2014, the 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 IFRS 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 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.

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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.

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 September 30, 2014. Other Sprint stockholders owned the remaining approximately 20% as of September 30, 2014.

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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 FCC licenses. The remainder of the decrease is 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

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

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the Originators under the Receivables Facility. As of September 30, 2014, Sprint had not sold any Receivables to the Conduits and the amount available under the Receivables Facility was $1.1 billion.

Receivables sold will be treated as a sale for accounting purposes. The expected accounting impacts include the de-recognition 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 handsets 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.

The following table summarizes the installment receivables:

	Successor	
	September 30, 2014	March 31, 2014
	(in millions)	
Installment receivables, gross	$1,494	$740
Deferred interest	(133)	(77)
Installment receivables, net of deferred interest	1,361	663
Allowance for credit losses	(141)	(47)
Installment receivables, net	$1,220	$616
Classified on the consolidated balance sheets as:		
Accounts and notes receivable, net	$818	$299
Other assets	402	317
Installment receivables, net	$1,220	$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 equipment purchases. In addition, certain subscribers within the subprime category are required to pay an advance deposit. 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.

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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					
	September 30, 2014			March 31, 2014		
	Prime	Subprime	Total	Prime	Subprime	Total
	(in millions)					
Unbilled	$1,003	$384	$1,387	$466	$242	$708
Billed - current	45	22	67	16	9	25
Billed - past due	17	23	40	5	2	7
Installment receivables, gross	$1,065	$429	$1,494	$487	$253	$740

Activity in the deferred interest and allowance for credit losses for the installment receivables for the six-month period ended September 30, 2014 was as follows:

	Successor	
	Six Months Ended September 30, 2014	Three Months Ended March 31, 2014
	(in millions)	
Deferred interest and allowance for credit losses, beginning of period	$124	$13
Bad debt expense	188	44
Write-offs, net of recoveries	(94)	—
Change in deferred interest on short-term and long-term installment receivables	56	67
Deferred interest and allowance for credit losses, end of period	$274	$124

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 time deposits and commercial paper), totaling approximately $1.2 billion as of each of the Successor periods ended September 30, 2014 and March 31, 2014, are recorded at amortized cost, and the respective carrying amounts approximate fair value using quoted prices in active markets. The fair value of marketable equity securities totaling $45 million and $50 million as of the Successor periods ended September 30, 2014 and March 31, 2014, 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 September 30, 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	$31,816	$26,595	$4,954	$1,135	$32,684

	Successor				
		Estimated Fair Value Using Input Type			
	Carrying amount at March 31, 2014	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

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Note 6. Property, Plant and Equipment

Property, plant and equipment consists primarily of network equipment and other long-lived assets used to provide service to our subscribers. Property plant and equipment for the six-month periods ended September 30, 2014 and 2013 included non-cash additions of approximately $570 million and $50 million, respectively, along with corresponding increases in "Accounts payable" and "Accrued expenses and other current liabilities." Also included in Property, plant and equipment for the Successor six-month period ended September 30, 2014 are non-cash additions of approximately $70 million related to leased handsets along with a corresponding decrease in "Device and accessory inventory."

The following table presents the components of property, plant and equipment, and the related accumulated depreciation:

	Successor	
	September 30, 2014	March 31, 2014
	(in millions)	
Land	$265	$265
Network equipment, site costs and related software	16,810	14,902
Buildings and improvements	752	745
Non-network internal use software, office equipment and other	1,084	866
Construction in progress	2,598	1,970
Less: accumulated depreciation	(3,952)	(2,449)
Property, plant and equipment, net	$17,557	$16,299

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 September 30, 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).

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 September 30, 2014, the carrying value of FCC licenses still pending regulatory approval that was reclassed 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. These remaining sales are not expected to have a material impact on the Company's consolidated results of operations.

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	Successor March 31, 2014	Net Reductions	September 30, 2014
	(in millions)		
FCC licenses	$36,043	$(178)	$35,865
Trademarks	5,935	—	5,935
Goodwill	6,383	(40)[1]	6,343
	$48,361	$(218)	$48,143

(1) Net reduction to goodwill for the Successor six-month period ended September 30, 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.

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 are recognized in cost of services.

		Successor					
		September 30, 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	$ (2,071)	$4,852	$6,923	$ (1,289)	$5,634
Other intangible assets:							
Favorable spectrum leases	23 years	884	(51)	833	884	(30)	854
Favorable tower leases	3 to 7 years	589	(134)	455	589	(80)	509
Trademarks	34 years	520	(19)	501	520	(12)	508
Other	4 to 10 years	67	(12)	55	60	(7)	53
Total other intangible assets		2,060	(216)	1,844	2,053	(129)	1,924
Total definite-lived intangible assets		$8,983	$ (2,287)	$6,696	$8,976	$ (1,418)	$7,558

Note 8. Accounts Payable

Accounts payable at September 30, 2014 and March 31, 2014 include liabilities in the amounts of $81 million and $91 million, respectively, for checks issued in excess of associated bank balances but not yet presented for collection.

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

	Interest Rates	Maturities	Successor	
			September 30, 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	2.75%	2018	—	—
Export Development Canada	3.58%	2015	500	500
Secured equipment credit facility	2.03%	2017	635	762
Financing obligation	6.09%	2021	301	327
Capital lease obligations and other	2.35 - 10.52%	2015 - 2023	158	187
Net premiums			1,259	1,408
			32,266	32,778
Less current portion			(808)	(991)
Long-term debt, financing and capital lease obligations			$31,458	$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 September 30, 2014, Sprint Corporation, the parent corporation, had $9.0 billion in principal amount of senior notes outstanding. In addition, as of September 30, 2014, the outstanding principal amount of senior notes issued by Sprint Communications, Inc. and Sprint Capital Corporation, guaranteed notes issued by Sprint Communications, Inc., and exchangeable notes issued by Clearwire Communications LLC, totaling $20.1 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 $25 million and $14 million, totaled $1.2 billion and $309 million during the Successor six-month periods ended September 30, 2014 and 2013, respectively. Cash interest payments, net of amounts capitalized of $1 million and $14 million, totaled $6 million and $509 million during the Predecessor 10-day and 101-day periods ended July 10, 2013, respectively.

Notes

As of September 30, 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 semi-annually in arrears. As of September 30, 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.

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As of September 30, 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 September 30, 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

On February 10, 2014, the Company amended its unsecured revolving bank credit facility to provide additional lender commitments to bring the total capacity from $3.0 billion to $3.3 billion. The unsecured revolving bank credit facility 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 September 30, 2014, approximately $918 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 approximately $2.4 billion of borrowing capacity available under this facility as of September 30, 2014. The unsecured loan agreement with Export Development Canada (EDC Agreement) and secured equipment credit facility provide for terms similar to those of the revolving bank credit facility, except that under the terms of the EDC Agreement and the secured equipment credit facility, repayments of outstanding amounts cannot be re-drawn. As of September 30, 2014, the EDC Agreement was fully drawn.

Secured equipment credit facility

As of September 30, 2014, both tranches of the secured equipment credit facility totaling $1.0 billion were fully drawn. We made a regularly scheduled principal repayment of $127 million during the Successor three and six-month periods ended September 30, 2014. The cost of funds under this facility includes a fixed interest rate of 2.03%, and export credit agency premiums and other fees that, in total, equate to an expected effective interest rate of approximately 6%. The facility is secured by a lien on the equipment purchased from Ericsson, Inc. and is fully and unconditionally guaranteed by Sprint Communications, Inc.

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.

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As of September 30, 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 bank 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.

Note 10. Severance and Exit Costs
For the Successor three and six-month periods ended September 30, 2014, we recognized lease exit costs primarily associated with call center and retail store 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 our network modernization and the completion of the significant transactions (see Note 3. Significant Transactions), we expect to incur additional exit costs in the future 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 $75 million to $175 million, of which the majority are 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 Expense		Cash Payments and Other	September 30, 2014
	(in millions)				
Lease exit costs	$650	$13	(1)	$(220)	$443
Severance costs	197	269	(2)	(177)	289
Access exit costs	124	29	(3)	(60)	93
	$971	$311		$(457)	$825

(1) For the Successor three and six-month periods ended September 30, 2014, we recognized costs of $10 million and $13 million (Wireless only).
(2) For the Successor three and six-month periods ended September 30, 2014, we recognized costs of $263 million ($228 million Wireless, $35 million Wireline) and $269 million ($233 million Wireless, $36 million Wireline), respectively.
(3) For the Successor three and six-month periods ended September 30, 2014, we recognized costs of $11 million ($9 million Wireless, $2 million Wireline) and $29 million ($24 million Wireless, $5 million Wireline), respectively.

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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
	Six Months Ended September 30,		101 Days Ended July 10,
	2014	2013	2013
	(in millions)		
Income tax benefit (expense) at the federal statutory rate	$240	$274	$(367)
Effect of:			
State income taxes, net of federal income tax effect	—	35	(31)
Change in federal and state valuation allowance	(297)	(327)	(1,145)
Other, net	1	(11)	(20)
Income tax expense	$(56)	$(29)	$(1,563)
Effective income tax rate	(8.2)%	(3.7)%	149.1%

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 $297 million during the Successor six-month period ended September 30, 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 $327 million and $1.1 billion during the Successor six-month period ended September 30, 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 expense of $56 million for the Successor six-month period ended September 30, 2014 is primarily attributable to taxable temporary differences from the tax amortization of FCC licenses during the period offset by a $73 million decrease in valuation allowance attributable to the planned disposition of certain FCC licenses. Income tax expense of $29 million for the Successor six-month period ended September 30, 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 September 30, 2014 and March 31, 2014, we maintained unrecognized tax benefits of $159 million and $160 million, respectively. Cash paid for income taxes, net was $40 million for the Successor six-month period ended September 30, 2014 and insignificant for the Successor six-month period ended September 30, 2013 as well as during the Predecessor 101-day period ended July 10, 2013.

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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 seeks 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, and discovery is continuing. The plaintiff moved to certify a class of bondholders as well as owners of common stock, and 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. Sprint Communications believes the complaint is without merit and intends to continue to defend the 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.

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, 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 we expect briefing of that appeal to continue through 2014. 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.

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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.

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 $3.4 billion directly attributable to our performance under the Report and Order, including approximately $73 million during the Successor six-month period ended September 30, 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 September 30, 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

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authorizing our letter of credit to be reduced to $457 million, which was executed on October 6, 2014, with further quarterly reductions allowed upon approval of our 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. 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 $429 million at September 30, 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.

Note 13. Per Share Data

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share adjusts basic net income (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 67 million and 66 million as of the Successor periods ended September 30, 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.

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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.
Segment financial information is as follows:
Successor

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended September 30, 2014				
Net operating revenues	$7,929	$555	$4	$8,488
Inter-segment revenues[1]	—	153	(153)	—
Total segment operating expenses	(6,559)	(681)	138	(7,102)
Segment earnings	$1,370	$27	$(11)	1,386
Less:				
Depreciation				(898)
Amortization				(396)
Other, net[2]				(284)
Operating loss				(192)
Interest expense				(510)
Other income, net				8
Loss before income taxes				$(694)

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended September 30, 2013				
Net operating revenues	$7,159	$586	$4	$7,749
Inter-segment revenues[1]	—	191	(191)	—
Total segment operating expenses	(6,034)	(660)	193	(6,501)
Segment earnings	$1,125	$117	$6	1,248
Less:				
Depreciation				(942)
Amortization				(461)
Other, net[2]				(203)
Operating loss				(358)
Interest expense				(416)

Other income, net	165
Loss before income taxes	$ (609)

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Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Six Months Ended September 30, 2014				
Net operating revenues	$16,122	$1,148	$ 7	$ 17,277
Inter-segment revenues[1]	—	306	(306)	—
Total segment operating expenses	(12,959)	(1,392)	287	(14,064)
Segment earnings	$3,163	$62	$ (12)	3,213
Less:				
Depreciation				(1,766)
Amortization				(809)
Other, net[2]				(311)
Operating income				327
Interest expense				(1,022)
Other income, net				9
Loss before income taxes				$ (686)

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Six Months Ended September 30, 2013				
Net operating revenues	$7,159	$586	$ 4	$ 7,749
Inter-segment revenues[1]	—	191	(191)	—
Total segment operating expenses	(6,034)	(660)	171	(6,523)
Segment earnings	$1,125	$117	$ (16)	1,226
Less:				
Depreciation				(942)
Amortization				(461)
Other, net[2]				(203)
Operating loss				(380)
Interest expense				(416)
Other income, net				12
Loss before income taxes				$ (784)

Other Information	Wireless	Wireline	Corporate and Other	Consolidated
	(in millions)			
Capital expenditures for the six months ended September 30, 2014	$2,109	$124	$ 156	$ 2,389
Capital expenditures for the six months ended September 30, 2013	$1,743	$73	$ 62	$ 1,878

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Predecessor

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
10 Days Ended July 10, 2013				
Net operating revenues	$858	$74	$—	$ 932
Inter-segment revenues[1]	—	24	(24)	—
Total segment operating expenses	(777)	(83)	23	(837)
Segment earnings	$81	$15	$ (1)	95
Less:				
Depreciation				(113)
Amortization				(8)
Other, net[2]				(14)
Operating loss				(40)
Interest expense				(275)
Equity in losses of unconsolidated investments			$ (23)	
Gain on previously-held equity interests			2,926	2,903
Other income, net				2
Income before income taxes				$ 2,590

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[2]				(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	Consolidated

			Other	
	(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) Other, net for the Successor three and six-month periods ended September 30, 2014 consists of $284 million and $311 million, respectively, of severance and exit costs. Other, net for both the Successor three and six-month periods ended September 30, 2013 consists of $103 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 income (loss) as selling, general and administrative expenses). 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 income (loss) as selling, general and administrative expenses). Other, net for the 10-day period ended July 10, 2013 consists of $32 million of severance costs primarily associated with the Clearwire Acquisition and $19 million of business combination fees paid to unrelated parties in connection with the transactions with SoftBank and Clearwire, partially offset by $37 million related to changes in estimates for lease exit costs previously recognized.

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Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
	(in millions)			
Three Months Ended September 30, 2014				
Wireless services	$6,693	$—	$ —	$ 6,693
Wireless equipment	1,039	—	—	1,039
Voice	—	294	(86)	208
Data	—	53	(22)	31
Internet	—	340	(41)	299
Other	197	21	—	218
Total net operating revenues	$7,929	$708	$ (149)	$ 8,488

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
	(in millions)			
Three Months Ended September 30, 2013				
Wireless services	$6,399	$—	$ —	$ 6,399
Wireless equipment	636	—	—	636
Voice	—	333	(120)	213
Data	—	57	(23)	34
Internet	—	373	(46)	327
Other	124	14	2	140
Total net operating revenues	$7,159	$777	$ (187)	$ 7,749

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
	(in millions)			
Six Months Ended September 30, 2014				
Wireless services	$13,601	$—	$ —	$ 13,601
Wireless equipment	2,145	—	—	2,145
Voice	—	621	(177)	444
Data	—	109	(46)	63
Internet	—	685	(79)	606
Other	376	39	3	418
Total net operating revenues	$16,122	$1,454	$ (299)	$ 17,277

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

	(in millions)			
Six Months Ended September 30, 2013				
Wireless services	$6,399	$—	$ —	$ 6,399
Wireless equipment	636	—	—	636
Voice	—	333	(120)	213
Data	—	57	(23)	34
Internet	—	373	(46)	327
Other	124	14	2	140
Total net operating revenues	$7,159	$777	$ (187)	$ 7,749

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Predecessor

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
	(in millions)			
10 Days Ended July 10, 2013				
Wireless services	$769	$—	$ —	$ 769
Wireless equipment	74	—	—	74
Voice	—	42	(15)	27
Data	—	7	(3)	4
Internet	—	47	(5)	42
Other	15	2	(1)	16
Total net operating revenues	$858	$98	$ (24)	$ 932

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, 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 $23 million and $280 million for the Predecessor 9-day and 100-day periods ended July 9, 2013, respectively. 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 9-day and 100-day periods 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 income (loss) related to our agreement to purchase 4G services from Clearwire totaled $11 million and $106 million for the Predecessor 9-day and 100-day periods ended July 9, 2013, respectively.

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Summarized financial information for Clearwire for the 9-day and 100-day periods ended July 9, 2013, which preceded the Clearwire Acquisition, is as follows:

	9 Days Ended July 9, 2013	100 Days Ended July 9, 2013
	(in millions)	
Revenues	$31	$348
Operating expenses	(62)	(663)
Operating loss	$(31)	$(315)
Net loss from continuing operations before non-controlling interests	$(31)	$(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 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), an affiliate controlled by 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 them for their own purposes. The supply chain and inventory management agreement contemplates that Brightstar will purchase inventory from the 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 original equipment manufacturers (OEMs), they 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, there can be 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	
	September 30, 2014	March 31, 2014
	(in millions)	
Accounts receivable	$118	$—
Accounts payable	$7	$—

Consolidated statements of comprehensive (loss) income:	Successor [1]	
	Three Months Ended September 30, 2014	Six Months Ended September 30, 2014

	(in millions)	
Net operating revenues	$102	$119
Cost of services and products	$78	$94

(1) Amounts for the 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

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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 six-month periods ended September 30, 2014, we procured, through the Brightstar Subsidiary, approximately $1.3 billion and $2.7 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.

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

	Successor	
	September 30, 2014	March 31, 2014
	(in millions)	
Device and accessory inventory	$704	$266
Accounts payable	$418	$205

Note 16. 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 each require 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 to be completed within 540 days after the closing date of the respective offerings. In October 2014, we initiated an exchange offer for all of these notes, which is scheduled to expire in mid-November 2014. We will not receive any proceeds from this exchange offer.

Under the Subsidiary Guarantor's revolving bank credit facility and other bank 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 September 30, 2014 and March 31, 2014, and for the Successor three and six-month periods ended September 30, 2014 and 2013 and the Predecessor 10-day and 101-day periods ended July 10, 2013.

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CONDENSED CONSOLIDATING BALANCE SHEET
Successor

	As of September 30, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	$—	$ 3,488	$ 647	$ —	$ 4,135
Short-term investments	—	1,132	35	—	1,167
Accounts and notes receivable, net	73	67	3,942	(140)	3,942
Device and accessory inventory	—	—	1,124	—	1,124
Deferred tax assets	—	—	90	—	90
Prepaid expenses and other current assets	—	16	796	—	812
Total current assets	73	4,703	6,634	(140)	11,270
Investments	—	1,114	58	(1,019)	153
Investments in subsidiaries	24,665	24,983	—	(49,648)	—
Property, plant and equipment, net	—	—	17,557	—	17,557
Due from consolidated affiliate	—	18,703	—	(18,703)	—
Note receivable from consolidated affiliate	9,000	—	—	(9,000)	—
Intangible assets					
Goodwill	—	—	6,343	—	6,343
FCC licenses and other	—	—	41,800	—	41,800
Definite-lived intangible assets, net	—	—	6,696	—	6,696
Other assets	126	126	765	(126)	891
Total assets	$33,864	$ 49,629	$ 79,853	$ (78,636)	$ 84,710
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	$—	$ —	$ 4,351	$ —	$ 4,351
Accrued expenses and other current liabilities	75	482	5,022	(140)	5,439
Current portion of long-term debt, financing and capital lease obligations	—	—	808	—	808
Total current liabilities	75	482	10,181	(140)	10,598
Long-term debt, financing and capital lease obligations	9,000	14,903	8,574	(1,019)	31,458
Deferred tax liabilities	—	—	14,331	—	14,331
Note payable due to consolidated affiliate	—	9,000	—	(9,000)	—
Other liabilities	—	579	3,081	—	3,660
Due to consolidated affiliate	126	—	18,703	(18,829)	—
Total liabilities	9,201	24,964	54,870	(28,988)	60,047
Commitments and contingencies					
Total stockholders' equity	24,663	24,665	24,983	(49,648)	24,663
Total liabilities and stockholders' equity	$33,864	$ 49,629	$ 79,853	$ (78,636)	$ 84,710

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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

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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Successor

	For the Three Months Ended September 30, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	$—	$ —	$ 8,488	$ —	$ 8,488
Net operating expenses:					
Cost of services and products (exclusive of depreciation and amortization included below)	—	—	4,801	—	4,801
Selling, general and administrative	—	—	2,301	—	2,301
Severance and exit costs	—	—	284	—	284
Depreciation	—	—	898	—	898
Amortization	—	—	396	—	396
	—	—	8,680	—	8,680
Operating loss	—	—	(192)	—	(192)
Other income (expense):					
Interest income	169	23	1	(189)	4
Interest expense	(169)	(364)	(166)	189	(510)
(Losses) earnings of subsidiaries	(765)	(424)	—	1,189	—
Other income, net	—	—	4	—	4
	(765)	(765)	(161)	1,189	(502)
(Loss) income before income taxes	(765)	(765)	(353)	1,189	(694)
Income tax expense	—	—	(71)	—	(71)
Net (loss) income	(765)	(765)	(424)	1,189	(765)
Other comprehensive (loss) income	(7)	(7)	(1)	8	(7)
Comprehensive (loss) income	$(772)	$ (772)	$ (425)	$ 1,197	$ (772)

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SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Successor

	For the Three Months Ended September 30, 2013				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	$—	$ —	$ 7,749	$ —	$ 7,749
Net operating expenses:					
Cost of services and products (exclusive of depreciation and amortization included below)	—	—	4,342	—	4,342
Selling, general and administrative	—	—	2,259	—	2,259
Severance and exit costs	—	—	103	—	103
Depreciation	—	—	942	—	942
Amortization	—	—	461	—	461
	—	—	8,107	—	8,107
Operating loss	—	—	(358)	—	(358)
Other income (expense):					
Interest income	27	20	2	(45)	4
Interest expense	(26)	(214)	(221)	45	(416)
(Losses) earnings of subsidiaries	(795)	(603)	—	1,398	—
Other income, net	159	2	—	—	161
	(635)	(795)	(219)	1,398	(251)
(Loss) income before income taxes	(635)	(795)	(577)	1,398	(609)
Income tax expense	(64)	—	(26)	—	(90)
Net (loss) income	(699)	(795)	(603)	1,398	(699)
Other comprehensive income (loss)	4	4	—	(4)	4
Comprehensive (loss) income	$(695)	$ (791)	$ (603)	$ 1,394	$ (695)

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SPRINT CORPORATION
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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Successor

	For the Six Months Ended September 30, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	$—	$ —	$ 17,277	$ —	$ 17,277
Net operating expenses:					
Cost of services and products (exclusive of depreciation and amortization included below)	—	—	9,479	—	9,479
Selling, general and administrative	—	—	4,585	—	4,585
Severance and exit costs	—	—	311	—	311
Depreciation	—	—	1,766	—	1,766
Amortization	—	—	809	—	809
	—	—	16,950	—	16,950
Operating income	—	—	327	—	327
Other income (expense):					
Interest income	338	46	1	(378)	7
Interest expense	(338)	(732)	(330)	378	(1,022)
(Losses) earnings of subsidiaries	(742)	(56)	—	798	—
Other income, net	—	—	2	—	2
	(742)	(742)	(327)	798	(1,013)
(Loss) income before income taxes	(742)	(742)	—	798	(686)
Income tax expense	—	—	(56)	—	(56)
Net (loss) income	(742)	(742)	(56)	798	(742)
Other comprehensive (loss) income	(7)	(7)	(1)	8	(7)
Comprehensive (loss) income	$(749)	$ (749)	$ (57)	$ 806	$ (749)

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Successor

	For the Six Months Ended September 30, 2013				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	$—	$ —	$ 7,749	$ —	$ 7,749
Net operating expenses:					
Cost of services and products (exclusive of depreciation and amortization included below)	—	—	4,342	—	4,342
Selling, general and administrative	22	—	2,259	—	2,281
Severance and exit costs	—	—	103	—	103
Depreciation	—	—	942	—	942
Amortization	—	—	461	—	461
	22	—	8,107	—	8,129
Operating loss	(22)	—	(358)	—	(380)
Other income (expense):					
Interest income	41	20	1	(45)	17
Interest expense	(26)	(214)	(221)	45	(416)
(Losses) earnings of subsidiaries	(795)	(603)	—	1,398	—
Other (expense) income, net	(8)	2	1	—	(5)
	(788)	(795)	(219)	1,398	(404)
(Loss) income before income taxes	(810)	(795)	(577)	1,398	(784)
Income tax expense	(3)	—	(26)	—	(29)
Net (loss) income	(813)	(795)	(603)	1,398	(813)
Other comprehensive income (loss)	100	100	—	(100)	100
Comprehensive (loss) income	$(713)	$ (695)	$ (603)	$ 1,298	$ (713)

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SPRINT CORPORATION
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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Predecessor

	For the 10 Days Ended July 10, 2013			
	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)			
Net operating revenues	$—	$ 932	$ —	$ 932
Net operating expenses:				
Cost of services and products (exclusive of depreciation and amortization included below)	—	567	—	567
Selling, general and administrative	—	289	—	289
Severance and exit costs	—	(5)	—	(5)
Depreciation	—	113	—	113
Amortization	—	8	—	8
	—	972	—	972
Operating loss	—	(40)	—	(40)
Other income (expense):				
Interest income	3	—	(2)	1
Interest expense	(259)	(18)	2	(275)
Equity in losses of unconsolidated investments, net	—	(23)	—	(23)
Gain on previously-held equity interests	—	2,926	—	2,926
Earnings (losses) of subsidiaries	1,338	—	(1,338)	—
Other income, net	—	1	—	1
	1,082	2,886	(1,338)	2,630
Income (loss) before income taxes	1,082	2,846	(1,338)	2,590
Income tax expense	—	(1,508)	—	(1,508)
Net income (loss)	1,082	1,338	(1,338)	1,082
Other comprehensive (loss) income	(42)	5	(5)	(42)
Comprehensive income (loss)	$1,040	$ 1,343	$ (1,343)	$ 1,040

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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS
Predecessor

	For the 101 Days Ended July 10, 2013			
	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)			
Net operating revenues	$—	$9,809	$ —	$ 9,809
Net operating expenses:				
Cost of services and products (exclusive of depreciation and amortization included below)	—	5,612	—	5,612
Selling, general and administrative	—	2,731	—	2,731
Severance and exit costs	—	627	—	627
Depreciation	—	1,676	—	1,676
Amortization	—	77	—	77
	—	10,723	—	10,723
Operating loss	—	(914)	—	(914)
Other income (expense):				
Interest income	32	8	(22)	18
Interest expense	(550)	(175)	22	(703)
Equity in losses of unconsolidated investments, net	—	(280)	—	(280)
Gain on previously-held equity interests	—	2,926	—	2,926
Earnings (losses) of subsidiaries	3	—	(3)	—
Other income, net	—	1	—	1
	(515)	2,480	(3)	1,962
(Loss) income before income taxes	(515)	1,566	(3)	1,048
Income tax expense	—	(1,563)	—	(1,563)
Net (loss) income	(515)	3	(3)	(515)
Other comprehensive income (loss)	9	20	(20)	9
Comprehensive (loss) income	$(506)	$23	$ (23)	$ (506)

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SPRINT CORPORATION
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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Successor

	For the Six Months Ended September 30, 2014				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Cash flows from operating activities:					
Net cash (used in) provided by operating activities	$—	$ (679)	$ 2,586	$ (200)	$ 1,707
Cash flows from investing activities:					
Capital expenditures	—	—	(2,389)	—	(2,389)
Expenditures relating to FCC licenses	—	—	(79)	—	(79)
Reimbursements relating to FCC licenses	—	—	95	—	95
Proceeds from sales and maturities of short-term investments	—	1,842	—	—	1,842
Purchases of short-term investments	—	(1,754)	(35)	—	(1,789)
Change in amounts due from/due to consolidated affiliates	—	(92)	—	92	—
Proceeds from sales of assets and FCC licenses	—	—	101	—	101
Other, net	—	—	(6)	—	(6)
Net cash (used in) provided by investing activities	—	(4)	(2,313)	92	(2,225)
Cash flows from financing activities:					
Repayments of debt, financing and capital lease obligations	—	—	(363)	—	(363)
Proceeds from issuance of common stock, net	—	46	—	—	46
Intercompany dividends paid to parent	—	—	(200)	200	—
Change in amounts due from/due to consolidated affiliates	—	—	92	(92)	—
Net cash provided by (used in) financing activities	—	46	(471)	108	(317)
Net decrease in cash and cash equivalents	—	(637)	(198)	—	(835)
Cash and cash equivalents, beginning of period	—	4,125	845	—	4,970
Cash and cash equivalents, end of period	$—	$ 3,488	$ 647	$ —	$ 4,135

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SPRINT CORPORATION
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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Successor

	For the Six Months Ended September 30, 2013				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$11	$ 150	$ 891	$ (350)	$ 702
Cash flows from investing activities:					
Capital expenditures	—	—	(1,878)	—	(1,878)
Expenditures relating to FCC licenses	—	—	(31)	—	(31)
Acquisitions, net of cash acquired	(16,640)	2,528	—	—	(14,112)
Proceeds from sales and maturities of short-term investments	—	329	150	—	479
Purchases of short-term investments	(200)	(615)	—	—	(815)
Increase in restricted cash	—	(2,655)	(395)	—	(3,050)
Change in amounts due from/due to consolidated affiliates	—	(2,542)	—	2,542	—
Investment in consolidated affiliate	(1,600)	—	—	1,600	—
Proceeds from sales of assets and FCC licenses	—	—	3	—	3
Intercompany note advance to consolidated affiliate	(6,401)	—	—	6,401	—
Other, net	—	—	(3)	—	(3)
Net cash (used in) provided by investing activities	(24,841)	(2,955)	(2,154)	10,543	(19,407)
Cash flows from financing activities:					
Proceeds from debt and financings	6,500	—	326	—	6,826
Repayments of debt and capital lease obligations	—	—	(497)	—	(497)
Debt financing costs	(99)	—	(8)	—	(107)
Proceeds from issuance of common stock, net	18,540	12	—	—	18,552
Intercompany dividends paid to parent	—	—	(350)	350	—
Change in amounts due from/due to consolidated affiliates	—	—	2,542	(2,542)	—
Intercompany note advance from parent	—	6,401	—	(6,401)	—
Equity contribution from parent	—	1,600	—	(1,600)	—
Other, net	(14)	—	—	—	(14)
Net cash provided by (used in) financing activities	24,927	8,013	2,013	(10,193)	24,760
Net increase in cash and cash equivalents	97	5,208	750	—	6,055
Cash and cash equivalents, beginning of period	3	—	—	—	3
Cash and cash equivalents, end of period	$100	$ 5,208	$ 750	$ —	$ 6,058

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
Predecessor

	For the 101 Days Ended July 10, 2013			
	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)			
Cash flows from operating activities:				
Net cash (used in) provided by operating activities	$(349)	$2,080	$—	$1,731
Cash flows from investing activities:				
Capital expenditures	—	(1,759)	—	(1,759)
Expenditures relating to FCC licenses	—	(70)	—	(70)
Acquisitions, net of cash acquired	(4,039)	—	—	(4,039)
Investment in Clearwire (including debt securities)	—	(228)	—	(228)
Proceeds from sales and maturities of short-term investments	1,164	—	—	1,164
Purchases of short-term investments	(295)	—	—	(295)
Change in amounts due from/due to consolidated affiliates	(136)	—	136	—
Proceeds from sales of assets and FCC licenses	—	4	—	4
Other, net	—	(4)	—	(4)
Net cash (used in) provided by investing activities	(3,306)	(2,057)	136	(5,227)
Cash flows from financing activities:				
Repayments of debt and capital lease obligations	—	(303)	—	(303)
Debt financing costs	(1)	—	—	(1)
Proceeds from issuance of common stock, net	53	—	—	53
Change in amounts due from/due to consolidated affiliates	—	136	(136)	—
Net cash provided by (used in) financing activities	52	(167)	(136)	(251)
Net decrease in cash and cash equivalents	(3,603)	(144)	—	(3,747)
Cash and cash equivalents, beginning of period	5,124	1,151	—	6,275
Cash and cash equivalents, end of period	$1,521	$1,007	$—	$2,528

Note 17. Subsequent Events

In October 2014, we amended our revolving bank credit facility that expires in February 2018 to modify, among other things, the terms and conditions as it relates to 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 our Leverage

Ratio to remain in compliance. In addition, Sprint Corporation was added as a guarantor of this credit facility.
We have recently engaged in discussions with our existing lenders for both the unsecured EDC Agreement and secured equipment credit facility and intend to modify the terms to provide for terms similar to those of the revolving bank credit facility that was amended in October 2014. If we are unsuccessful in our efforts, we could pay all amounts outstanding under the EDC Agreement and secured equipment credit facility prior to exceeding the current covenant ratio requirements, which are currently more restrictive than the amended revolving bank credit facility. To the extent we are unsuccessful in our efforts to amend the EDC Agreement and secured equipment credit facility, we expect to have the ability and could pay off all amounts outstanding under these two facilities, which totaled $1.1 billion as of September 30, 2014.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Sprint Corporation, including its consolidated subsidiaries, is a communications company offering a comprehensive range of wireless and wireline communications products and services that are designed to meet the needs of individual consumers, businesses, government subscribers, and resellers. 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 within "Results of Operations"), and references to "Sprint Communications" are to Sprint Communications, Inc. and its consolidated subsidiaries.

Description of the Company

We are the third largest wireless communications company in the U.S. based on wireless revenue, one of the largest providers of wireline long distance services, and one of the largest Internet carriers in the nation. Our services are provided through our ownership of extensive wireless networks, an all-digital global long distance network and a Tier 1 Internet backbone.

We offer wireless and wireline voice and data transmission services to subscribers in all 50 states, Puerto Rico, and the U.S. Virgin Islands under the Sprint corporate brand, which includes our retail brands of Sprint®, Boost Mobile®, Virgin Mobile®, and Assurance Wireless® on networks that utilize third generation (3G) code division multiple access (CDMA) or Internet protocol (IP) technologies. We also offer fourth generation (4G) services utilizing Long Term Evolution (LTE) as well as Worldwide Interoperability for Microwave Access (WiMAX) technologies (which we expect to shut-down by the end of calendar year 2015). We utilize these networks to offer our wireless and wireline subscribers differentiated products and services whether through the use of a single network or a combination of these networks. We offer wireless services on a postpaid and prepaid payment basis to retail subscribers and also on a wholesale and affiliate basis, which includes the sale of wireless services that utilize the Sprint network but are sold under the wholesaler's brand.

Wireless

We continue to support the open development of applications, content, and devices on the Sprint platform through products and services such as Sprint ID,™ which provides an easy way for users to discover content from leading brands and special interests as well as manage those experiences on certain Android devices, and Sprint Zone, which allows subscribers to not only manage their account and self-service functions via their device but facilitates discovery of new content and personalization through recommendations for applications and entertainment content. We also support Sprint Guardian,™ a collection of mobile safety and device security bundles that provide families relevant tools to help stay safe and secure, and Pinsight Media+,™ which gives advertisers the power to reach consumers on their mobile device by providing more relevant advertising based on information consumers choose to share about their location and mobile Web browsing history. In addition, we enable a variety of business and consumer third-party relationships through our portfolio of machine-to-machine solutions, which we offer on a retail postpaid and wholesale basis. Our machine-to-machine solutions portfolio provides a secure, real-time and reliable wireless two-way data connection across a broad range of connected devices such as the Chrysler Group's UConnect® Access in-vehicle communications system powered through our Sprint Velocity™ end-to-end telematics solution, which enables hands free phone calls and the ability to access music, navigation, and other applications and services through cell connections built into the vehicle. Other connected devices include original equipment manufacturer (OEM) devices and after-market in-vehicle connectivity and electric vehicle charging stations, point-of-sale systems, kiosks and vending machines, asset tracking, digital signage, security, smartgrid utilities, medical equipment, and a variety of other consumer electronics and appliances.

Postpaid

In our postpaid portfolio, we recently launched the Sprint Family Share Pack, Sprint $60 Unlimited Plan and an exclusive rate plan for the iPhone 6 and 6 Plus, Sprint Simply Unlimited Plan. The Sprint Family Share Pack is available to new and eligible existing subscribers, and allows subscribers to share data across up to ten lines of service under one account. Subscribers choose a shared monthly data allowance starting at $20 per month for 1 gigabyte (GB) of data. For each handset, subscribers pay an access charge which includes unlimited talk and text and ranges from

$15 to $40 per month depending on how the subscriber chooses to purchase a handset and the size of data allowance selected. Subscribers may also add data access at $10 per month per tablet or $20 per month per mobile broadband device or hotspot. The Sprint $60 Unlimited Plan is also available to new and eligible existing subscribers, and includes unlimited talk, text and data while on the Sprint network for $60 per line per month with the purchase of a handset at full retail price or the lease of a handset. The Sprint Simply Unlimited Plan is available to new and eligible existing subscribers, and includes unlimited talk, text and data while on the

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Sprint network for $50 per line per month for subscribers who purchase at full retail price or lease the iPhone 6 or 6 Plus. Qualified subscribers have the option to lease an iPhone 6 or 6 Plus through the iPhone for Life Plan at $20 per month for an iPhone 6 (16 GB) or $25 per month for an iPhone 6 Plus (16 GB) with no upfront cost for the handset for qualified customers. The terms of the iPhone for Life Plan do not require the subscriber to execute a traditional, two-year wireless service contract.

Subscribers may purchase an eligible handset at full retail price under an installment contract payable over 24 months through the use of the Sprint Easy Pay[SM] program and may pay an additional $5 per month per handset line to upgrade to a new handset as early as every 12 months if they turn in their handset. The terms of the Sprint Easy Pay program do not require the subscriber to execute a traditional, two-year wireless service contract.

We also offer price plans tailored to new and eligible existing business subscribers such as Sprint Business Share Plans, which provide for monthly unlimited talk and text and allow business decision makers to choose buckets of data for a certain number of lines of service to suit their needs. In addition, in July 2014, we launched Sprint Business Fusion Plans, which start at $15 per month with a qualifying handset purchase and include unlimited talk and text and Sprint Direct Connect and allow subscribers to choose unlimited data or share a pool of data among users for an additional fee. Subscribers also have the choice to add other devices to the shared pool of data, including tablets, mobile broadband cards, mobile hotspots, routers and machine-to-machine devices.

Prepaid

Our prepaid portfolio currently includes multiple brands, each designed to appeal to specific subscriber segments. Sprint Prepaid primarily serves subscribers who want plans that are affordable, simple and flexible without a long-term commitment. Boost Mobile serves subscribers with our Data Boost Plans, which offer subscribers unlimited text and talk with step pricing based on their preferred data usage for a lower monthly fee and double the data than our previously offered Monthly Unlimited Select plans. Virgin Mobile primarily serves subscribers with our new Virgin Mobile Unlimited plans and our broadband plan, Broadband2Go[SM], which offer subscribers control, flexibility and connectivity through various plan options and communication vehicles. Virgin Mobile is also designated as a Lifeline-only Eligible Telecommunications Carrier in certain states and provides service for the Lifeline program under our Assurance Wireless brand. Assurance Wireless provides eligible subscribers, in certain states, who meet income requirements or are receiving government assistance, with a free wireless phone, 250 free local and long-distance voice minutes each month and unlimited free texts.

Wholesale

We have focused our wholesale business on enabling our diverse network of customers to successfully grow their business by providing them with an array of network, product, and device solutions. This allows our customers to customize this full suite of value-added solutions to meet the growing demands of their businesses. As part of these growing demands, some of our wholesale mobile virtual network operators (MVNO) are also selling prepaid services under the Lifeline program.

Wireline

We provide a broad suite of wireline voice and data communications services to other communications companies and targeted business and consumer subscribers. In addition, we provide voice, data and IP communication services to our Wireless segment.

Business Strategies and Key Priorities

The communications industry continues to compete on the basis of network performance and quality, types of services and devices offered, and price. Our business strategy is to be responsive to changing customer mobility demands by being innovative and differentiated in the marketplace. Our future growth plans and strategy revolve around achieving the following three key priorities:

- Provide the best value;
- Enhance network coverage and capacity; and
- Operationalize a more effective cost structure.

We strive to provide the best value through several new offerings of unlimited talk, text and data, and we also offer a broad selection of some of the most desired and iconic devices. We continue to enhance our network coverage, capacity and data speeds utilizing our unique spectrum portfolio to provide broad market coverage for voice and data,

focusing on in-building penetration improvements. We are also re-evaluating our cost structure for opportunities to reduce costs to be more in-line with our competitors and the new price plans we are offering.

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Significant Transactions

On July 9, 2013, Sprint Nextel Corporation (Sprint Nextel) completed the acquisition of the remaining equity interests in Clearwire Corporation and its consolidated subsidiary Clearwire Communications LLC (together "Clearwire") that it did not previously own (Clearwire Acquisition) in an all cash transaction for approximately $3.5 billion, net of cash acquired of $198 million, which provides us with control of 2.5 gigahertz (GHz) spectrum and tower resources for use in conjunction with our network modernization plan. 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 allocation of consideration paid was based on management's judgment after evaluating several factors, including a valuation assessment.

On July 10, 2013, SoftBank Corp. and certain of its wholly-owned subsidiaries (together, "SoftBank") completed the merger (SoftBank Merger) with 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. Pursuant to the Bond Agreement, Sprint Communications, Inc. issued a convertible bond (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 in which SoftBank acquired an approximate 78% interest in Sprint Corporation, and subsequent open market stock purchases, SoftBank owns approximately 80% of the outstanding voting common stock of Sprint Corporation. The SoftBank Merger consideration totaled approximately $22.2 billion, consisting primarily of cash consideration of $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. The allocation of consideration paid was based on management's judgment after evaluating several factors, including a valuation assessment. The close of the transaction provided additional equity funding of $5.0 billion, consisting of $3.1 billion received by Sprint Communications, Inc. in October 2012 related to the Bond, which automatically converted to equity immediately prior to the closing of the SoftBank Merger, and $1.9 billion cash consideration at closing of the SoftBank Merger.

In connection with the close of the SoftBank Merger, Sprint Corporation became the successor registrant to Sprint Nextel under Rule 12g-3 of the Securities Exchange Act of 1934 (Exchange Act) and is the entity subject to the reporting requirements of the Exchange Act for filings with the Securities and Exchange Commission (SEC) subsequent to the close of the SoftBank Merger. 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.

Network Modernization

We are in the process of modernizing our network to allow the consolidation and optimization of our 1.9 GHz, 800 megahertz (MHz) and 2.5 GHz spectrum into our base stations. The Network Vision project, which commenced in late 2011, includes the deployment of enhanced 3G and 4G LTE technology using our 1.9 GHz spectrum and the deployment of voice technology on our 800 MHz spectrum on the majority of our 38,000 cell sites. We have substantially completed the deployment of enhanced 3G technology using 1.9 GHz spectrum. In addition, we have enabled High Definition Voice services nationwide with this technology. The deployment of enhanced 3G voice services utilizing our 800 MHz spectrum, which is subject to the timing and completion of work to reconfigure the spectrum (the "Report and Order"), and 4G LTE using our 1.9 GHz spectrum is expected to be substantially complete by the calendar year ended 2014.

Some of our subscribers have experienced network service disruptions, particularly voice service, during the construction phase of Network Vision, which, among other factors, we believe has contributed to the elevated postpaid churn rates in recent quarters (refer to the churn results table within "Results of Operations"). Based on our experience in several markets that have reached near completion of Network Vision construction, we have observed that network-related churn elevates during the construction phase and then gradually improves to pre-construction

levels over a period of several months following the achievement of substantial completion in the market.
The Network Vision project and the related shut-down of the Nextel platform have resulted in incremental charges, beginning in 2012, including, but not limited to, an increase in depreciation associated with existing assets related to both the Nextel and Sprint platforms due to changes in our estimates of the remaining useful lives of long-lived assets, changes in the expected timing and amount of asset retirement obligations, and lease exit and other contract termination

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costs. The Nextel platform was successfully shut-down on June 30, 2013, and the remaining infrastructure is expected to be completely decommissioned by the end of calendar year 2016.

In October 2013, we announced Sprint Spark[SM] , which is an enhanced LTE network capability that analyzes our three spectrum bands of LTE and connects a device to the most optimal band available in the area. We expect the deployment period for this technology to be determined over time based on many factors including the availability of equipment, devices and applications. As part of Sprint Spark, we plan to continue to expand 4G LTE technology on our 800 MHz and 2.5 GHz spectrum, which we expect will further enhance the quality of our network. We expect the majority of the efforts to roll out 4G LTE on our 800 MHz spectrum band to be completed by the end of calendar year 2015, subject to the timing and completion of work to reconfigure the 800 MHz band (the "Report and Order"). We expect the majority of the efforts to roll out 4G LTE on our 2.5 GHz spectrum band to be completed over the next three years.

We are also modifying our existing backhaul architecture to enable increased capacity to our network at a lower cost by utilizing Ethernet as opposed to our existing time division multiplexing (TDM) technology. We are incurring termination costs associated with our TDM contractual commitments with third-party vendors on an on-going basis, and expect future termination costs will range between approximately $25 million to $75 million, the majority of which we expect will be recorded by March 31, 2016.

As of the date of the Clearwire Acquisition, Clearwire had deployed WiMAX technology on approximately 17,000 cell towers and was in the process of deploying 4G LTE technology using the 2.5 GHz spectrum on certain sites. We have evaluated our consolidated cell tower portfolio, including the 17,000 cell towers obtained in the Clearwire Acquisition, and identified approximately 6,500 redundant sites that we expect to no longer utilize. We expect lease exit costs recorded in future periods associated with these redundant sites to range between approximately $50 million to $100 million on a net present value basis. The timing of lease exit charges will be dependent upon the date we cease utilizing these sites without future economic benefit. We have continued to deploy 4G LTE technology using the 2.5 GHz spectrum on approximately 10,000 of the remaining Clearwire sites, of which 6,800 have now been completed. We plan to cease using WiMAX technology by the end of calendar year 2015.

Ultimately, we expect Network Vision, along with our ongoing network modernization efforts, to bring financial benefit to the Company through reduced network maintenance and operating costs, capital efficiencies, reduced energy costs, lower roaming expenses, backhaul savings, and reduction in total cell sites, as well as improvements to the quality of service to subscribers. Our expectation of financial savings is affected by multiple variables, including our expectation of the timeliness of modernization across our existing network footprint, which is managed by Sprint but is partly dependent upon our primary OEMs.

Installment Billing Programs

During 2013, wireless carriers introduced new plans that allow subscribers to forgo traditional service contracts and handset subsidies in exchange for lower monthly service fees, early upgrade options, or both. In the latter part of 2013, AT&T, Verizon Wireless and T-Mobile each launched early upgrade programs that included an option to purchase a handset using an installment billing program. Sprint offers our own handset installment billing program called Sprint Easy Pay.

Under the Sprint Easy Pay installment billing program, we expect to recognize a majority of the revenue associated with future expected installment payments at the time of sale of the handset. As compared to our traditional subsidized plans, this results in better alignment of the equipment revenue with the cost of the handset, which is expected to reduce the amount of subsidy recognized in our operating results. Additionally, Sprint is offering lower monthly service fees without a traditional contract as an incentive to attract subscribers to certain of our service plans. These lower rates for service are available whether the subscriber brings their own handset, pays the full retail price of the handset or purchases the handset under our Sprint Easy Pay program. As the adoption rates of these plans increase throughout our base of subscribers, we expect Sprint platform postpaid average revenue per user (ARPU) to continue to decline as a result of lower pricing associated with our new service plans as compared to our traditional plans; however, as a result of Sprint Easy Pay, we also expect reduced equipment net subsidy expense to partially offset these declines. Since inception, these lower priced plans combined with the Sprint Easy Pay program have been accretive to earnings. We expect that trend to continue with the magnitude of the impact being dependent upon the

rate of subscriber adoption. We also expect that Sprint Easy Pay will require a greater use of operating cash flows in the earlier part of the installment contract as the subscriber will pay less upfront than traditional plans because they are financing the handset over 24 months.

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RESULTS OF OPERATIONS

As discussed above, both the Clearwire Acquisition and the SoftBank Merger were completed in July 2013. As a result of these transactions, the assets and liabilities of Sprint Communications and Clearwire were adjusted to estimated fair value on the respective closing dates. The Company's financial statement presentations 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, prospectively following completion of the SoftBank Merger, beginning on July 11, 2013, for the 82 day period (Post-merger period). 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 10-day and 101-day periods ended July 10, 2013 prior to the SoftBank Merger.

The following discussion covers results for the Successor three and six-month periods ended September 30, 2014 as compared to 2013. Results for the Successor six-month period ended September 30, 2014 compared to the combined six-month period ended September 30, 2013 are also discussed, to the extent necessary, to provide an analysis of results on comparable periods although the basis of presentation may not be comparable due to the application of the acquisition method of accounting. Results for the combined three-month period ended September 30, 2014 compared to the combined three-month period ended September 30, 2013 are not discussed as the Successor discussions for that period are considered sufficient to describe the significant trends in the business since the activity from July 1, 2013 through July 10, 2013 (10-day period ended July 10, 2013) is immaterial for the quarter ended September 30, 2013 (or is already described in the Predecessor Period of 10 and 101 Days Ended July 10, 2013 section below).

Predecessor 10-Day and 101-Day Periods Ended July 10, 2013

Significant changes in the underlying trends affecting the Company's consolidated results of operations and net loss for the 10 and 101 days ended July 10, 2013 were as follows:

- We recorded a gain on previously-held Clearwire equity interests of approximately $2.9 billion for the difference between the estimated fair value of the equity interests owned prior to the acquisition ($5.00 per share offer price less an estimated control premium of approximately $0.60) and the carrying value of approximately $325 million for those previously-held equity interests; and
- Increased income tax expense was primarily attributable to taxable temporary differences as a result of the $2.9 billion gain on the previously-held equity interests in Clearwire, which was principally attributable to the increase in the fair value of Federal Communications Commission (FCC) licenses held by Clearwire and from amortization of FCC licenses. 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.

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Consolidated Results of Operations

The following table provides the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
	September 30,		September 30,		July 10, 2013		September 30,	
	2014	2013	2014	2013	2013	2013	2013	2013
	(in millions)							
Wireless segment earnings	$1,370	$1,125	$3,163	$1,125	$81	$1,375	1,206	2,500
Wireline segment earnings	27	117	62	117	15	144	132	261
Corporate, other and eliminations	(11)	6	(12)	(16)	(1)	—	5	(16)
Consolidated segment earnings	1,386	1,248	3,213	1,226	95	1,519	1,343	2,745
Depreciation	(898)	(942)	(1,766)	(942)	(113)	(1,676)	(1,055)	(2,618)
Amortization	(396)	(461)	(809)	(461)	(8)	(77)	(469)	(538)
Other, net	(284)	(203)	(311)	(203)	(14)	(680)	(217)	(883)
Operating income (loss)	(192)	(358)	327	(380)	(40)	(914)	(398)	(1,294)
Interest expense	(510)	(416)	(1,022)	(416)	(275)	(703)	(691)	(1,119)
Equity in losses of unconsolidated investments, net	—	—	—	—	(23)	(280)	(23)	(280)
Gain on previously-held equity interests	—	—	—	—	2,926	2,926	2,926	2,926
Other income, net	8	165	9	12	2	19	167	31
Income tax expense	(71)	(90)	(56)	(29)	(1,508)	(1,563)	(1,598)	(1,592)
Net (loss) income	$(765)	$(699)	$(742)	$(813)	$1,082	$(515)	$383	$(1,328)

Depreciation Expense

Depreciation expense decreased $44 million, or 5%, and increased $824 million, or 87%, in the Successor three and six-month periods ended September 30, 2014, respectively, compared to the same periods in 2013. The decrease in the Successor three-month period ended September 30, 2014 compared to the same period in 2013 is primarily due to equipment not being used for Network Vision becoming fully depreciated at December 31, 2013 partially offset by increased depreciation on new asset additions. The increase in the Successor six-month period ended September 30, 2014 compared to the same period in 2013 is primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013.

Successor Six-Month Period Ended September 30, 2014 and Combined Six-Month Period Ended September 30, 2013

Our Network Vision deployment, which began in late 2011, as well as the shut down of the Nextel platform on June 30, 2013, resulted in incremental charges during earlier stages of implementation including, but not limited to, an increase in depreciation associated with existing assets related to both the Nextel and Sprint platforms, due to changes in our estimates of the remaining useful lives of long-lived assets, and the expected timing and amount of asset retirement obligations, which continued to have an impact on our results of operations in 2013. The incremental effect of accelerated depreciation due to the implementation of Network Vision was approximately $430 million during the Predecessor three-month period ended June 30, 2013, of which the majority related to the Nextel platform, which was shut down on June 30, 2013, compared to no such accelerated depreciation in 2014. In addition to the explanations above and the effect of accelerated depreciation in the Predecessor period, the depreciation expense also decreased by approximately $90 million for the Successor six-month period ended September 30, 2014 as a result of purchase accounting adjustments in 2013.

Amortization Expense

Amortization expense decreased $65 million, or 14%, and increased $348 million, or 75%, in the Successor three and six-month periods ended September 30, 2014 as compared to the same periods in 2013. The decrease in the three-month period ended September 30, 2014 as compared to the same period in 2013 is primarily due to customer relationship intangible assets that are amortized using the sum-of-the-months'-digits method, which results in higher amortization rates in early periods that will decline over time. The increase in the six-month period ended September 30, 2014 as compared to the same

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period in 2013 is primarily due to amortization expense for a full six-month period in 2014 as compared to the shortened Post-merger period in 2013.

Successor Six-Month Period Ended September 30, 2014 and Combined Six-Month Period Ended September 30, 2013

In addition to the explanations above, incremental amortization expense of approximately $350 million was incurred for the Successor six-month period ended September 30, 2014, which was primarily attributable to the recognition of customer relationships of approximately $6.9 billion as a result of the SoftBank Merger.

Other, net

The following table provides additional information regarding items included in "Other, net" for the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
	September 30,		September 30,		July 10,		September 30,	
	2014	2013	2014	2013	2013	2013	2013	2013
	(in millions)							
Severance and exit costs	$(284)	$(103)	$(311)	$(103)	$5	$(627)	$(98)	$(730)
Other	—	(100)	—	(100)	(19)	(53)	(119)	(153)
Total	$(284)	$(203)	$(311)	$(203)	$(14)	$(680)	$(217)	$(883)

Other, net represented an expense of $284 million and $311 million in the Successor three and six-month periods ended September 30, 2014, respectively, as compared to an expense of $203 million in each of the same periods in 2013. Severance and exit costs for the Successor three and six-month periods ended September 30, 2014 included $263 million and $269 million, respectively, of severance primarily associated with reductions in force and $10 million and $13 million, respectively, of lease exit costs primarily associated with call center and retail store closures as well as the network modernization plan. In addition, for the Successor three and six-month periods ended September 30, 2014 we recognized $11 million and $29 million, respectively, of costs during the period 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. Severance and exit costs for both the Successor three and six-month periods ended September 30, 2013 included $41 million of severance primarily associated with reductions in force and $45 million of lease exit costs associated with taking the remaining Nextel platform sites off-air and $24 million related to payments that will continue to be made under our backhaul access contracts, which will have no future economic benefit, of which $7 million was recognized as "Cost of services and products." The amount reflected in "Other" above for the Successor three and six-month periods ended September 30, 2013 consists of business combination expenses classified within selling, general and administrative expense in our consolidated statement of comprehensive (loss) income.

Successor Six-Month Period Ended September 30, 2014 and Combined Six-Month Period Ended September 30, 2013

In addition to the explanations above, exit costs in the Combined six-month period ended September 30, 2013 also include lease exit costs of $470 million primarily associated with taking certain Nextel platform sites off-air as of June 30, 2013 and $144 million 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. Of the $144 million, $28 million was recognized as "Cost of services and products" and $116 million (solely attributable to Wireless) was recognized in "Severance and exit costs." We also recognized $41 million of severance related to reductions in force in the Predecessor 101-day period ended July 10, 2013. "Other" for the Predecessor 101-day period ended July 10, 2013 included $53 million of business combination expenses.

Interest Expense

Interest expense increased $94 million, or 23%, and $606 million, or 146%, in the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013, primarily due to interest associated with debt issued in September and December 2013 as well as comparing results for a full six-month period

in 2014 to the shortened Post-merger period in 2013. The effective interest rate, which includes capitalized interest, on the weighted average long-term debt balance of $32.4 billion and $32.5 billion was 6.4% for both the Successor three and six-month periods ended September 30, 2014, respectively. As a result of the Clearwire and SoftBank transactions, the Company's consolidated debt balance was approximately $33.6 billion as of September 30, 2013. The effective interest rate for the

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Combined six-month period ended September 30, 2013 was 8.6% based on a weighted average long-term debt balance of $26.5 billion.

See “Liquidity and Capital Resources” for more information on the Company's financing activities.

Equity in Losses of Unconsolidated Investments, net

As a result of the Clearwire Acquisition on July 9, 2013 and the resulting consolidation of Clearwire results of operations into the accounts of the Company, the Successor period results of operations do not reflect any equity in losses of unconsolidated investments. The equity in losses of unconsolidated investments, net in the Predecessor periods primarily consists of our proportionate share of losses from our equity method investment in Clearwire. Equity in losses from Clearwire were $23 million and $280 million for the Predecessor 9-day and 100-day periods ended July 9, 2013, respectively.

Equity in losses from Clearwire for the 100-day period ended July 9, 2013 included a $65 million derivative loss associated with the change in fair value of the embedded derivative resulting from the exchangeable notes between Clearwire and Sprint.

Other income, net

The following table provides additional information on items included in "Other income, net" for the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
	September 30,		September 30,		July 10,		September 30,	
	2014	2013	2014	2013	2013	2013	2013	2013
	(in millions)							
Interest income	$4	$4	$7	$17	$1	$18	$5	$35
Gain on early retirement of debt	—	8	—	8	—	—	8	8
Other, net	4	153	2	(13)	1	1	154	(12)
Total	$8	$165	$9	$12	$2	$19	$167	$31

Other income, net represented income of $8 million and $9 million for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to income of $165 million and $12 million in the Successor three and six-month periods ended September 30, 2013, respectively, and income of $2 million and $19 million in the Predecessor 10-day and 101-day periods ended July 10, 2013, respectively. Other, net in the Successor three and six-month periods ended September 30, 2013 primarily consisted of $159 million of income related to the recognition of the remaining unaccreted convertible bond discount. In addition, the Successor six-month period ended September 30, 2013 included a $167 million loss related to the embedded derivative associated with the convertible bond between Starburst II and Sprint Communications, Inc.

Income Taxes

The Successor period income tax expense of $71 million and $56 million for the three and six-month periods ended September 30, 2014, respectively, represented a consolidated effective tax rate of approximately (10)% and (8)%, respectively. The Successor period income tax expense of $90 million and $29 million for the three and six-month periods ended September 30, 2013, respectively, represented a consolidated effective tax rate of approximately (15)% and (4)%, respectively. The $56 million tax expense for the six-month period ended September 30, 2014 was primarily attributable to an increase in taxable temporary differences from the amortization of FCC licenses for income tax purposes partially offset by a $73 million decrease in the valuation allowance on deferred tax assets resulting from the planned disposition of certain FCC licenses. The $71 million tax expense for the Successor three-month period ended September 30, 2014 and tax expense of $90 million and $29 million for the Successor three and six-month periods ended September 30, 2013, respectively, were primarily attributable to tax expense resulting from taxable temporary differences from amortization of FCC licenses. The income tax expense of $1.5 billion and $1.6 billion for the Predecessor 10-day and 101-day periods ended July 10, 2013, respectively, is primarily

attributable to the recognition of tax expense on the $2.9 billion gain on previously-held equity interests in Clearwire.

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Segment Earnings - Wireless

Wireless segment earnings are a function of wireless service revenue, the sale of wireless devices and accessories, costs to acquire subscribers, network and interconnection costs to serve those subscribers and other Wireless segment operating expenses. The costs to acquire our subscribers include the net cost at which we sell our devices, referred to as equipment net subsidies, as well as the marketing and sales costs incurred to attract those subscribers. Network costs primarily represent switch and cell site costs, backhaul costs, and interconnection costs, which generally consist of per-minute usage fees and roaming fees paid to other carriers. The remaining costs associated with operating the Wireless segment include the costs to operate our customer care organization and administrative support. Wireless service revenue, costs to acquire subscribers, and variable network and interconnection costs fluctuate with the changes in our subscriber base and their related usage, but some cost elements do not fluctuate in the short term with these changes.

As shown by the table above under "Consolidated Results of Operations," Wireless segment earnings represented almost all of our total consolidated segment earnings (loss) for the Successor three and six-month periods ended September 30, 2014. The wireless industry is subject to competition to retain and acquire subscribers of wireless services. Most markets in which we operate have high rates of penetration for wireless services. Wireless carriers accordingly must attract a greater proportion of new subscribers from competitors rather than from first-time subscribers. During 2013, wireless carriers also began to introduce new plans that allow subscribers to forgo traditional service contracts and handset subsidies in exchange for lower monthly service fees, early upgrade options, or both. As the adoption rates of these plans increase throughout our base of subscribers, we expect postpaid ARPU to continue to decline as a result of lower pricing associated with our new service plans. Within the Wireless segment, postpaid wireless services represent the most significant contributors to earnings, and are driven by the number of postpaid subscribers to our services, as well as ARPU. We have experienced net losses of postpaid handset subscribers over the last few quarters. The net loss of these postpaid handset subscribers in the period beginning April 1, 2014 through the quarter ended September 30, 2014 is expected to cause wireless service revenue to be approximately $450 million lower for the remainder of this fiscal year and approximately $900 million lower for fiscal year 2015 than it would have been had those subscribers not been lost. The expected negative impact to service revenue and wireless segment earnings as a result of these subscriber losses is expected to be partially mitigated by net adds of tablets and connected devices experienced during the same period and increases in equipment revenue due to subscribers migrating to installment billing. If the trend of handset subscriber net losses continues, we expect to see increased pressure on segment earnings.We have taken initiatives to provide the best value in wireless service while continuing to enhance our network performance, coverage and capacity in order to attract and retain valuable handset subscribers, in addition to evaluating our cost model to operationalize a more effective cost structure that better matches our new service plans, which we believe may help to relieve some of the pressure we expect on earnings. Since the release of our new price plans, recent results show improvement in trends of handset losses.

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The following table provides an overview of the results of operations of our Wireless segment for the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
	September 30,		September 30,		July 10,		September 30,	
Wireless Segment Earnings	2014	2013	2014	2013	2013	2013	2013	2013
	(in millions)							
Sprint platform	$5,377	$5,201	$10,930	$5,201	$634	$6,469	$5,835	$11,670
Nextel platform	—	—	—	—	—	74	—	74
Total postpaid	5,377	5,201	10,930	5,201	634	6,543	5,835	11,744
Sprint platform	1,197	1,028	2,418	1,028	132	1,408	1,160	2,436
Nextel platform	—	—	—	—	—	17	—	17
Total prepaid	1,197	1,028	2,418	1,028	132	1,425	1,160	2,453
Other[1]	119	170	253	170	3	28	173	198
Retail service revenue	6,693	6,399	13,601	6,399	769	7,996	7,168	14,395
Wholesale, affiliate and other	197	124	376	124	15	146	139	270
Total service revenue	6,890	6,523	13,977	6,523	784	8,142	7,307	14,665
Cost of services (exclusive of depreciation and amortization)	(1,988)	(2,087)	(4,037)	(2,087)	(240)	(2,532)	(2,327)	(4,619)
Service gross margin	4,902	4,436	9,940	4,436	544	5,610	4,980	10,046
Service gross margin percentage	71%	68%	71%	68%	69%	69%	68%	69%
Equipment revenue	1,039	636	2,145	636	74	894	710	1,530
Cost of products	(2,372)	(1,872)	(4,530)	(1,872)	(281)	(2,579)	(2,153)	(4,451)
Equipment net subsidy	(1,333)	(1,236)	(2,385)	(1,236)	(207)	(1,685)	(1,443)	(2,921)
Equipment net subsidy percentage	(128)%	(194)%	(111)%	(194)%	(280)%	(188)%	(203)%	(191)%
Selling, general and administrative expense	(2,199)	(2,075)	(4,392)	(2,075)	(256)	(2,550)	(2,331)	(4,625)
Wireless segment earnings	$1,370	$1,125	$3,163	$1,125	$81	$1,375	$1,206	$2,500

(1) Represents service revenue primarily related to the acquisition of Clearwire on July 9, 2013.

Service Revenue

Our Wireless segment generates service revenue from the sale of wireless services and the sale of wholesale and other services. Service revenue consists of fixed monthly recurring charges, variable usage charges and miscellaneous fees such as activation fees, directory assistance, roaming, equipment protection, late payment and early termination charges, and certain regulatory related fees, net of service credits.

The ability of our Wireless segment to generate service revenue is primarily a function of:

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revenue generated from each subscriber, which in turn is a function of the types and amount of services utilized by each subscriber and the rates charged for those services; and

- the number of subscribers that we serve, which in turn is a function of our ability to retain existing subscribers and acquire new subscribers.

Retail comprises those subscribers to whom Sprint directly provides wireless services, whether those services are provided on a postpaid or a prepaid basis. We also categorize our retail subscribers as prime and subprime based upon subscriber credit profiles. We use proprietary scoring systems that measure the credit quality of our subscribers using several factors, such as credit bureau information, subscriber credit risk scores and service plan characteristics. Payment history is subsequently monitored to further evaluate subscriber credit profiles. On the Sprint platform, the mix of prime postpaid subscribers to total postpaid subscribers was 82% as of September 30, 2014 and 2013.

Wholesale and affiliates are those subscribers who are served through MVNO and affiliate relationships as well as other arrangements through which wireless services are sold by Sprint to other companies that resell those services to subscribers.

Retail service revenue increased $294 million, or 5%, and $7.2 billion, or 113%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase was primarily due to comparing results for the full three or six-month period in 2014 to the shortened Post-merger periods in 2013 as well

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as a decline in certain plan discounts and customer credits. These increases were partially offset by growth in tablet sales and postpaid subscribers on our new plans that tend to carry a lower average revenue per subscriber combined with the loss of postpaid and prepaid subscribers due to churn.

Wholesale, affiliate and other revenues increased $73 million, or 59%, and $252 million, or 203%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013 primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013 as well as interest revenue associated with installment billing on handsets and an increase in revenues resulting from acquisitions in 2013. Approximately 47% of our wholesale and affiliate subscribers represent connected devices. These devices generate revenue from usage which varies depending on the solution being utilized. Average revenue per connected device is generally significantly lower than revenue from other wholesale and affiliate subscribers; however, the cost to service these subscribers is also lower resulting in a higher gross margin as a percent of revenue.

Average Monthly Service Revenue per Subscriber and Subscriber Trends

The table below summarizes average number of retail subscribers for the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013. Additional information about the number of subscribers, net additions (losses) to subscribers, and average rates of monthly postpaid and prepaid subscriber churn for each quarter since the quarter ended June 30, 2013 may be found in the tables on the following pages.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
	September 30,		September 30,		July 10,		September 30,	
	2014	2013	2014	2013	2013	2013	2013	2013
	(subscribers in thousands)							
Average postpaid subscribers	30,079	31,125	30,226	31,125	30,583	31,053	31,020	31,062
Average prepaid subscribers	15,117	16,015	15,246	16,015	15,244	15,890	15,895	15,927
Average retail subscribers	45,196	47,140	45,472	47,140	45,827	46,943	46,915	46,989

The table below summarizes ARPU for the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013. Additional information about ARPU for each quarter since the quarter ended June 30, 2013 may be found in the tables on the following pages.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
	September 30,		September 30,		July 10,		September 30,	
	2014	2013	2014	2013	2013	2013	2013	2013
ARPU[(1)]:								
Postpaid	$60.24	$63.48	$60.95	$63.48	$64.55	$63.68	$63.69	$63.64
Prepaid	$27.73	$25.86	$27.85	$25.86	$26.96	$27.01	$26.04	$26.53
Average retail	$49.36	$50.70	$49.85	$50.70	$52.04	$51.27	$50.93	$51.06

(1) ARPU is calculated by dividing service revenue by the sum of the monthly average number of subscribers in the applicable service category. Changes in average monthly service revenue reflect subscribers for either the postpaid or prepaid service category who change rate plans, the level of voice and data usage, the amount of service credits which are offered to subscribers, plus the net effect of average monthly revenue generated by new subscribers and deactivating subscribers.

Postpaid ARPU for the Successor three and six-month periods ended September 30, 2014 decreased as compared to the same periods in 2013 primarily due to growth in sales of tablets, which carry a lower revenue per subscriber

combined with the impact of subscriber migration to many of our new service plans, resulting in lower service fees. We expect Sprint platform postpaid ARPU to continue to decline during fiscal year 2014 as a result of lower service fees associated with many of our new price plans, and a continued increase in tablet mix that carry a lower ARPU; however, as a result of Sprint Easy Pay, we expect reduced equipment net subsidy expense to partially offset these declines. Prepaid ARPU for the Successor three and six-month periods ended September 30, 2014 increased compared to the same periods in 2013 primarily due to the impact of a higher revenue per subscriber carried by subscribers acquired in the Clearwire Acquisition combined with an increase in ARPU among other prepaid brands as subscribers chose higher priced plans.

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The following table shows (a) net additions (losses) of wireless subscribers, (b) our total subscribers, and (c) end of period connected device subscribers as of the end of each quarterly period beginning with the quarter ended June 30, 2013.

	June 30, 2013	Sept 30, 2013	Dec 31, 2013	March 31, 2014	June 30, 2014	Sept 30, 2014
Net additions (losses) (in thousands)[1]						
Sprint platform:						
Postpaid	194	(360)	58	(231)	(181)	(272)
Prepaid	(486)	84	322	(364)	(542)	35
Wholesale and affiliates[2]	(228)	181	302	212	503	827
Total Sprint platform	(520)	(95)	682	(383)	(220)	590
Nextel platform:						
Postpaid	(1,060)	—	—	—	—	—
Prepaid	(255)	—	—	—	—	—
Total Nextel platform	(1,315)	—	—	—	—	—
Transactions[2]:						
Postpaid	(179)	(175)	(127)	(102)	(64)	(64)
Prepaid	(20)	(56)	(103)	(51)	(77)	(55)
Wholesale	—	13	25	69	27	13
Total Transactions	(199)	(218)	(205)	(84)	(114)	(106)
Total retail postpaid	(1,045)	(535)	(69)	(333)	(245)	(336)
Total retail prepaid	(761)	28	219	(415)	(619)	(20)
Total wholesale and affiliate	(228)	194	327	281	530	840
Total Wireless	(2,034)	(313)	477	(467)	(334)	484
End of period subscribers (in thousands)[1]						
Sprint platform:						
Postpaid[4]	30,451	30,091	30,149	29,918	29,737	29,465
Prepaid	15,215	15,299	15,621	15,257	14,715	14,750
Wholesale and affiliates[2][3][4]	7,710	7,862	8,164	8,376	8,879	9,706
Total Sprint platform	53,376	53,252	53,934	53,551	53,331	53,921
Transactions[2]:						
Postpaid	173	815	688	586	522	458
Prepaid	39	704	601	550	473	418
Wholesale	—	106	131	200	227	240
Total Transactions	212	1,625	1,420	1,336	1,222	1,116
Total retail postpaid[4]	30,624	30,906	30,837	30,504	30,259	29,923
Total retail prepaid	15,254	16,003	16,222	15,807	15,188	15,168
Total wholesale and affiliates[3][4]	7,710	7,968	8,295	8,576	9,106	9,946
Total Wireless	53,588	54,877	55,354	54,887	54,553	55,037
Supplemental data - connected devices						
End of period subscribers (in thousands)[4]						
Retail postpaid	798	834	922	968	988	1,039
Wholesale and affiliates	3,057	3,298	3,578	3,882	4,192	4,635
Total	3,855	4,132	4,500	4,850	5,180	5,674

(1) A subscriber is defined as an individual line of service associated with each device activated by a customer. Subscribers that transfer from their original service category classification to another platform, or another service line within the same platform, are reflected as a net loss to the original service category and a net addition to their new service category. There is no net effect for such subscriber changes to the total wireless net additions (losses) or end of period subscribers.

(2) We acquired approximately 352,000 postpaid subscribers and 59,000 prepaid subscribers through an acquisition of assets from United States Cellular Corporation (U.S. Cellular) that closed on May 17, 2013. We acquired approximately 788,000 postpaid subscribers (excluding 29,000 Sprint wholesale subscribers transferred to Transactions postpaid subscribers that were originally recognized as part of our Clearwire MVNO arrangement), 721,000 prepaid subscribers, and 93,000 wholesale subscribers as a result of the Clearwire Acquisition when the transaction closed on July 9, 2013.

(3) Subscribers through some of our MVNO relationships have inactivity either in voice usage or primarily as a result of the nature of the device, where activity only occurs when data retrieval is initiated by the end-user and may occur infrequently. Although we continue to provide these subscribers access to our network through our MVNO relationships, approximately 1,637,000 subscribers at September 30, 2014 through these MVNO relationships have been inactive for at least six months, with no associated revenue during the three-month period ended September 30, 2014.

(4) End of period connected devices are included in total retail postpaid or wholesale and affiliates end of period subscriber totals for all periods presented.

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The following table shows our average rates of monthly postpaid and prepaid subscriber churn as of the end of each quarterly period beginning with the quarter ended June 30, 2013.

	June 30, 2013	Sept 30, 2013	Dec 31, 2013	March 31, 2014	June 30, 2014	Sept 30, 2014
Monthly subscriber churn rate[1]						
Sprint platform:						
Postpaid	1.83 %	1.99 %	2.07 %	2.11 %	2.05 %	2.18 %
Prepaid	5.22 %	3.57 %	3.01 %	4.33 %	4.44 %	3.76 %
Transactions[2]:						
Postpaid	26.64 %	6.38 %	5.48 %	5.48 %	4.15 %	4.66 %
Prepaid	16.72 %	8.84 %	8.18 %	5.11 %	6.28 %	5.70 %
Total retail postpaid	2.63 %	2.09 %	2.15 %	2.18 %	2.09 %	2.22 %
Total retail prepaid	5.51 %	3.78 %	3.22 %	4.35 %	4.50 %	3.81 %

(1) Churn is calculated by dividing net subscriber deactivations for the quarter by the sum of the average number of subscribers for each month in the quarter. For postpaid accounts comprising multiple subscribers, such as family plans and enterprise accounts, net deactivations are defined as deactivations in excess of subscriber activations in a particular account within 30 days. Postpaid and Prepaid churn consist of both voluntary churn, where the subscriber makes his or her own determination to cease being a subscriber, and involuntary churn, where the subscriber's service is terminated due to a lack of payment or other reasons.

(2) Subscriber churn related to the acquisition of assets from U.S. Cellular and the Clearwire Acquisition.

The following table shows our postpaid and prepaid ARPU as of the end of each quarterly period beginning with the quarter ended June 30, 2013.

	Predecessor		Successor	Combined [2]	Successor			
	June 30, 2013	10 Days Ended July 10, 2013	Sept 30, 2013	Sept 30, 2013	Dec 31, 2013	March 31, 2014	June 30, 2014	Sept 30, 2014
ARPU								
Sprint platform:								
Postpaid	$64.20	$64.71	$ 64.24	$64.28	$64.11	$ 63.52	$62.07	$60.58
Prepaid	$26.96	$26.99	$ 25.14	$25.33	$26.78	$ 26.45	$27.38	$27.19
Nextel platform:								
Postpaid	$36.66	$—	$ —	$—	$—	$ —	$—	$—
Prepaid	$34.48	$—	$ —	$—	$—	$ —	$—	$—
Transactions[1]:								
Postpaid	$59.87	$35.75	$ 37.44	$40.00	$36.30	$ 37.26	$39.16	$39.69
Prepaid	$19.17	$12.78	$ 40.62	$43.20	$40.80	$ 43.80	$45.15	$45.52
Total retail postpaid	$63.59	$64.55	$ 63.48	$63.69	$63.44	$ 62.98	$61.65	$60.24
Total retail prepaid	$27.02	$26.96	$ 25.86	$26.04	$27.34	$ 27.07	$27.97	$27.73

(1) Subscriber ARPU related to the acquisition of assets from U.S. Cellular and the Clearwire Acquisition.

(2) Combined ARPU for the quarterly period ending September 30, 2013 aggregates service revenue from the Predecessor 10-day period ended July 10, 2013 and the Successor three-month period ended September 30, 2013 divided by the sum of the monthly average subscribers during the three months ended September 30, 2013.

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Subscriber Results

Sprint Platform Subscribers

Retail Postpaid — During the Successor three-month period ended September 30, 2014, net postpaid subscriber losses were 272,000 as compared to 360,000 in the same period in 2013, inclusive of 261,000 and 54,000 net additions of tablets, respectively, which generally have a significantly lower ARPU as compared to other wireless subscribers. The primary driver for the net losses in 2014 was an increase in churn, primarily due to increased competition and network-related churn impacted by our network modernization plan. Other wireless carriers continue aggressive marketing efforts, including price reductions, to incent subscribers to switch carriers. As a result, we believe these efforts are also negatively impacting churn, which has a negative effect on earnings.

Retail Prepaid — During the Successor three-month period ended September 30, 2014, we added 35,000 net prepaid subscribers as compared to net additions of 84,000 in the same period in 2013. The decrease in net additions is primarily due to subscriber losses in the Virgin Mobile prepaid brands due to continued competition, partially offset by subscriber growth in our Boost brand due to new promotions in our indirect channels. Prepaid subscribers are generally deactivated between 60 and 150 days from the later of the date of initial activation or replenishment; however, prior to account deactivation, targeted retention programs can be offered to qualifying subscribers to maintain ongoing service by providing up to an additional 150 days to make a replenishment.

Wholesale and Affiliate Subscribers — Wholesale and affiliate subscribers represent customers that are served on our networks through companies that resell our wireless services to their subscribers, customers residing in affiliate territories and connected devices that utilize our network. Of the 9.7 million Sprint platform subscribers included in wholesale and affiliates, approximately 48% represent connected devices. Wholesale and affiliate subscriber net additions were 827,000 during the Successor three-month period ended September 30, 2014 as compared to net additions of 181,000 during the same period in 2013, inclusive of net additions of connected devices totaling 443,000 and 241,000, respectively. The increase in net additions was primarily attributable to growth in connected device subscribers combined with lower Lifeline churn along with subscriber growth as Lifeline resellers expanded into new states.

Transactions Subscribers

As part of the acquisition of assets from U.S. Cellular, which closed in May 2013, we acquired 352,000 postpaid subscribers and 59,000 prepaid subscribers. As part of the Clearwire Acquisition in July 2013, we acquired 788,000 postpaid subscribers (exclusive of Sprint platform wholesale subscribers acquired through our MVNO relationship with Clearwire that were transferred to postpaid subscribers within Transactions), 721,000 prepaid subscribers, and 93,000 wholesale subscribers. For the Successor three-month period ended September 30, 2014, we had net postpaid subscriber losses of 64,000, net prepaid subscriber losses of 55,000 and net wholesale subscriber additions of 13,000.

Cost of Services

Cost of services consists primarily of:

- costs to operate and maintain our networks, including direct switch and cell site costs, such as rent, utilities, maintenance, labor costs associated with network employees, and spectrum frequency leasing costs;
- interconnection costs-fixed interconnection costs, commonly referred to as backhaul costs, which consist of monthly flat-rate fees for facilities leased from local exchange carriers based on the number of cell sites and switches in service in a particular period and the related equipment installed at each site. Variable interconnection costs generally consist of per-minute use fees charged by other carriers for switching local calls, which fluctuate in relation to the level and duration of those terminating calls;
- long distance costs paid to the Wireline segment;
- costs to service and repair devices;
- regulatory fees;
- roaming fees paid to other carriers; and
- fixed and variable costs relating to payments to third parties for the use of their proprietary data applications, such as messaging, music, TV and navigation services by our subscribers.

Cost of services decreased $99 million, or 5%, and increased $2.0 billion, or 93%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase in

the six-month period ended September 30, 2014 was primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013. In both the three and six-month periods, decreases in network costs such as rent,

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utilities and backhaul costs related to the shut-down of the Nextel platform in June 2013 combined with declining costs associated with Network Vision and a decrease in roaming fees due to lower volume and rates were partially offset by net increases as a result of the Clearwire Acquisition.

Equipment Net Subsidy

We recognize equipment revenue and corresponding costs of equipment when title and risk of loss passes to the indirect dealer or end-use subscriber, assuming all other revenue recognition criteria are met. Our marketing plans assume that certain equipment will be sold under the traditional subsidy model or the handset installment payment model. Under the traditional subsidy model, we offer certain incentives to retain and acquire subscribers such as new handsets or tablets at discounted prices. The cost of these incentives is recorded as a reduction to equipment revenue upon activation of the equipment with a service contract. Under the handset installment payment model, the handset is sold at full retail price and we recognize a majority of the revenue associated with future expected installment payments at the time of sale of the handset, which results in the recognition of significantly less equipment net subsidy.

Cost of products includes equipment costs (primarily handsets, tablets and accessories), order fulfillment related expenses, and write-downs of inventory related to shrinkage and obsolescence. Additionally, cost of products is reduced by any rebates that are earned from the equipment manufacturers. Cost of products in excess of the net revenue generated from equipment sales is referred to in the industry as equipment net subsidy. We also make incentive payments to certain indirect dealers who purchase the iPhone® directly from Apple. Those payments are recognized as selling, general and administrative expenses when the handset is activated with a Sprint service plan because Sprint does not recognize any equipment revenue or cost of products for those transactions. (See Selling, General and Administrative Expense below.)

Equipment revenue increased $403 million, or 63%, and $1.5 billion, or 237%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase in equipment revenue was primarily due to a higher average sales price per postpaid handset, driven by higher prices received for handsets under our installment billing program, as well as increases in postpaid and prepaid handsets sold. Cost of products increased $500 million, or 27%, and $2.7 billion, or 142%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013 primarily due higher average cost per handset sold for postpaid and prepaid handsets, combined with increases in postpaid and prepaid handsets sold. Contributing to the increase in the six-month period ended September 30, 2014 for both equipment revenue and cost of products is the comparison of results for a full six-month period in 2014 to the shortened Post-merger period in 2013.

Selling, General and Administrative Expense

Sales and marketing costs primarily consist of subscriber acquisition costs, including commissions paid to our indirect dealers, third-party distributors and retail sales force for new tablets and handset activations and upgrades, residual payments to our indirect dealers, payments made to OEMs for direct source equipment, payroll and facilities costs associated with our retail sales force, marketing employees, advertising, media programs and sponsorships, including costs related to branding. General and administrative expenses primarily consist of costs for billing, customer care and information technology operations, bad debt expense and administrative support activities, including collections, legal, finance, human resources, corporate communications, strategic planning, and technology and product development.

Sales and marketing expense was $1.2 billion and $2.5 billion representing an increase of $69 million, or 6%, and $1.3 billion, or 111%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase was primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013 partially offset by a reduction in labor-related costs due to our reduction in force and retail store closures, combined with lower media spend and commission expense.

General and administrative costs were $956 million and $1.9 billion, representing an increase of $30 million, or 3%, and $1.0 billion, or 106%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013, primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013 combined with an increase in bad debt expense, partially offset by a decrease in

customer care costs primarily due to lower call volumes and labor-related initiatives.

Bad debt expense was $264 million and $489 million for the three and six-month periods ended September 30, 2014, respectively, representing a $148 million, or 128%, and $373 million, or 322%, respectively, increase as compared to bad debt expense of $116 million for each of the same periods in 2013. In addition to the impact of comparing expense for a full six-month period in 2014 to the shortened Post-merger period in 2013, the increase in bad debt expense is primarily related to an increase of bad debt expense associated with the increase in installment receivables. We reassess our allowance

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for doubtful accounts quarterly. Changes in our allowance for doubtful accounts are largely attributable to the analysis of historical collection experience and changes, if any, in credit policies established for subscribers.

Segment Earnings - Wireline

We provide a broad suite of wireline voice and data communications services to other communications companies and targeted business and consumer subscribers. In addition, we provide voice, data and IP communication services to our Wireless segment. We are one of the nation's largest providers of long distance services and operate all-digital global long distance and Tier 1 IP networks. Our services and products include domestic and international data communications using various protocols such as multiprotocol label switching technologies (MPLS), IP, managed network services, Voice over Internet Protocol (VoIP), Session Initiated Protocol (SIP), and traditional voice services. Our IP services can also be combined with wireless services. Such services include our Sprint Mobile Integration service, which enables a wireless handset to operate as part of a subscriber's wireline voice network, and our DataLink℠ service, which uses our wireless networks to connect a subscriber location into their primarily wireline wide-area IP/MPLS data network, making it easy for businesses to adapt their network to changing business requirements. In addition to providing services to our business customers, a significant amount of voice and data traffic on our wireline network relates to our Wireless segment as a result of growing usage by our wireless subscribers.

We continue to assess the portfolio of services provided by our Wireline business and are focusing our efforts on IP-based data services and de-emphasizing stand-alone voice services and non-IP-based data services. We also continue to provide voice services primarily to business consumers. Our Wireline segment markets and sells its services primarily through direct sales representatives.

Wireline segment earnings are primarily a function of wireline service revenue, network and interconnection costs, and other Wireline segment operating expenses. Network costs primarily represent special access costs and interconnection costs, which generally consist of domestic and international per-minute usage fees paid to other carriers. The remaining costs associated with operating the Wireline segment include the costs to operate our customer care and billing organizations in addition to administrative support. Wireline service revenue and variable network and interconnection costs fluctuate with the changes in our customer base and their related usage, but some cost elements do not fluctuate in the short term with the changes in our customer usage. For fiscal year 2014, we expect wireline segment earnings to decline significantly as compared to calendar year 2013 as one of our larger cable Multiple System Operators (MSO's) completes the transition to in-source the digital voice services provided by our network. Our wireline services provided to our Wireless segment 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. For fiscal year 2014, we expect wireline segment earnings to decline by approximately $150 million to $160 million as compared to calendar year 2013 to reflect changes in market prices for services provided by our Wireline segment to our Wireless segment. Declines in wireline segment earnings related to intercompany pricing rates do not affect our consolidated results of operations as our Wireless segment benefits from an equivalent reduction in cost of service.

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The following table provides an overview of the results of operations of our Wireline segment for the Successor three and six-month periods ended September 30, 2014 and 2013, the Predecessor 10-day and 101-day periods ended July 10, 2013, and the combined three and six-month periods ended September 30, 2013.

	Successor				Predecessor		Combined	
	Three Months Ended		Six Months Ended		10 Days Ended	101 Days Ended	Three Months Ended	Six Months Ended
Wireline Segment Earnings	September 30, 2014	2013	September 30, 2014	2013	July 10, 2013	2013	September 30, 2013	2013
	(in millions)							
Voice	$294	$333	$621	$333	$42	$419	$375	$752
Data	53	57	109	57	7	94	64	151
Internet	340	373	685	373	47	479	420	852
Other	21	14	39	14	2	16	16	30
Total net service revenue	708	777	1,454	777	98	1,008	875	1,785
Cost of services and products	(593)	(576)	(1,219)	(576)	(72)	(741)	(648)	(1,317)
Service gross margin	115	201	235	201	26	267	227	468
Service gross margin percentage	16%	26%	16%	26%	27%	26%	26%	26%
Selling, general and administrative expense	(88)	(84)	(173)	(84)	(11)	(123)	(95)	(207)
Wireline segment earnings	$27	$117	$62	$117	$15	$144	$132	$261

Wireline Revenue

Voice Revenues

Voice revenues for the Successor three and six-month periods ended September 30, 2014 decreased $39 million, or 12%, and increased $288 million, or 86%, respectively, as compared to the same periods in 2013. The decrease was driven by lower volume and overall rate declines, primarily due to the decline in prices for the sale of services to our Wireless segment, partially offset by increases in international hubbing volumes in the three and six-month periods ended September 30, 2014. In addition, the increase in the six-month period ended September 30, 2014 was primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013. Voice revenues generated from the sale of services to our Wireless segment represented 29% of total voice revenues for each of the Successor three and six-month periods ended September 30, 2014 as compared to 36% in each of the same periods in 2013.

Data Revenues

Data revenues reflect sales of data services, primarily Private Line and managed network services bundled with non-IP-based data access. Data revenues decreased $4 million, or 7%, and increased $52 million, or 91%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013 as a result of customer churn, primarily related to Private Line. In addition, the increase in the six-month period ended September 30, 2014 was primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013. Data revenues generated from the provision of services to the Wireless segment represented 42% of total data revenue for each of the Successor three and six-month periods ended September 30, 2014 as compared to 40% in each of the same periods in 2013.

Internet Revenue

IP-based data services revenue reflects sales of Internet services, including MPLS, VoIP, SIP, and managed services bundled with IP-based data access. IP-based data services decreased $33 million, or 8%, and increased $312 million, or 84%, for the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013. The decrease is primarily due to fewer IP customers, and in particular, the final transition to in-sourcing at one of our larger cable MSO's. In addition, revenue was also impacted by a decline in the sale of

services to our Wireless segment due to the elimination of backhaul associated with the decommissioning of the Nextel platform as of June 30, 2013. In addition, the increase in the six-month period ended September 30, 2014 was primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013. Sale of services to our Wireless segment represented 12% of total Internet revenues for each of the Successor three and six-month periods ended September 30, 2014 as well as for each of the three and six-month periods ended September 30, 2013.

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Other Revenues

Other revenues, which primarily consist of sales of customer premises equipment, increased $7 million, or 50%, and $25 million, or 179%, in the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013.

Costs of Services and Products

Costs of services and products include access costs paid to local phone companies, other domestic service providers and foreign phone companies to complete calls made by our domestic subscribers, costs to operate and maintain our networks, and costs of equipment. Costs of services and products increased $17 million, or 3%, and $643 million, or 112%, in the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013 primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013, partially offset by lower access expense as the result of savings initiatives and declining voice and IP volumes. Service gross margin percentage decreased from 26% in each of the Successor three and six-month periods ended September 30, 2013 to 16% in each of the Successor three and six-month periods ended September 30, 2014 primarily as a result of a decrease in net service revenue combined with an increase in cost of services and products.

Selling, General and Administrative Expense

Selling, general and administrative expense increased $4 million, or 5%, and $89 million, or 106%, in the Successor three and six-month periods ended September 30, 2014, respectively, as compared to the same periods in 2013. The increase was primarily due to comparing results for a full six-month period in 2014 to the shortened Post-merger period in 2013, partially offset by a decrease due to a reduction in shared administrative and employee related costs required to support the Wireline segment as a result of the decline in revenue. Total selling, general and administrative expense as a percentage of net services revenue was 12% in each of the Successor three and six-month periods ended September 30, 2014 compared to 11% in each of the same periods in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

	Successor		Predecessor	Combined
	Six Months Ended		101 Days Ended	Six Months Ended
	September 30,		July 10,	September 30,
	2014	2013	2013	2013
	(in millions)			
Net cash provided by operating activities	$1,707	$702	$ 1,731	$2,433
Net cash used in investing activities	$(2,225)	$(19,407)	$ (5,227)	$(24,634)
Net cash (used in) provided by financing activities	$(317)	$24,760	$ (251)	$24,509

Operating Activities

Net cash provided by operating activities of approximately $1.7 billion in the Successor six-month period ended September 30, 2014 increased $1.0 billion from the same period in 2013 primarily due to the SoftBank Merger occurring on July 10, 2013, which resulted in approximately three months of comparable operating activities to the Successor six-month period ended September 30, 2014. Net cash provided by operating activities in the Successor six-month period ended September 30, 2014 decreased $726 million compared to the combined six-month period ended September 30, 2013. The decrease was due to decreased cash received from customers of $1.1 billion primarily as a result of increases in installment billing receivables, declines in net operating revenues and increased interest payments of $344 million primarily related to the debt issued in September 2013 and December 2013. The decrease was partially offset by decreased vendor and labor-related payments of $427 million primarily due to the timing of purchases and payments associated with network equipment and device launches and a $317 million prepayment received from a vendor for rebates expected to be earned by Sprint through December 2014 under existing purchase agreements. As of September 30, 2014, $173 million of the $317 million remains unearned. Any amount unearned at the end of December 2014 is required to be returned to the vendor by April 2015. Based on our current estimate of

future purchases, we may be required to return approximately $95 million to the vendor.

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Investing Activities

Net cash used in investing activities in the Successor six-month period ended September 30, 2014 decreased by approximately $17.2 billion as compared to the same period in 2013, primarily due to increases of approximately $1.4 billion in proceeds from sales and maturities of short-term investments in the Successor six-month period ended September 30, 2014 as compared to the same period in 2013 and 2013 increases related to the SoftBank merger of $14.1 billion, net of cash acquired, and an increase of $3.1 billion in restricted cash associated with the limited waivers obtained from each of our lenders under our credit facilities. These decreases were partially offset by increased capital expenditures of $511 million primarily due to the SoftBank Merger occurring on July 10, 2013, which resulted in approximately three months of comparable capital expenditures to the Successor six-month period ended September 30, 2014 and increased purchases of short-term investments of $974 million. In addition, in the Successor six-month period ended September 30, 2014, we received $95 million in reimbursements of our costs of clearing the H Block spectrum as part of the Report and Order obligations and $101 million of proceeds from sales of assets and FCC licenses of which $90 million was related to the sale of certain FCC licenses.

Financing Activities

Net cash used in financing activities was $317 million during the Successor six-month period ended September 30, 2014, which was primarily due to principal payments on the iPCS, Inc. Second Lien Secured Floating Rate Notes due 2014 of approximately $181 million and a scheduled principal payment on our secured equipment credit facility of approximately $127 million.

Net cash provided by financing activities was $24.8 billion during the Successor six-month period ended September 30, 2013, which included proceeds from the issuance of common stock and warrants of approximately $18.6 billion related to the SoftBank Merger. In addition, on September 11, 2013, the Company issued $6.5 billion in unregistered debt with registration rights consisting of $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, each guaranteed by Sprint Communications, Inc. We also incurred approximately $107 million of debt issuance costs. These increases, along with net borrowings under our secured equipment credit facility of approximately $270 million, were offset by the retirement of approximately $414 million principal amount of Clearwire debt.

Working Capital

As of September 30, 2014 and March 31, 2014, we had working capital of $672 million and $1.9 billion, respectively. Our working capital as of September 30, 2014 and March 31, 2014 included accrued capital expenditures for unbilled services totaling approximately $1.0 billion and $1.2 billion, respectively, related to our network modernization. The decline in working capital is primarily due to increased accounts payable of approximately $1.2 billion primarily as a result of extended payment terms with certain network equipment suppliers and timing of purchases and payments associated with device launches and decreased cash of $835 million primarily due to cash paid for capital expenditures and debt, financing and capital lease obligations partially offset by net cash provided by operating activities. This decline is partially offset by changes to other working capital items.

Strategic Initiatives

Network Capital Expenditures

We are currently in the process of modernizing our network and deploying new technology to allow for the consolidation and optimization of our existing 800 MHz and 1.9 GHz spectrum, along with the 2.5 GHz spectrum into our base stations. Our expected timeline, our capital needs to maintain and operate our existing infrastructure, and our integration of the acquired Clearwire 2.5 GHz spectrum are expected to require substantial amounts of capital expenditures and increased operating expenditures during the period of integration and deployment.

Long-Term Debt

There were no debt issuances during the six-month period ended September 30, 2014. We retired the remaining $181 million of the iPCS, Inc. Second Lien Secured Floating Rate Notes in May 2014. In addition, we made a principal payment of $127 million on our secured equipment credit facility in September 2014.

Liquidity and Capital Resources

To meet our short- and long-term liquidity requirements, we look to a variety of funding sources. Our existing liquidity balance and cash generated from operating activities is our primary source of funding. In addition to cash

flows from operating activities, we rely on the ability to issue debt and equity securities, the ability to issue other forms of

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financing, proceeds from the sale of certain accounts receivable under the Receivables Facility, and the borrowing capacity available under our credit facilities to support our short- and long-term liquidity requirements. We believe our existing available liquidity and cash flows from operations will be sufficient to meet our funding requirements through the next twelve months, including debt service requirements and other significant future contractual obligations. To maintain an adequate amount of available liquidity and execute according to the timeline of our current business plan, which includes network deployment and maintenance, subscriber growth, data usage capacity needs and the expected achievement of a cost structure intended to achieve more competitive margins, we may need to raise additional funds from external resources. If we are unable to fund our remaining capital needs from external resources on terms acceptable to us, we would need to modify our existing business plan, which could adversely affect our expectation of long-term benefits to results from operations and cash flows from operations.

On May 16, 2014, certain wholly-owned subsidiaries of Sprint entered into a two-year committed facility (the Receivables Facility) to sell certain accounts receivable 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. Sales of eligible receivables may occur daily and are settled on a monthly basis. Sprint pays a fee for the drawn and undrawn portions of the Receivables Facility. The receivables primarily consist of wireless service charges currently due from subscribers and are short-term in nature. As of September 30, 2014, Sprint had not sold any accounts receivable and the amount available under the Receivables Facility was $1.1 billion.

As of September 30, 2014, our liquidity, including cash, cash equivalents, short-term investments, and available borrowing capacity under our revolving bank credit facility and availability under the Receivables Facility was $8.8 billion. Our cash, cash equivalents and short-term investments totaled $5.3 billion as of September 30, 2014 compared to $6.2 billion as of March 31, 2014. As of September 30, 2014, approximately $918 million in letters of credit were outstanding under our $3.3 billion revolving bank credit facility. As a result of the outstanding letters of credit, which directly reduce the availability of the revolving bank credit facility, we had approximately $2.4 billion of borrowing capacity available under the revolving bank credit facility as of September 30, 2014. On October 6, 2014, the letter of credit required by the 2004 FCC Report and Order was reduced to $457 million, which resulted in additional availability under our revolving bank credit facility of $461 million.

The terms and conditions of our revolving bank credit facility, EDC Agreement and secured equipment credit facility as of September 30, 2014 required that, at the end of each fiscal quarter, the Leverage Ratio of total indebtedness to trailing four quarters adjusted EBITDA, each as defined in the applicable agreement, not exceed 6.0 to 1.0 at any quarter end through December 31, 2014. After December 31, 2014, the Leverage Ratio declined on a scheduled basis, as determined by the credit agreement, until the ratio would become fixed at 4.0 to 1.0 for the fiscal quarter ending December 31, 2016 and each fiscal quarter ending thereafter.

In October 2014, we amended our revolving bank credit facility that expires in February 2018 to modify, among other things, the terms and conditions as they relate to 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 our Leverage Ratio to remain in compliance. In addition, Sprint Corporation was added as a guarantor of this credit facility.

The Company has recently engaged in discussions with our existing lenders for both the unsecured EDC Agreement and secured equipment credit facility and intends to modify the terms to provide for terms similar to those of the revolving bank credit facility that was amended in October 2014. If we are unsuccessful in our efforts, we could pay all amounts outstanding under the EDC Agreement and secured equipment credit facility prior to exceeding the current covenant ratio requirements, which are currently more restrictive than the amended revolving bank credit

facility. To the extent we are unsuccessful in our efforts to amend the EDC Agreement and secured equipment credit facility, we expect to have the ability and plan to pay off all amounts outstanding under these two facilities, which totaled $1.1 billion as of September 30, 2014. As of September 30, 2014, our Leverage Ratio, as defined by the revolving bank credit facility, EDC Agreement and secured equipment credit facility was 5.1 to 1.0. In addition, because our leverage ratio exceeded 2.5 to 1.0 at period end, we were restricted from paying cash dividends.

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In determining our expectation of future funding needs in the next twelve months and beyond, we have made several assumptions regarding:

- projected revenues and expenses relating to our operations, including the impacts related to our installment billing program;
- current availability of up to $1.1 billion in funding under the Receivables Facility, which terminates in May 2016 unless extended;
- continued availability of a revolving bank credit facility in the amount of $3.3 billion, less any letters of credit, which expires in February 2018;
- anticipated levels and timing of capital expenditures, including the capacity and upgrading of our networks and the deployment of new technologies in our networks, and FCC license acquisitions taking into consideration the 2.5 GHz spectrum acquired in the Clearwire Acquisition;
- anticipated payments under the Report and Order, as supplemented;
- any additional contributions we may make to our pension plan;
- any scheduled principal payments; and
- other future contractual obligations, including our network modernization plan, and general corporate expenditures.

Our ability to fund our capital needs from external sources is ultimately affected by the overall capacity and terms of the banking and securities markets, as well as our performance and our credit ratings. Given our recent financial performance as well as the volatility in these markets, we continue to monitor them closely and to take steps to maintain financial flexibility at a reasonable cost of capital.

The following outlooks and credit ratings from Moody's Investor Service, Standard & Poor's Ratings Services, and Fitch Ratings for certain of Sprint Corporation's outstanding obligations were:

	Rating				
Rating Agency	Issuer Rating	Unsecured Notes	Guaranteed Notes	Bank Credit Facility	Outlook
Moody's	Ba3	B1	Ba2	Baa3	Stable
Standard and Poor's	BB-	BB-	BB+	BB+	Stable
Fitch	B+	B+	BB	BB	Stable

Although we expect to improve our Sprint platform postpaid subscriber results, and execute on our network modernization and integration plans, if we do not meet our expectations of adding higher ARPU postpaid handset (versus tablet) subscribers, depending on the severity of any difference in actual results versus what we currently anticipate, it may make it difficult for us to generate sufficient EBITDA to remain in compliance with our covenants (as amended in October 2014 as noted above in the revolving bank credit facility and as expected to be amended for our other facilities) or be able to meet our debt service obligations, which could result in acceleration of our indebtedness. If such unforeseen events occur, we may engage with our lenders to obtain appropriate waivers or amendments of our credit facilities or refinance borrowings, although there is no assurance we would be successful in any of these actions.

A default under certain of our borrowings could trigger defaults under certain of our other debt obligations, which in turn could result in the maturities being accelerated. Certain indentures and financing arrangements governing our debt also require compliance with various covenants, including covenants that limit the Company's ability to sell all or substantially all of its assets, limit the Company and its subsidiaries' ability to incur indebtedness and liens, and require that we maintain certain financial ratios, each as defined by the terms of the indentures, related supplemental indentures and financing arrangements.

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FUTURE CONTRACTUAL OBLIGATIONS

There have been no significant changes to our future contractual obligations as disclosed in our Transition Report on Form 10-K for the period ended March 31, 2014. Below is a graph depicting our future principal maturities of debt as of September 30, 2014.

* This table excludes (i) our unsecured revolving bank credit facility, which will expire in 2018 and has no outstanding balance, and under which $918 million in letters of credit were outstanding, (ii) vendor financing notes assumed in the Clearwire Acquisition, and (iii) all capital leases and other financing obligations.

OFF-BALANCE SHEET FINANCING

On May 16, 2014, certain wholly-owned subsidiaries of Sprint entered into the Receivables Facility, a two-year committed facility to sell certain accounts receivable on a revolving basis, subject to a maximum funding limit of $1.3 billion. Sales of eligible receivables occur daily and are settled on a monthly basis. Sprint pays a fee for the drawn and undrawn portions of the Receivables Facility. The receivables primarily consist of wireless service charges currently due from subscribers and are short-term in nature.

Sprint's other off-balance sheet arrangements consist of the guarantee liabilities that arise from the option provided to our subscribers to purchase, on a monthly basis, an annual trade-in right. 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 installment receivable, 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 $429 million at September 30, 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.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company applies those accounting policies that management believes best reflect the underlying business and economic events, consistent with accounting principles generally accepted in the United States. Inherent in such policies are certain key assumptions and estimates made by management. Management regularly updates its estimates used in the preparation of the consolidated financial statements based on its latest assessment of the current and projected business and general economic environment. Information regarding the Company's Critical Accounting Policies and Estimates is included in Item 7 of the Company's Transition Report on Form 10-K for the period ended March 31, 2014.

As discussed in Item 7 of the Company's Transition Report on Form 10-K for the period ended March 31, 2014, one of our critical accounting policies is the evaluation of indefinite-lived assets, including goodwill for impairment. As a result of the SoftBank Merger in July 2013, we recognized indefinite-lived assets at their acquisition-date estimates of fair value, including FCC licenses, goodwill, and tradenames of $35.8 billion, $6.3 billion, and $5.9 billion, respectively. Consequently, there was no excess fair value over carrying value as of the date of the SoftBank Merger (SoftBank Merger Date), and the risk associated with potential impairment of goodwill and other indefinite-lived intangible assets in future reporting periods is heightened. The determination of these estimated fair values was based on numerous assumptions and estimates, such as Company forecasts, discount rates, growth rates, among others as well as our then-current stock price. Since the SoftBank Merger Date, actual results have been lower than the forecasts used to allocate the purchase price to the assets acquired and liabilities assumed. The stock price used in the SoftBank Merger Date valuation was $6.28 as compared to the closing stock price on September 30, 2014 of $6.34 and has declined to $4.92 at November 5, 2014. The quoted market price of our stock is not the sole consideration of fair value. Other considerations include expectations of future results and an estimated control premium.

Continued, sustained declines in the Company's operating results, forecasted future cash flows, growth rates and other assumptions as compared to the estimates utilized for the purposes of valuing the assets as a result of the SoftBank Merger, as well as a significant, sustained decline in the Company's stock price and related market capitalization, could affect the results of our impairment assessment and potentially lead to a future material impairment.

FINANCIAL STRATEGIES

General Risk Management Policies

Our board of directors has adopted a financial risk management policy that authorizes us to enter into derivative transactions, and all transactions comply with the policy. We do not purchase or hold any derivative financial instruments for speculative purposes with the exception of equity rights obtained in connection with commercial agreements or strategic investments, usually in the form of warrants to purchase common shares.

Derivative instruments are primarily used for hedging and risk management purposes. Hedging activities may be done for various purposes, including, but not limited to, mitigating the risks associated with an asset, liability, committed transaction or probable forecasted transaction. We seek to minimize counterparty credit risk through stringent credit approval and review processes, credit support agreements, continual review and monitoring of all counterparties, and thorough legal review of contracts. Exposure to market risk is controlled by regularly monitoring changes in hedge positions under normal and stress conditions to ensure they do not exceed established limits.

OTHER INFORMATION

We routinely post important information on our website at www.sprint.com/investors. Information contained on or accessible through our website is not part of this report.

FORWARD-LOOKING STATEMENTS

We include certain estimates, projections and other forward-looking statements in our annual, quarterly and current reports, and in other publicly available material. Statements regarding expectations, including performance assumptions and estimates relating to capital requirements, as well as other statements that are not historical facts, are forward-looking statements.

These statements reflect management's judgments based on currently available information and involve a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. With respect to these forward-looking statements, management has made assumptions regarding, among other things, subscriber and network usage, subscriber growth and retention, pricing, operating costs, the timing of various events, and the economic and regulatory environment.

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Future performance cannot be assured. Actual results may differ materially from those in the forward-looking statements. Some factors that could cause actual results to differ include:

- our ability to retain and attract subscribers and to manage credit risks associated with our subscribers;
- the ability of our competitors to offer products and services at lower prices due to lower cost structures;
- the effective implementation of our network modernization plans, including timing, execution, technologies, costs, and performance of our network;
- our ability to operationalize the anticipated benefits from the SoftBank transaction;
- our ability to comply with restrictions imposed by the U.S. Government as a precondition to our merger with SoftBank;
- our ability to fully integrate the operations of Clearwire and access and utilize its spectrum;
- the effects of vigorous competition on a highly penetrated market, including the impact of competition on the price we are able to charge subscribers for services and devices we provide and on the geographic areas served by Sprint's wireless network;
- the impact of equipment net subsidy costs and leasing handsets; the impact of subscriber leasing decisions; the impact of increased purchase commitments; the overall demand for our service plans, including the impact of decisions of new or existing subscribers between our service offerings; and the impact of new, emerging and competing technologies on our business;
- our ability to provide the desired mix of integrated services to our subscribers;
- the ability to generate sufficient cash flow to fully implement our network modernization plans to improve and enhance our network and service plans, improve our operating margins, implement our business strategies and provide competitive new technologies;
- our ability to continue to access our spectrum and any additional spectrum capacity;
- changes in available technology and the effects of such changes, including product substitutions and deployment costs and performance;
- our ability to obtain additional financing on terms acceptable to us, or at all;
- volatility in the trading price of our common stock, current economic conditions and our ability to access capital;
- the impact of various parties not meeting our business requirements, including a significant adverse change in the ability or willingness of such parties to provide products, including distribution, or infrastructure equipment for our networks;
- the costs and business risks associated with providing new services and entering new geographic markets;
- potential increase in subscriber churn, bad debt expense and write-offs related to any of our service plans or our installment billing plan;
- the effects of any material impairment of our goodwill or other indefinite-lived intangible assets;
- the effects of any future merger or acquisition involving us, as well as the effect of mergers, acquisitions and consolidations, and new entrants in the communications industry, and unexpected announcements or developments from us or others in the communications industry;
- unexpected results of litigation filed against us or our suppliers or vendors;
- the costs or potential customer impact of compliance with regulatory mandates including, but not limited to, compliance with the FCC's Report and Order to reconfigure the 800 MHz band and government regulation regarding "net neutrality";
- equipment failure, natural disasters, terrorist acts or breaches of network or information technology security;
- one or more of the markets in which we compete being impacted by changes in political, economic or other factors such as monetary policy, legal and regulatory changes, or other external factors over which we have no control;
- the impact of being a "controlled company" exempt from many corporate governance requirements of the NYSE; and

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- other risks referenced from time to time in this report and other filings of ours with the SEC, including Part I, Item 1A. "Risk Factors" of our Transition Report on Form 10-K for the period ended March 31, 2014.

The words "may," "could," "should," "estimate," "project," "forecast," "intend," "expect," "anticipate," "believe," "target," "plan," "providing guidance" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report. Readers are cautioned that other factors, although not listed above, could also materially affect our future performance and operating results. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. We are not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report, including unforeseen events.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are primarily exposed to the market risk associated with unfavorable movements in interest rates, foreign currencies, and equity prices. The risk inherent in our market risk sensitive instruments and positions is the potential loss arising from adverse changes in those factors. There have been no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our Transition Report on Form 10-K for the period ended March 31, 2014.

Item 4. Controls and Procedures

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports under the Securities Exchange Act of 1934, such as this Quarterly Report on Form 10-Q, is reported in accordance with the SEC's rules. Disclosure controls are also designed with the objective of ensuring that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Quarterly Report on Form 10-Q as of September 30, 2014, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the disclosure controls and procedures were effective as of September 30, 2014 in providing reasonable assurance that information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and in providing reasonable assurance that the information is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

Internal controls over our financial reporting continue to be updated as necessary to accommodate modifications to our business processes and accounting procedures. There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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 seeks 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, and discovery is continuing. The plaintiff moved to certify a class of bondholders as well as owners of common stock, and 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 but that petition was denied. Sprint Communications believes the complaint is without merit and intends to continue to defend the 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.

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, 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.

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. The 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, Inc. 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.

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. 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. During the quarter ended September 30, 2014, there were no material developments in the status of these legal proceedings.

Item 1A. Risk Factors

There have been no material changes to our risk factors as described in our Transition Report on Form 10-K for the period ended March 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

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Item 4. Mine Safety Disclosures
None

Item 5. Other Information
Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934
Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Securities Exchange Act of 1934. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, including, among other matters, transactions or dealings relating to the government of Iran. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.
After the SoftBank Merger, SoftBank acquired control of Sprint. During the three-month period ended September 30, 2014, SoftBank, through one of its non-U.S. subsidiaries, provided telecommunications services in Iran to Telecommunications Services Company (MTN Irancell), which is or may be a government-controlled entity. During the three-month period ended September 30, 2014, SoftBank had no gross revenues and no net profit was generated. This subsidiary also provided telecommunications services to a single account at the Embassy of Iran in Japan. During the three-month period ended September 30, 2014, SoftBank estimates that gross revenues and net profit generated by such services were under $2,000 and $1,000, respectively. Sprint was not involved in, and did not receive any revenue from, any of these activities. The relevant SoftBank subsidiary is in the process of terminating the arrangements with Telecommunications Services Company (MTN Irancell). With respect to the single account at the Embassy of Iran in Japan, the relevant SoftBank subsidiary is obligated under contract to continue such account.

Item 6. Exhibits
The Exhibit Index attached to this Quarterly Report on Form 10-Q is hereby incorporated by reference.

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SIGNATURE

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

SPRINT CORPORATION
(Registrant)

By /s/ PAUL W. SCHIEBER, JR.
Paul W. Schieber, Jr.
Vice President and Controller
(Principal Accounting Officer)

Date: November 6, 2014

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Exhibit Index

Exhibit No.	Exhibit Description	Incorporated by Reference				Filed/Furnished Herewith
		Form	SEC File No.	Exhibit	Filing Date	
(3) Articles of Incorporation and Bylaws						
3.1	Amended and Restated Certificate of Incorporation	8-K	001-04721	3.1	7/11/2013	
3.2	Amended and Restated Bylaws	8-K	001-04721	3.2	8/7/2013	
(10) Material Contracts						
10.1	Employment Agreement, effective August 11, 2014, by and between Sprint Corporation and Raul Marcelo Claure	8-K	001-04721	10.1	8/6/2014	
10.2	Sprint Corporation Deferred Compensation Plan, as amended and restated effective September 26, 2014					*
10.3	First Amendment to Employment Agreement, effective October 20, 2014, by and between Sprint Corporation and John C. Saw					*
10.4	Amendment, dated as of October 30, 2014, to the Credit Agreement, dated as of February 28, 2013, by and among Sprint Communications, Inc., JPMorgan Chase Bank, N.A., as administrative agent, CitiBank, N.A., as syndication agent, and the lenders named therein	8-K			11/3/2014	
(12) Statement re Computation of Ratios						
12	Computation of Ratio of Earnings to Fixed Charges					*
(31) and (32) Officer Certifications						
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)					*
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)					*

32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002	*
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002	*

(101) Formatted in XBRL (Extensible Business Reporting Language)

101.INS	XBRL Instance Document	*
101.SCH	XBRL Taxonomy Extension Schema Document	*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	*

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*Filed or furnished, as required.