SPRINT NEXTEL CORP
Form 10-Q
May 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

or

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

For the transition period from to

Commission file number 1-04721

SPRINT NEXTEL CORPORATION

(Exact name of registrant as specified in its charter)

Kansas	**48-0457967**
(State or other jurisdiction of	***(I.R.S. Employer***
incorporation or organization)	***Identification No.)***
6200 Sprint Parkway, Overland Park, Kansas	**66251**
(Address of principal executive offices)	***(Zip Code)***

Registrant s telephone number, including area code:

(800) 829-0965

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 þ No ¨

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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. (check one):

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

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

COMMON SHARES OUTSTANDING AT APRIL 30, 2010:

VOTING COMMON STOCK	
Series 1	2,946,029,589
Series 2	35,000,000

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements*** **(Unaudited)**

SPRINT NEXTEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2010	December 31, 2009
	(in millions, except share and per share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 4,373	$ 3,819
Short-term investments	1	105
Accounts and notes receivable, net of allowance for doubtful accounts of $195 and $206	2,893	2,996
Device and accessory inventory	526	628
Deferred tax assets	273	295
Prepaid expenses and other current assets	769	750
Total current assets	8,835	8,593
Investments	4,416	4,624
Property, plant and equipment, net	17,411	18,280
Intangible assets		
Goodwill	363	373
FCC licenses and other	20,022	19,911
Other intangible assets, net	2,777	3,178
Other assets	458	465
	$ 54,282	$ 55,424
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 2,282	$ 2,267
Accrued expenses and other current liabilities	3,384	3,750
Current portion of long-term debt, financing and capital lease obligations	2,415	768
Total current liabilities	8,081	6,785
Long-term debt, financing and capital lease obligations	18,639	20,293
Deferred tax liabilities	6,733	6,693
Other liabilities	3,586	3,558
Total liabilities	37,039	37,329
Commitments and contingencies		
Shareholders equity		
Common shares, voting, par value $2.00 per share, 6.5 billion shares authorized, 3.007 and 3.007 billion shares issued, 2.979 and 2.973 billion shares outstanding	6,015	6,015
Paid-in capital	46,808	46,793
Treasury shares, at cost	(421)	(582)
Accumulated deficit	(34,806)	(33,779)
Accumulated other comprehensive loss	(353)	(352)

Total shareholders equity	17,243	18,095
	$ 54,282	$ 55,424

See Notes to the Consolidated Financial Statements

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SPRINT NEXTEL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2010	**2009**
	(in millions, except per share amounts)	
Net operating revenues	$ 8,085	$ 8,209
Net operating expenses		
Costs of services and products (exclusive of depreciation and amortization included below)	4,198	4,026
Selling, general and administrative	2,409	2,460
Severance and exit costs	(17)	327
Depreciation	1,275	1,417
Amortization	400	466
	8,265	8,696
Operating loss	(180)	(487)
Other expense		
Interest expense, net	(361)	(352)
Equity in losses of unconsolidated investments and other, net	(253)	(285)
Loss before income taxes	(794)	(1,124)
Income tax (expense) benefit	(71)	530
Net loss	$ (865)	$ (594)
Basic and diluted loss per common share	$ (0.29)	$ (0.21)
Basic and diluted weighted average common shares outstanding	2,983	2,882

See Notes to the Consolidated Financial Statements

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SPRINT NEXTEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2010	**2009**
	(in millions)	
Cash flows from operating activities		
Net loss	$ (865)	$ (594)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,675	1,883
Provision for losses on accounts receivable	111	76
Share-based compensation expense	18	25
Deferred and other income taxes	75	(538)
Equity in losses of unconsolidated investments and other, net	253	285
Other changes in assets and liabilities:		
Accounts and notes receivable	(11)	144
Inventories and other current assets	86	(51)
Accounts payable and other current liabilities	(236)	170
Other, net	16	(37)
Net cash provided by operating activities	1,122	1,363
Cash flows from investing activities		
Capital expenditures	(505)	(377)
Expenditures relating to FCC licenses	(115)	(190)
Proceeds from sales and maturities of short-term investments	104	7
Investment in Clearwire	(53)	
Other, net	4	
Net cash used in investing activities	(565)	(560)
Cash flows from financing activities		
Other, net	(3)	22
Net cash (used in) provided by financing activities	(3)	22
Net increase in cash and cash equivalents	554	825
Cash and cash equivalents, beginning of period	3,819	3,691
Cash and cash equivalents, end of period	$ 4,373	$ 4,516

See Notes to the Consolidated Financial Statements

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SPRINT NEXTEL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

(in millions)

	Common Shares			Treasury Shares			Accumulated Other Comprehensive Loss	
	Shares	**Amount**	**Paid-in Capital**	**Shares**	**Amount**	**Accumulated Deficit**		**Total**
Balance, December 31, 2009	3,007	$ 6,015	$ 46,793	34	$ (582)	$ (33,779)	$ (352)	$ 18,095
Net loss						(865)		(865)
Other comprehensive loss, net							(1)	(1)
Total comprehensive loss								(866)
Issuance of common shares, net				(6)	161	(162)		(1)
Share-based compensation expense			15					15
Balance, March 31, 2010	3,007	$ 6,015	$ 46,808	28	$ (421)	$ (34,806)	$ (353)	$ 17,243

See Notes to the Consolidated Financial Statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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SPRINT NEXTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. All normal recurring adjustments considered necessary for a fair presentation have been included. Certain disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2009. Unless the context otherwise requires, references to Sprint, we, us, our and the Company mean Sprint Nextel Corporation and its consolidated subsidiaries.

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, revenue, 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.

Note 2. New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued authoritative literature regarding *Amendments to FASB Interpretation No. 46(R),* which changes various aspects of accounting for and disclosures of interests in variable interest entities, and the *Accounting for Transfers of Financial Assets*, which was issued in order to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. This guidance was effective beginning in January 2010 and did not have a material effect on our consolidated financial statements.

In September 2009, the FASB modified the accounting for *Multiple-Deliverable Revenue Arrangements* and *Certain Revenue Arrangements that Include Software Elements*. These modifications alter the methods previously required for allocating consideration received in multiple-element arrangements to require revenue allocation to elements containing software components and non-software components that function together to deliver the product s essential functionality. These modifications will be effective prospectively for the fiscal year ended December 31, 2011 and are currently being evaluated to determine the effect, if any, on our consolidated financial statements.

In January 2010, the FASB issued authoritative guidance regarding *Improving Disclosures about Fair Value Measurements,* which requires new and amended disclosure requirements for classes of assets and liabilities, inputs and valuation techniques and transfers between levels of fair value measurements and *Accounting for Distributions to Shareholders with Components of Stock and Cash,* which clarifies the accounting for distributions to shareholders that offer them the ability to elect to receive their entire distribution in cash or shares of equivalent value. This guidance was effective beginning in January 2010, and did not have a material effect on our consolidated financial statements.

Note 3. Investments

The components of investments were as follows:

	March 31, 2010	December 31, 2009
	(in millions)	
Marketable equity securities	37	43
Equity method and other investments	4,379	4,581
Total investments	$ 4,416	$ 4,624

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SPRINT NEXTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Equity Method Investments

Clearwire

Sprint s investments in Clearwire Corporation and its consolidated subsidiary Clearwire Communications LLC, (collectively Clearwire) are part of our long-term plan to participate in the fourth generation (4G) wireless broadband market, and to benefit from Clearwire s advantaged position in that market. Clearwire is continuing to execute its business plan, including building its 4G wireless broadband network, and Clearwire, Sprint and other investors are beginning to offer 4G products utilizing that network. On November 9, 2009, Sprint, in addition to other investors, entered into an agreement with Clearwire to make additional investments for a total of approximately $1.56 billion in exchange for Class B voting common stock (Class B Voting) of Clearwire Corporation and Class B non-voting common interests (Class B Non-voting) in Clearwire Communications LLC (together, Class B Common Interests). Sprint agreed to contribute $1.176 billion in three installments in exchange for approximately 160.4 million Class B Common Interests. During the fourth quarter 2009, Sprint s net investment increased by approximately $1.1 billion in exchange for 155 million shares of Class B Common Interests. Sprint s final installment of $50 million was contributed on March 2, 2010 upon Clearwire s satisfaction of certain closing conditions.

As of March 31, 2010, Sprint owned a 56% non-controlling interest in Clearwire, in the form of 532 million shares of Class B Voting in Clearwire Corporation and 532 million Class B Non-voting in Clearwire Communications LLC for which the carrying value totaled $4.1 billion. Sprint s loss from its investment in Clearwire consists of Sprint s share of Clearwire s net loss and other adjustments such as losses associated with the dilution of Sprint s ownership interest resulting from Clearwire s equity issuances. Equity in losses from Clearwire were $250 million and $281 million for the three-month periods ended March 31, 2010 and 2009, respectively. First quarter 2009 equity in losses of Clearwire include a pre-tax dilution loss of $154 million ($96 million after tax) representing the finalization of ownership percentages, which was subject to change based on the trading price of Clearwire stock during the 90 days subsequent to the November 2008 closing. Each share of Clearwire Corporation Class B Voting, together with one Clearwire Communications LLC Class B Non-voting, is exchangeable for one share of Clearwire Corporation s Class A common stock, a publicly traded security. Sprint s equity investment in Clearwire represents $7.76 per share based on the assumed exchange of our Class B Common Interests for Class A common stock. The market price of Clearwire s publicly traded stock was $7.16 per share as of March 31, 2010. Sprint does not intend to sell this equity investment in the foreseeable future, and recoverability of our equity investment is not affected by short-term fluctuations in Clearwire s stock price. Sprint continues to believe the difference between Clearwire s stock price and our book value per share is temporary and expects to recover fully the carrying value of the investment.

Summarized financial information for Clearwire is as follows:

	Three Months Ended March 31,	
	2010	**2009**
	(in millions)	
Revenues	$ 107	$ 62
Operating expenses	(514)	(295)
Operating loss	$ (407)	$ (233)
Net loss	$ (439)	$ (260)

Note 4. 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 treasury securities) and marketable equity securities are measured on a recurring basis and carried at amounts which approximate fair value. The estimated fair value of long-term debt, financing and capital lease obligations, including current maturities, was approximately $20 billion as of March 31, 2010 and December 31, 2009, respectively, based on market prices and interest rates. Any changes in fair value of assets or liabilities carried at fair value are reported in other comprehensive income (loss) each period and

recognized in earnings upon sale or settlement.

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SPRINT NEXTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Property, Plant and Equipment

The components of property, plant and equipment, and the related accumulated depreciation were as follows:

	March 31, 2010	December 31, 2009
	(in millions)	
Land	$ 331	$ 332
Network equipment, site costs and related software	37,104	36,992
Buildings and improvements	4,806	4,792
Non-network internal use software, office equipment and other	2,780	2,966
Construction-in-progress	1,105	1,111
Less accumulated depreciation	(28,715)	(27,913)
Property, plant and equipment, net	$ 17,411	$ 18,280

Note 6. Intangible Assets

Indefinite-Lived Intangible Assets

	December 31, 2009	Net Additions/ (Reductions)	March 31, 2010
		(in millions)	
FCC licenses	$ 19,502	$ 111	$ 19,613
Trademarks	409		409
Goodwill[1]	373	(10)	363
	$ 20,284	$ 101	$ 20,385

(1) The net reduction to goodwill was a result of purchase price allocation adjustments primarily to deferred tax assets and liabilities related to our acquisitions in the fourth quarter of 2009.

We hold Federal Communications Commission (FCC) licenses authorizing the use of radio frequency spectrum to deploy our wireless services: 1.9 gigahertz (GHz) licenses utilized in the code division multiple access (CDMA) network, and 800 megahertz (MHz) and 900 MHz licenses utilized in the integrated Digital Enhanced Network (iDEN) network. We also hold FCC licenses that are not yet placed into service but that we intend to use in accordance with FCC requirements. 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. We are not aware of any technology being developed that would render this spectrum obsolete and have concluded that these 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. During the fourth quarter 2009, we acquired Virgin Mobile USA, Inc. (VMU) and iPCS, Inc. (iPCS) which resulted in the recognition of $363 million of goodwill.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Intangible Assets Subject to Amortization

		March 31, 2010			December 31, 2009		
	Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
				(in millions)			
Customer relationships	2 to 5 years	$ 11,401	$ (10,607)	$ 794	$ 12,224	$ (11,093)	$ 1,131
Other intangible assets							
Trademarks	10 to 37 years	1,169	(418)	751	1,169	(394)	775
Reacquired rights	9 to 14 years	1,571	(419)	1,152	1,572	(386)	1,186
Other	2 to 16 years	128	(48)	80	126	(40)	86
Total other intangible assets		2,868	(885)	1,983	2,867	(820)	2,047
		$ 14,269	$ (11,492)	$ 2,777	$ 15,091	$ (11,913)	$ 3,178

Note 7. Accounts Payable

Accounts payable at March 31, 2010 and December 31, 2009 included liabilities in the amounts of $128 million and $150 million, respectively, for checks issued in excess of associated bank balances but not yet presented for collection.

Note 8. Long-Term Debt, Financing and Capital Lease Obligations

	Interest Rates		Maturities		March 31, 2010	December 31, 2009
					(in millions)	
Notes						
Senior notes						
Sprint Nextel Corporation	0.69	9.25%	2010	2022	$ 4,250	$ 4,250
Sprint Capital Corporation	6.88	8.75%	2011	2032	9,854	9,854
Serial redeemable senior notes						
Nextel Communications, Inc.	5.95	7.38%	2013	2015	4,780	4,780
Secured Notes						
iPCS, Inc.	2.37	3.50%	2013	2014	481	479
Credit facilities Sprint Nextel Corporation						
Bank credit facility	3.00%		2010			
Export Development Canada	3.44%		2012		750	750
Financing obligation	9.50%		2030		697	698
Capital lease obligations and other[1]	4.11	15.49%	2012	2022	188	190
Net premiums					54	60
					21,054	21,061
Less current portion					(2,415)	(768)

Long-term debt, financing and capital lease obligations	$ 18,639	$ 20,293

(1) Includes $105 million in outstanding principal related to a consolidated variable interest entity.

As of March 31, 2010, Sprint Nextel Corporation, the parent corporation, had $5 billion in principal of debt outstanding, including the credit facilities. In addition $15.1 billion in principal of our long-term debt issued by wholly-owned subsidiaries is guaranteed by the parent, of which approximately $10.3 billion is fully and unconditionally guaranteed. The indentures and financing arrangements of certain subsidiaries debt contain provisions that limit cash dividend payments on subsidiary common stock. The transfer of cash in the form of advances from the subsidiaries to the parent corporation generally is not restricted. Cash interest payments were $444 million and $411 million during the three-month periods ended March 31, 2010 and 2009, respectively.

SPRINT NEXTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Notes

Notes consist of senior and serial redeemable senior notes that are unsecured and secured notes of iPCS, which are secured solely with the underlying assets of iPCS, Inc. In March, 2010, Sprint Nextel Corporation issued a full and unconditional guarantee of the iPCS, Inc. Secured Notes. Interest payments on the iPCS debt are payable quarterly. The Company may elect to pay interest on a portion of this debt entirely in cash or by increasing the principal amount of the Secured Notes. Cash interest on the remaining notes is generally payable semiannually in arrears. Approximately $18.4 billion of the notes are redeemable at the Company s discretion plus accrued interest.

Credit Facilities

As of March 31, 2010, $1.7 billion in letters of credit, including a $1.6 billion letter of credit required by the FCC s Report and Order to reconfigure the 800 MHz band, were outstanding under our $4.5 billion revolving bank credit facility which expires on December 19, 2010. As a result, the Company had $2.8 billion of borrowing capacity available under this revolving bank credit facility as of March 31, 2010. The terms of this loan provide for an interest rate equal to the London Interbank Offered Rate (LIBOR) plus a spread that varies depending on the Company s credit ratings. The unsecured loan agreement with Export Development Canada will mature in March 2012 and has terms similar to those of the revolving bank credit facility.

Financing, Capital Lease and Other Obligations

We have approximately 3,000 cell sites previously owned by us, which we sold and subsequently leased back space. Terms extend over a period of ten years, beginning in 2008, with renewal options for an additional 20 years. The cell sites continue to be reported as part of our property, plant and equipment. Our capital lease and other obligations are primarily for the use of communication switches.

Covenants

As of March 31, 2010, the Company is in compliance with all restrictive and financial covenants associated with its borrowings. A default under any of our borrowings could trigger defaults under other debt obligations, which in turn could result in the maturities being accelerated. The indentures that govern our outstanding senior notes also require compliance with various covenants, including limitations on the incurrence of indebtedness and liens by the Company and its subsidiaries.

We are currently restricted from paying cash dividends because our ratio of total indebtedness to trailing four quarters earnings before interest, taxes, depreciation and amortization and certain other non-recurring items, as defined in the credit facility (adjusted EBITDA), exceeds 2.5 to 1.0. The Company also is obligated to repay the credit facilities if certain change-of-control events occur.

Note 9. Severance and Exit Costs

For the three-month period ended March 31, 2010 we recognized a net benefit of $17 million, primarily related to a reduction in the estimate of total severance costs associated with our workforce reduction announced in November 2009. Of this net benefit, $14 million and $3 million were related to the Wireless and Wireline segments, respectively. For the three-month period ended March 31, 2009, we recognized $327 million of severance and exit costs primarily related to the reduction in workforce announced in January 2009. Of these costs, $254 million and $73 million were related to the Wireless and Wireline segments, respectively.

The following provides the activity in the severance and exit costs liability, included in Accrued expenses and other current liabilities within the consolidated balance sheets.

	December 31, 2009	2010 Activity	March 31, 2010

		Net Expense (Benefit)	Cash Payments and Other	
		(in millions)		
Exit costs	$ 89	$ 1	$ (14)	$ 76
Severance	110	(18)	(41)	51
	$ 199	$ (17)	$ (55)	$ 127

SPRINT NEXTEL CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 10. Income Taxes

Effective Income Tax Rate

Factors that caused our effective income tax rates to vary from the 35% U.S. federal statutory rate were as follows:

	Three Months Ended March 31,	
	2010	2009
	(in millions)	
Income tax benefit at the federal statutory rate	$ 278	$ 393
Effect of:		
State income taxes, net of federal income tax effect	26	23
Reduction in liability for unrecognized tax benefits		82
Change in valuation allowance	(365)	31
Other, net	(10)	1
Income tax (expense) benefit	$ (71)	$ 530
Effective income tax rate	(8.9)%	47.2%

The realization of net deferred tax assets is dependent on the generation of future pre-tax income sufficient to realize the tax deductions and credits. However, our recent history of consecutive annual losses, in addition to the uncertainty concerning the forecasted income for 2010 and beyond, reduce our ability to rely on expectations of future income in evaluating the ability to realize our deferred tax assets. As a result, the Company recognized an increase in the valuation allowance of $365 million for the three-month period ended March 31, 2010, on the deferred tax assets related to federal and state net operating loss carryforwards generated during the period. We do not expect to record tax benefits on future net operating losses until our circumstances justify the recognition of such benefits.

Income tax expense of $71 million for the first quarter 2010 is primarily attributable to taxable temporary differences 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. This difference results in additional deferred income tax expense since the reversal of the taxable temporary difference cannot be scheduled to occur during the loss carryforward period.

As of March 31, 2010 and December 31, 2009, our valuation allowance was $1.4 billion and $1.0 billion, respectively, with the increase principally due to additional operating loss during the quarter and the amortization of FCC spectrum licenses for income tax purposes. We continue to maintain a liability for unrecognized tax benefits of $284 million. Cash was received for net income tax refunds of $12 million and $7 million during the three-month periods ended March 31, 2010 and 2009, respectively.

Note 11. Commitments and Contingencies

Litigation, Claims and Assessments

A number of cases that allege Sprint Communications Company L.P. failed to obtain easements from property owners during the installation of its fiber optic network in the 1980 s have been filed in various courts. Several of these cases sought certification of nationwide classes, and in one case, a nationwide class was certified. In 2003, a nationwide settlement of these claims was approved by the U.S. District Court for the Northern District of Illinois, but objectors appealed the preliminary approval order to the Seventh Circuit Court of Appeals, which overturned the settlement and remanded the case to the trial court for further proceedings. The parties proceeded with litigation and/or settlement negotiations

on a state by state basis, and settlement negotiations have been coordinated in all cases but those pending in Louisiana and Tennessee. The Louisiana claims have been separately settled for an amount not material to our consolidated financial position or results of operations, and that settlement was given final approval by the Court, and the time to appeal that approval has expired. We reached an agreement in principle to settle the claims in all the other states, excluding Tennessee, for an amount not material to our consolidated financial position or results of operations. The Court issued its preliminary approval of the settlement on July 17, 2008, but on September 10, 2009, the Court announced that it would not approve the settlement. The Court did not decide whether the settlement was fair or in the best interest of class members, but denied on jurisdictional grounds. As a result, the agreement terminated, and the Company continues to defend the matters vigorously. We do not expect the resolution of this matter to have a material effect on our consolidated financial position or results of operations.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In September 2004, the U.S. District Court for the District of Kansas denied a motion to dismiss a shareholder lawsuit alleging that our 2001 and 2002 proxy statements were false and misleading in violation of federal securities laws to the extent they described new employment agreements with certain senior executives without disclosing that, according to the allegations, replacement of those executives was inevitable. These allegations, made in an amended complaint in a lawsuit originally filed in 2003, are asserted against us and certain former officers and directors, and seek to recover any decline in the value of our tracking stocks during the class period. The parties have stipulated that the case can proceed as a class action. All defendants have denied plaintiffs allegations and intend to defend this matter vigorously. Allegations in the original complaint, which asserted claims against the same defendants and our former independent auditor, were dismissed by the Court in April 2004. Our motion to dismiss the amended complaint was denied, and the parties are engaged in discovery. We do not expect the resolution of this matter to have a material effect on our consolidated financial position or results of operations.

Various other suits, proceedings and claims, including purported class actions typical for a large business enterprise, are pending against us or our subsidiaries. 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 consolidated 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. In addition, we received licenses for 10 MHz of nationwide spectrum in the 1.9 GHz band; however, we are required to relocate and reimburse the incumbent licensees in this band for their costs of relocation to another band designated by the FCC.

The minimum cash obligation is approximately $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. We submit the qualified 800 MHz relocation costs to the FCC for review for potential Letter of Credit reductions on a periodic basis. As a result of these reviews, our letter of credit was reduced from $2.0 billion to $1.7 billion during 2009 and to $1.6 billion in March 2010, as approved by the FCC.

The following table represents payments directly attributable to our performance under the Report and Order from the inception of the program:

	Through December 31, 2009	Net Additions	Through March 31, 2010
		(in millions)	
FCC licenses	$ 1,956	$ 110	$ 2,066
Property, plant and equipment[1]	157		157
Costs not benefiting our infrastructure or spectrum positions	275	7	282
	$ 2,388	$ 117	$ 2,505

(1) Excluded from the table above are reconfiguration costs incurred to date which are based on allocations between reconfiguration activities and our normal network improvements. The methodology with which we have calculated these costs has not been approved by the independent Transition Administrator designated by the FCC to review our expenditures. As a result, the amount allocated to reconfiguration activity is subject to change based on additional assessments made over the course of the reconfiguration program.

When expended, these costs are generally accounted for either as property, plant and equipment or as additions to the FCC licenses intangible asset. Total direct costs attributable to the spectrum reconfigurations are estimated to exceed the minimum cash obligation of $2.8 billion. This estimate is dependent on significant assumptions including the final licensee costs and costs associated with relocating licensees in the Canadian border region under the border plan that was adopted by the FCC and the Mexican border region for which there is currently no approved border plan. In addition, we are entitled to receive reimbursement

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from the mobile satellite service licensees for their pro rata portion of our costs of clearing a portion of the 1.9 GHz spectrum. Those licensees may be unable or unwilling to reimburse us for their share of the costs, which are estimated to be approximately $200 million.

Completion of the 800 MHz band reconfiguration in the majority of the United States was initially required by June 26, 2008. The FCC continues to grant 800 MHz public safety licensees additional time to complete their system reconfigurations which, in turn, delays Sprint s access to some of our 800 MHz replacement channels. Under an October 2008 FCC Order, March 31, 2010 was the target date for us to begin to relinquish some of our 800 MHz channels on a region-by-region basis prior to receiving all of our FCC-designated 800 MHz replacement channels. On March 31, 2010, however, the FCC granted Sprint s request that it delay the March 31, 2010 deadline for one year until March 31, 2011, in 21 markets where public safety licensees have not yet moved off most of Sprint s replacement channels. Accordingly, we will continue to transition to our 800 MHz replacement channels consistent with public safety licensees reconfiguration progress.

Note 12. Compensation Plans

As of March 31, 2010, Sprint sponsored four incentive plans: the 2007 Omnibus Incentive Plan (2007 Plan); the 1997 Long-Term Incentive Program (1997 Program); the Nextel Incentive Equity Plan (Nextel Plan); and the Management Incentive Stock Option Plan (MISOP). Sprint also sponsors an Employee Stock Purchase Plan (ESPP). Under the 2007 Plan, we may grant share and non-share based awards, including stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other equity-based and cash awards to employees, outside directors and certain other service providers. Options are generally granted with an exercise price equal to the market value of the underlying shares on the grant date, generally vest on an annual basis over three or four years, and generally have a contractual term of ten years. Employees and directors who are granted restricted stock units are not required to pay for the shares but generally must remain employed with us, or continue to serve as a member of our board of directors, until the restrictions lapse, which is typically three years for employees and one year for directors. As provided in the 2007 Plan, the Compensation Committee of our board of directors, or one or more executive officers should the Compensation Committee so authorize, will determine the terms of each equity-based award. No new grants can be made under the 1997 Program, the Nextel Plan or the MISOP.

For the three-month period ended March 31, 2010, the number of shares available under the 2007 Plan increased by about 13 million to approximately 163 million common shares, as the number of shares available under the 2007 Plan is increased by any shares originally granted under the 1997 Program, the Nextel Plan, or the MISOP that are forfeited, expired, or otherwise are terminated. As of March 31, 2010, restricted stock units and options to acquire about 60 million common shares were outstanding under the 2007 Plan, restricted stock units and options to acquire about 31 million shares were outstanding under the 1997 Program, options to acquire about 14 million common shares were outstanding under the Nextel Plan and options to acquire about 15 million common shares were outstanding under the MISOP. As of March 31, 2010, the ESPP has approximately 84 million common shares authorized for future purchases. Currently, we use treasury shares to satisfy share-based awards or new shares if no treasury shares are available.

Compensation Costs

The cost of employee services received in exchange for an award of equity-based securities is measured using the fair value of the award on the date of the grant, and that cost is recognized over the period that the award recipient is required to provide service in exchange for the award. Any awards of liability instruments to employees are measured at fair value at each reporting date through settlement. Share-based compensation cost related to awards with graded vesting is recognized using the straight-line method.

Pre-tax share and non-share based compensation charges included in net loss from our incentive plans were $18 million for the three-month period ended March 31, 2010 and $26 million for the same period in 2009. The income tax (expense) benefit recognized in the consolidated financial statements for incentive awards was $(2) million and $10 million for the three-month periods ended March 31, 2010 and 2009, respectively.

As of March 31, 2010, there was $127 million of total unrecognized compensation cost related to non-vested incentive awards that are expected to be recognized over a weighted average period of 2.17 years. Cash received from exercise under all share-based payment arrangements, net of any shares surrendered, was insignificant for the three-month periods ended March 31, 2010 and 2009.

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Under our share-based payment plans, we had options and restricted stock units outstanding as of March 31, 2010. Forfeitures were estimated for share-based awards using a 10.6% weighted average annual rate.

Options

The fair value of each option award is estimated on the grant date using the Black-Scholes option valuation model, based on several assumptions including the risk-free interest rate, volatility, expected dividend yield and expected term. The risk-free interest rate used is based on the zero-coupon U.S. Treasury bond, with a term equal to the expected term of the options. The volatility used is the implied volatility from traded options on our common shares. The expected dividend yield used is estimated based on our historical dividend yield and other factors. The expected term of options granted is estimated using the simplified method, defined as the average of the vesting term and the contractual term as our historical data is not expected to represent the future expected term of equity awards due to our severance activities over the last several years. Options outstanding as of March 31, 2010 include options granted under the 2007 Plan (including options exchanged in business combinations), the 1997 Program, the Nextel Plan and the MISOP, as discussed above.

The following table provides the estimated fair value and assumptions used in determining the fair value of option awards granted during the three months ended March 31, 2010:

Weighted average grant date fair value	$ 1.97
Risk-free interest rate	2.71 2.74%
Volatility and weighted average expected volatility	58.5%
Expected and weighted average expected dividend yield	0.00%
Expected term (years)	6.0 6.25
Options granted (millions)	8

A summary of the status of the options under our compensation plans as of March 31, 2010 and changes during the quarter then ended is presented below:

	Shares Under Option *(in millions)*	Weighted Average per Share Exercise Price	Weighted Average Remaining Contractual Term *(in years)*	Aggregate Intrinsic Value *(in millions)*
Outstanding at January 1, 2010	108	$ 16.42		
Granted	8	3.44		
Exercised				
Forfeited/expired	(13)	29.88		
Outstanding at March 31, 2010	103	$ 13.72	5.74	$ 13
Vested or expected to vest at March 31, 2010	96	$ 14.45	5.49	$ 11
Exercisable at March 31, 2010	72	$ 17.69	4.34	$ 3

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Restricted Stock Units

The fair value of each restricted stock unit award is calculated using the share price at the date of grant. Restricted stock units outstanding consist of those units granted under the 2007 Plan (including units exchanged in business combinations) and the 1997 Program, as discussed above. A summary of the status of the restricted stock units as of March 31, 2010 and changes during the quarter then ended is presented below:

	Restricted Stock Units		Weighted Average Grant Date Fair Value of Restricted Stock Units	
	Future Performance and Service Required	Future Service Required	Future Performance and Service Required	Future Service Required
	(in thousands)			
Outstanding at January 1, 2010	3,696	12,632	$ 18.82	$ 5.68
Granted	6,579	416	3.45	3.29
Vested	(3,208)	(2,680)	18.78	4.36
Forfeited	(439)	(278)	18.78	9.28
Outstanding at March 31, 2010	6,628	10,090	$ 3.60	$ 5.83

The total fair value of restricted stock units which vested during each of the three-month periods ended March 31, 2010 and 2009 was $21 million and $26 million, respectively. The weighted-average grant date fair value of restricted stock units granted during the three-month period ended March 31, 2010 was $3.44 per unit, compared with $2.71 per unit for the same prior year period.

Most restricted stock units outstanding as of March 31, 2010 are entitled to dividend equivalents paid in cash, if dividends are declared and paid on common shares, but performance-based restricted stock units are not entitled to dividend equivalent payments until the applicable performance criteria has been met.

Note 13. Shareholders Equity and Per Share Data

Basic loss per common share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share adjusts basic earnings (loss) per common share for the effects of potentially dilutive common shares, if the effect is not antidilutive. Potentially dilutive common shares consist of 9 million and 16 million shares issuable under our equity-based compensation plans for the three-month periods ended March 31, 2010 and 2009. All such potentially dilutive shares were antidilutive for the three-month periods ended March 31, 2010 and 2009 and, therefore, have no effect on our determination of dilutive weighted average number of shares outstanding.

Note 14. Segment Information

Sprint operates two reportable segments: Wireless and Wireline.

Wireless primarily includes retail and wholesale revenue from a wide array of wireless mobile telephone and wireless data transmission services and the sale of wireless devices 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 including services to the cable multiple systems operators that resell our local and long distance service and use our back office systems and network assets in support of their telephone services provided over cable facilities.

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Transactions between segments are generally accounted for based on market rates which we believe approximate fair value. Segment financial information is as follows:

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
		(in millions)		
Three Months Ended March 31, 2010				
Net operating revenues	$ 7,048	$ 1,035	$ 2	$ 8,085
Inter-segment revenues[(1)]		262	(262)	
Total segment operating expenses	(5,852)	(1,018)	263	(6,607)
Segment earnings	$ 1,196	$ 279	$ 3	1,478
Less:				
Depreciation and amortization				(1,675)
Severance and exit costs				17
Operating loss				(180)
Interest expense, net				(361)
Equity in losses of unconsolidated investments and other, net			$ (253)	(253)
Loss before income taxes				$ (794)

	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
		(in millions)		
Three Months Ended March 31, 2009				
Net operating revenues	$ 7,035	$ 1,174	$	$ 8,209
Inter-segment revenues[(1)]		291	(291)	
Total segment operating expenses	(5,586)	(1,179)	279	(6,486)
Segment earnings	$ 1,449	$ 286	$ (12)	1,723
Less:				
Depreciation and amortization				(1,883)
Severance and exit costs				(327)
Operating loss				(487)
Interest expense, net				(352)
Equity in losses of unconsolidated investments and other, net			$ (285)	(285)
Loss before income taxes				$ (1,124)

	Wireless	Wireline	Corporate and Other	Consolidated
		(in millions)		
Other Information				
Capital expenditures for the three months ended March 31, 2010	$ 383	$ 58	$ 64	$ 505
Capital expenditures for the three months ended March 31, 2009	$ 247	$ 91	$ 39	$ 377

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

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Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
			(in millions)	
Three Months Ended March 31, 2010				
Wireless services	$ 6,432	$	$	$ 6,432
Wireless equipment	567			567
Voice		585	(177)	