

SPRINT NEXTEL CORP
Form 10-Q
August 02, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

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 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: (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 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 (§ 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 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.

Large accelerated filer 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

COMMON SHARES OUTSTANDING AT JULY 31, 2012:

VOTING COMMON STOCK

Series 1 3,000,378,919

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SPRINT NEXTEL CORPORATION
CONSOLIDATED BALANCE SHEETS

	June 30, 2012	December 31, 2011
	(in millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,860	\$ 5,447
Short-term investments	902	150
Accounts and notes receivable, net of allowance for doubtful accounts of \$180 and \$219	3,320	3,206
Device and accessory inventory	766	913
Deferred tax assets	87	130
Prepaid expenses and other current assets	669	491
Total current assets	11,604	10,337
Investments	1,344	1,996
Property, plant and equipment, net	12,961	14,009
Intangible assets		
Goodwill	359	359
FCC licenses and other	20,588	20,453
Definite-lived intangible assets, net	1,470	1,616
Other assets	698	613
Total assets	\$ 49,024	\$ 49,383
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 3,387	\$ 2,495
Accrued expenses and other current liabilities	3,669	3,996
Current portion of long-term debt, financing and capital lease obligations	307	8
Total current liabilities	7,363	6,499
Long-term debt, financing and capital lease obligations	20,957	20,266
Deferred tax liabilities	7,038	6,986
Other liabilities	4,439	4,205
Total liabilities	39,797	37,956
Commitments and contingencies		
Shareholders' equity:		
Common shares, voting, par value \$2.00 per share, 6.5 billion shares authorized, 2.999 and 2.996 billion shares issued	5,999	5,992
Paid-in capital	46,735	46,716
Accumulated deficit	(42,726)	(40,489)
Accumulated other comprehensive loss	(781)	(792)
Total shareholders' equity	9,227	11,427
Total liabilities and shareholders' equity	\$ 49,024	\$ 49,383
See Notes to the Consolidated Financial Statements		

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions, except per share amounts)			
Net operating revenues	\$8,843	\$8,311	\$17,577	\$16,624
Net operating expenses:				
Cost of services and products (exclusive of depreciation and amortization included below)	5,011	4,589	10,096	8,985
Selling, general and administrative	2,381	2,408	4,817	4,811
Severance, exit costs and asset impairments	184	—	268	—
Depreciation and amortization	1,896	1,235	3,562	2,490
Other, net	—	—	(282)	—
	9,472	8,232	18,461	16,286
Operating (loss) income	(629)	) 79	(884)	) 338
Other expense:				
Interest expense	(321)	) (239)	) (619)	) (488)
Equity in losses of unconsolidated investments and other, net	(398)	) (588)	) (671)	) (1,000)
	(719)	) (827)	) (1,290)	) (1,488)
Loss before income taxes	(1,348)	) (748)	) (2,174)	) (1,150)
Income tax expense	(26)	) (99)	) (63)	) (136)
Net loss	\$(1,374)	) \$(847)	) \$(2,237)	) \$(1,286)
Basic and diluted net loss per common share	\$(0.46)	) \$(0.28)	) \$(0.75)	) \$(0.43)
Basic and diluted weighted average common shares outstanding	3,000	2,994	3,000	2,993
Other comprehensive (loss) income, net of tax:				
Net unrealized holding (losses) gains on securities and other	\$(13)	) \$7	) \$(6)	) \$18
Net unrecognized net periodic pension and other postretirement benefits	7	8	17	18
Other comprehensive (loss) income	(6)	) 15	) 11	) 36
Comprehensive loss	\$(1,380)) \$(832)) \$(2,226)) \$(1,250)

See Notes to the Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2012	2011
	(in millions)	
Cash flows from operating activities:		
Net loss	\$(2,237	) \$(1,286
Adjustments to reconcile net loss to net cash provided by operating activities:		
Asset impairments	84	—
Depreciation and amortization	3,562	2,490
Provision for losses on accounts receivable	269	199
Share-based compensation expense	39	37
Deferred income taxes	84	115
Equity in losses of unconsolidated investments and other, net	671	1,000
Gains from asset dispositions and exchanges	(29) —
Contribution to pension plan	(92	) (112
Spectrum hosting contract termination	(236) —
Other changes in assets and liabilities:		
Accounts and notes receivable	(263	) (244
Inventories and other current assets	(63	) (495
Accounts payable and other current liabilities	293	129
Non-current assets and liabilities, net	31	135
Other, net	42	26
Net cash provided by operating activities	2,155	1,994
Cash flows from investing activities:		
Capital expenditures	(1,711	) (1,403
Expenditures relating to FCC licenses	(107	) (128
Investment in Clearwire	(128) —
Proceeds from sales and maturities of short-term investments	315	625
Purchases of short-term investments	(1,067	) (640
Other, net	10	(18
Net cash used in investing activities	(2,688	) (1,564
Cash flows from financing activities:		
Proceeds from debt and financings	2,000	—
Repayments of debt and capital lease obligations	(1,004	) (1,653
Debt financing costs	(57	) (3
Other, net	7	9
Net cash provided by (used in) financing activities	946	(1,647
Net increase (decrease) in cash and cash equivalents	413	(1,217
Cash and cash equivalents, beginning of period	5,447	5,173
Cash and cash equivalents, end of period	\$5,860	\$3,956
See Notes to the Consolidated Financial Statements		

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SPRINT NEXTEL CORPORATION
 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 (in millions)

	Common Shares		Paid-in	Accumulated	Accumulated	Total
	Shares	Amount	Capital	Deficit	Other Comprehensive Loss	
Balance, December 31, 2011	2,996	\$5,992	\$46,716	\$ (40,489)	\$ (792)	\$11,427
Net loss				(2,237)		(2,237)
Other comprehensive income, net of tax					11	11
Issuance of common shares, net	3	7				7
Share-based compensation expense			19			19
Balance, June 30, 2012	2,999	\$5,999	\$46,735	\$ (42,726)	\$ (781)	\$9,227

See Notes to the Consolidated Financial Statements

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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 annual report on Form 10-K for the year ended December 31, 2011. 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, 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.

Note 2. New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs which resulted in common requirements for measuring fair value and for disclosing information about fair value measurement under both U.S. GAAP and International Financial Reporting Standards (IFRS), including a consistent definition of the term "fair value." The amendments were effective beginning in the first quarter of 2012, and did not have a material effect on our consolidated financial statements.

Note 3. Investments

The components of investments were as follows:

	June 30, 2012	December 31, 2011
	(in millions)	
Marketable equity securities	\$43	\$ 43
Equity method and other investments	1,301	1,953
	\$1,344	\$ 1,996

Equity Method Investment in Clearwire

Sprint's Ownership Interest

Sprint's investment in Clearwire Corporation and its consolidated subsidiary Clearwire Communications LLC (together, "Clearwire") is part of our plan to participate in the fourth generation (4G) wireless broadband market. Sprint offers certain 4G products utilizing Clearwire's 4G wireless Worldwide Interoperability for Microwave Access (WiMAX) broadband network in available markets. As of June 30, 2012, Sprint held approximately 48.3% of a non-controlling economic interest in Clearwire Communications LLC and a 48.3% non-controlling voting interest in Clearwire Corporation (together, "Equity Interests") for which the carrying value totaled \$973 million. In June 2012, Sprint exercised its right to repurchase approximately 78 million Class B Voting shares at par value of \$0.0001 per share for approximately eight thousand dollars, previously surrendered in June 2011, resulting in Sprint's non-controlling voting interest now being equivalent to its non-controlling economic interest.

In May 2012, Clearwire announced an at-the-market equity offering in which it may sell shares of its Class A common stock in one or more transactions having an aggregate offering price of up to \$300 million. Sprint maintains a preemptive right to participate in Clearwire equity issuances; however, to date Sprint has elected not to exercise the right to buy shares in the equity offering, resulting in a reduction of Sprint's non-controlling economic interest.

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SPRINT NEXTEL CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In addition to our Equity Interests, Sprint held two notes receivable from Clearwire as of June 30, 2012. On January 2, 2012, in conjunction with new long-term pricing agreements reached between the two companies in the fourth quarter of 2011, Sprint provided \$150 million to Clearwire in exchange for a promissory note. The note has a stated interest rate of 11.5% that matures in two installments of \$75 million plus accrued interest in January 2013 and in January 2014. The difference between the fair value of the note and its face value at the date of issuance has been recorded as a prepaid expense, which will be amortized over the term of the note to cost of service. Sprint, at its sole discretion, can choose to offset any amounts payable by Clearwire under this promissory note against amounts owed by Sprint under the mobile virtual network operator (MVNO) agreement. Additionally, Sprint holds a note receivable from Clearwire issued in 2008 with a fixed interest rate of 12% and a maturity date of December 2015. The total carrying value of the notes receivable, which includes accretion related to premiums for both notes and fees associated with the 2009 replacement of the 2008 note, was \$312 million and \$178 million as of June 30, 2012 and December 31, 2011, respectively. The carrying value of Sprint's Equity Interests, together with the long-term portion of the carrying value of the notes receivable, are included in the line item "Investments" in Sprint's consolidated balance sheets. The current portion of the carrying value of the notes receivable is included in the line item "Prepaid expenses and other current assets" in Sprint's consolidated balance sheets.

Equity in Losses and Summarized Financial Information

Equity in losses from Clearwire were \$429 million and \$719 million for the three and six-month periods ended June 30, 2012 and \$594 million and \$1.0 billion for the three and six-month periods ended June 30, 2011, respectively. Sprint's losses from its investment in Clearwire consist of Sprint's share of Clearwire's net loss and other adjustments, if any, such as non-cash impairment of Sprint's investment, gains or losses associated with the dilution of Sprint's ownership interest resulting from Clearwire's equity issuances, and other items recognized by Clearwire Corporation that do not affect Sprint's economic interest. Sprint's equity in losses from Clearwire include charges that were associated with Clearwire's write-off of certain network and other assets that no longer meet its strategic plans that were \$40 million for the six-month period ended June 30, 2012 and \$202 million and \$294 million for the three and six-month periods ended June 30, 2011, respectively. The three-month period ended June 30, 2012 also includes a \$204 million pre-tax impairment reflecting Sprint's reduction in the carrying value of its investment in Clearwire to an estimated fair value.

Summarized financial information for Clearwire is as follows:

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2011	
	2012	2011	2012	2011
	(in millions)			
Revenues	\$317	\$323	\$640	\$559
Operating expenses	(628)	(1,234)	(1,373)	(2,118)
Operating loss	\$(311)	\$(911)	\$(733)	\$(1,559)
Net loss from continuing operations before non-controlling interests	\$(431)	\$(940)	\$(992)	\$(1,733)
Net loss from discontinued operations before non-controlling interests	\$(7)	\$(33)	\$(6)	\$(74)
Sprint's Recoverability				

At each financial reporting measurement date, we evaluate the excess, if any, of Sprint's carrying value over the estimated fair value of our investment in Clearwire to determine if such excess, an implied unrealized loss, is other-than-temporary. Our evaluation considers, among other things, both observable and unobservable inputs, including Clearwire's market capitalization, historical volatility associated with Clearwire's common stock, the

duration of a decline in Clearwire's average trading stock price below Sprint's carrying value, potential tax benefits, governance rights associated with our non-controlling voting interest, and our expectation of the duration of our ongoing relationship, as well as other factors. Based upon the evaluation of factors described above as of June 30, 2012, we recognized a non-cash impairment of \$204 million in the second quarter 2012 to reflect a reduction to our best estimate of fair value associated with our non-controlling economic interests reflecting a per share carrying

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

value of our investment in Clearwire of \$1.38 as compared to Clearwire's closing stock price of \$1.12 per share as of June 30, 2012. The determination of an estimate of fair value for a non-public security, such as our non-controlling economic interest, is subject to significant judgment and uncertainty. Clearwire's stock price is subject to significant volatility. Declines in Clearwire's stock price subsequent to June 30, 2012 will be evaluated in future periods for impairment of our remaining investment.

Clearwire Related-Party Transactions

Sprint's equity method investment in Clearwire includes agreements by which we resell wireless data services utilizing Clearwire's 4G WiMAX network. In addition, Clearwire utilizes the third generation (3G) Sprint network to provide dual-mode service to its customers in those areas where access to its 4G WiMAX network is not yet available.

Amounts included in our consolidated balance sheets related to our agreement to purchase 4G WiMAX services from Clearwire as of June 30, 2012 and December 31, 2011 totaled \$85 million and \$5 million, respectively, for prepaid expenses and other current assets and \$154 million and \$77 million, respectively, for accounts payable, accrued expense and other liabilities. Cost of services and products included in our consolidated statements of comprehensive loss related to our agreement to purchase 4G WiMAX services from Clearwire totaled \$104 million and \$209 million for the three and six-month periods ended June 30, 2012, and \$106 million and \$152 million for the three and six-month periods ended June 30, 2011, respectively.

Note 4. Financial Instruments

Cash and cash equivalents, accounts and notes receivable, and accounts payable are carried at cost, which approximates fair value. Our short-term investments (consisting primarily of time deposits, commercial paper, certificate of deposits, and Treasury securities), totaling \$902 million and \$150 million as of June 30, 2012 and December 31, 2011, respectively, are recorded at amortized cost, and the respective carrying amounts approximate fair value. The fair value of our marketable equity securities totaling \$43 million as of both June 30, 2012 and December 31, 2011, is measured on a recurring basis using quoted prices in active markets.

The estimated fair value of current and long-term debt 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 fair value of financing and capital lease obligations is estimated using a valuation model based on the lease terms of the obligations and market-based parameters such as bond interest rates. The following table presents carrying amounts and estimated fair values of our current and long-term debt, financing and capital lease obligations:

	Carrying amount	Estimated Fair Value Using Input Type			Total estimated fair value
		Quoted prices in active markets	Observable	Unobservable	
	(in millions)				
June 30, 2012	\$21,264	\$12,728	\$8,225	\$—	\$20,953
December 31, 2011	\$20,274	\$12,567	\$5,732	\$—	\$18,299

Note 5. 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. In the first quarter 2012, we formalized our plans to take off-air roughly one-third, or 9,600 cell sites, of our total Nextel platform by the middle of 2012 with the remaining sites to be taken off-air by the end of 2013. As a result, in the first quarter 2012, we revised our estimates to shorten the expected useful lives of Nextel platform assets through the expected benefit period of the underlying assets through 2013 and also revised the

expected timing and amount of our asset retirement obligations. During the second quarter 2012, as a result of our progress in taking Nextel platform sites off-air and our progress toward notifying and transitioning customers off the Nextel platform, we further reduced our estimated benefit period for the remaining Nextel platform assets through the middle of 2013 resulting in incremental depreciation expense during the period. The amounts reflected as depreciation expense are dependent upon the expected useful lives of assets, which includes our expectation of the timing of assets to be phased out of service, and could result in further revision during the

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decommissioning period. In addition, increasing data usage driven by more subscribers, a shift to smartphones, and more data usage per subscriber is expected to require additional legacy 3G data capacity equipment that will not be utilized beyond the final deployment of Network Vision's multi-mode technology, which is expected to continue through the middle of 2014. As a result, the estimated useful lives of such equipment will be shortened, as compared to similar prior capital expenditures, through the date on which Network Vision equipment is deployed and in-service. The incremental effect of accelerated depreciation expense totaled \$782 million and \$1.3 billion for the three and six-month periods ended June 30, 2012, of which the majority related to shortened useful lives of Nextel platform assets.

In connection with Network Vision, certain spectrum licenses that were not previously placed in service are now being prepared for their intended use. As qualifying activities are performed related to Network Vision, interest expense primarily related to the carrying value of these spectrum licenses is being capitalized to construction in progress within property, plant and equipment. Interest expense capitalized in connection with the construction of long-lived assets totaled \$102 million and \$217 million for the three and six-month periods ended June 30, 2012 and \$102 million and \$201 million for the three and six-month periods ended June 30, 2011, respectively. Construction in progress (including any capitalized interest) associated with Network Vision, which began in 2011, is expected to be depreciated using the straight-line method based on estimated economic useful lives, which are expected to be depreciated over a weighted average useful life of approximately eight years, once the assets are placed in service. The components of property, plant and equipment, and the related accumulated depreciation were as follows:

	June 30, 2012	December 31, 2011
	(in millions)	
Land	\$329	\$ 333
Network equipment, site costs and related software	36,252	37,600
Buildings and improvements	4,880	4,895
Non-network internal use software, office equipment and other	1,964	2,111
Construction in progress	2,419	1,752
Less accumulated depreciation	(32,883)	(32,682)
Property, plant and equipment, net	\$12,961	\$ 14,009

Note 6. Intangible Assets

Indefinite-Lived Intangible Assets

	December 31, 2011	Net Additions	June 30, 2012
	(in millions)		
FCC licenses	\$20,044	\$135	\$20,179
Trademarks	409	—	409
Goodwill	359	—	359
	\$20,812	\$135	\$20,947

We hold 1.9 gigahertz (GHz), 800 megahertz (MHz), and 900 MHz Federal Communications Commission (FCC) licenses authorizing the use of radio frequency spectrum to deploy our wireless services. We also hold FCC licenses that are not yet placed in 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. Our Sprint and Boost Mobile trademarks have also been identified as 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.

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SPRINT NEXTEL CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Intangible Assets Subject to Amortization

Sprint's customer relationships are amortized using the sum of the years' digits method. We reduce the gross carrying value and associated accumulated amortization when specified intangible assets become fully amortized.

	Useful Lives	June 30, 2012			December 31, 2011		
		Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
(in millions)							
Customer relationships	4 to 5 years	\$341	\$ (323)	) \$18	\$341	\$ (297)	) \$44
Other intangible assets							
Trademarks	10 to 37 years	1,168	(633)	) 535	1,169	(585)	) 584
Reacquired rights	9 to 14 years	1,571	(718)	) 853	1,571	(652)	) 919
Other	9 to 10 years	131	(67)	) 64	126	(57)	) 69
Total other intangible assets		2,870	(1,418)	) 1,452	2,866	(1,294)	) 1,572
Total definite-lived intangible assets		\$3,211	\$ (1,741)	) \$1,470	\$3,207	\$ (1,591)	) \$1,616

Note 7. Accounts Payable

Accounts payable at June 30, 2012 and December 31, 2011 include liabilities in the amounts of \$105 million and \$121 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

Notes	Interest Rates		Maturities		June 30,	December 31,
					2012	2011
(in millions)						
Senior notes						
Sprint Nextel Corporation	6.00	- 11.50%	2016	- 2022	\$5,500	\$ 4,500
Sprint Capital Corporation	6.88	- 8.75%	2019	- 2032	6,204	6,204
Serial redeemable senior notes						
Nextel Communications, Inc.	5.95	- 7.38%	2013	- 2015	3,780	4,780
Guaranteed notes						
Sprint Nextel Corporation	7.00	- 9.00%	2018	- 2020	4,000	3,000
Secured notes						
iPCS, Inc.	2.59	- 3.72%	2013	- 2014	481	481
Credit facilities						
Bank credit facility	4.50%		2013		—	—
Export Development Canada	5.49%		2015		500	500
Secured equipment credit facility	2.03%		2017		—	—
Financing obligation	9.50%		2030		698	698
Capital lease obligations and other	4.11	- 15.49%	2014	- 2022	81	71
Net premiums					20	40

	21,264	20,274
Less current portion	(307) (8
Long-term debt, financing and capital lease obligations	\$20,957	\$ 20,266

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As of June 30, 2012, Sprint Nextel Corporation, the parent corporation, had \$10.0 billion in principal amount of debt outstanding, including amounts drawn under the credit facilities. In addition, \$10.5 billion in principal amount of our long-term debt issued by wholly-owned subsidiaries is guaranteed by the parent, of which approximately \$6.7 billion is fully and unconditionally guaranteed. The indentures and financing arrangements governing 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, net of amounts capitalized of \$217 million and \$201 million, totaled \$573 million and \$529 million during the six-month periods ended June 30, 2012 and 2011, respectively.

Notes

Notes consist of senior notes, serial redeemable senior notes, and guaranteed notes, all of which are unsecured, as well as secured notes of iPCS, Inc. (iPCS), which are secured solely with the underlying assets of iPCS. Cash interest on all of the notes is generally payable semi-annually in arrears. As of June 30, 2012, approximately \$19.8 billion of the notes were redeemable at the Company's discretion at the then-applicable redemption prices plus accrued interest. Approximately \$7.3 billion 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 our indentures governing applicable notes) occurs. If we are required to make 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.

On March 1, 2012, the Company issued \$1.0 billion aggregate principal amount of 9.125% notes due 2017 and \$1.0 billion aggregate principal amount of 7.00% guaranteed notes due 2020. Interest is payable semi-annually on March 1 and September 1. The Company, at its option, may redeem some or all of either series of the notes at any time prior to maturity. The 2020 guaranteed notes are guaranteed by the Company's subsidiaries that guarantee its revolving bank credit facility and its facility with Export Development Canada (EDC). On June 8, 2012, the Company redeemed \$1.0 billion of the \$1.473 billion then outstanding of Nextel Communications, Inc. 6.875% notes due 2013 plus accrued and unpaid interest.

Credit Facilities

In May 2012, certain of our subsidiaries entered into a \$1.0 billion secured equipment credit facility to finance equipment-related purchases from Ericsson for Network Vision. 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% based on assumptions such as timing and amounts of drawdowns. The facility is secured by a lien on the equipment purchased and is fully and unconditionally guaranteed by the parent. The facility is equally divided into two consecutive tranches of \$500 million, with drawdown availability contingent upon Sprint's acquisition of equipment-related purchases, up to the maximum of each tranche, ending on May 31, 2013 and May 31, 2014, for the first and second tranche, respectively. After the first tranche of \$500 million expires on May 31, 2013, the second tranche of \$500 million may be drawn beginning April 1, 2013 through May 31, 2014. Interest and fully-amortizing principal payments are payable semi-annually on March 30 and September 30, with a final maturity date of March 2017 for both tranches. As of June 30, 2012, we had not yet drawn on the facility. The covenants under the secured equipment credit facility are similar to those of our revolving bank credit facility, EDC facility and those of our guaranteed notes due 2018 and 2020.

As of June 30, 2012, approximately \$1.0 billion in letters of credit were outstanding under our \$2.2 billion revolving bank credit facility, including the letter of credit required by the 2004 FCC Report and Order to reconfigure the 800 MHz band (the "Report and Order"). As a result, the Company had \$1.2 billion of borrowing capacity available under the revolving bank credit facility as of June 30, 2012. Our revolving bank credit facility expires in October 2013. The terms of the revolving bank credit facility 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 Company's unsecured loan agreement with EDC has terms similar to those of the revolving bank credit facility, except that under the terms of the EDC loan, repayments of outstanding amounts cannot be re-drawn. As of June 30, 2012, the EDC loan was fully drawn. In addition, up to \$500 million is available through May 31, 2013 under the

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first tranche of our secured equipment credit facility, although the use of such funds is limited to equipment-related purchases from Ericsson.

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 communication switches.

Covenants

As of June 30, 2012, 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 our other debt obligations, which in turn could result in the maturities being accelerated. Certain indentures that govern our outstanding notes require compliance with various covenants, including covenants that limit the Company's ability to sell all or substantially all of its assets, covenants that limit the ability of the Company and its subsidiaries to incur indebtedness, and covenants that limit the ability of the Company and its subsidiaries to incur liens, as defined by the terms of the indentures. 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 is also obligated to repay the credit facilities if certain change-of-control events occur.

Note 9. Severance, Exit Costs and Asset Impairments**Severance and Exit Costs Activity**

For the three and six-month periods ended June 30, 2012, we recognized costs of \$184 million, solely attributable to our Wireless segment, primarily related to lease exit costs associated with taking certain Nextel platform sites off-air in 2012, for which we no longer expect to receive any economic benefit. In addition, for the three and six-month periods ended June 30, 2012, we recognized costs of \$27 million (\$13 million Wireless; \$14 million Wireline) in "Cost of services and products" within the consolidated statements of comprehensive loss 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. We did not recognize any severance or exit costs in the first half of 2011. We expect to incur significant additional exit costs in the future as we continue to take Nextel platform sites off-air and transition our existing backhaul architecture to a replacement technology for our remaining network sites. The amount of these costs cannot be estimated at this time.

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:

	December 31, 2011 (in millions)	2012 Activity Net Expense	Cash Payments and Other	June 30, 2012
Lease exit costs	\$58	\$184	\$9	\$251
Severance costs	21	—	1	22
Access exit costs	—	27	—	27
	\$79	\$211	\$10	\$300

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Asset Impairments

For the six-month period ended June 30, 2012, we recorded asset impairments of \$84 million of construction in progress costs consisting of \$18 million associated with a decision to utilize fiber backhaul, which we expect to be more cost effective, rather than microwave backhaul and \$66 million of capitalized assets specific to the spectrum hosting arrangement that we no longer intend to deploy (see Note 11). For the three-month period ended June 30, 2012 and the first half of 2011, there were no asset impairments recorded.

Note 10. 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:

	Six Months Ended	
	June 30,	
	2012	2011
	(in millions)	
Income tax benefit at the federal statutory rate	\$761	\$403
Effect of:		
State income taxes, net of federal income tax effect	87	(10)
Change in valuation allowance	(902)	(533)
Other, net	(9)	4
Income tax expense	\$(63)	\$(136)
Effective income tax rate	(2.9)%	(11.8)%

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 consecutive 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 the valuation allowance of \$902 million and \$533 million for the six-month periods ended June 30, 2012 and 2011, respectively, on deferred tax assets primarily related to federal and state net operating loss carryforwards generated during the periods. The valuation allowance was \$4.8 billion and \$3.9 billion as of June 30, 2012 and December 31, 2011, respectively. 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 \$63 million and \$136 million for the six-month periods ended June 30, 2012 and 2011, respectively, 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 net deferred income tax expense since the taxable temporary difference cannot be scheduled to reverse during the loss carryforward period. In addition, during the six-month period ended June 30, 2012, a \$33 million tax benefit was recorded as a result of the successful resolution of various state income tax uncertainties. During the six-month period ended June 30, 2011, a \$52 million expense was recorded as a result of changes in corporate state income tax laws.

As of June 30, 2012 and December 31, 2011, we maintained a liability related to unrecognized tax benefits of \$214 million and \$225 million, respectively. Cash was paid for net income taxes of \$22 million and \$31 million during the six-month periods ended June 30, 2012 and 2011, respectively.

Note 11. Spectrum Hosting

Our Network Vision multi-mode network technology is designed to utilize a single base station capable of handling various spectrum bands, including Sprint's 800 MHz and 1.9 GHz spectrum as well as spectrum bands owned or accessed by other parties. In June 2011, we entered into a 15-year arrangement with LightSquared LP and LightSquared Inc. (collectively, "LightSquared"). Under the terms of the arrangement, and in conjunction with our Network Vision deployment, we agreed to deploy and operate a long term evolution (LTE) network capable of

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utilizing the 1.6 GHz spectrum licensed to or available to LightSquared during the term of the arrangement, a service we refer to as "spectrum hosting."

On March 16, 2012, because certain conditions were not met by LightSquared, we elected to terminate the arrangement. Because we have no future performance obligations with respect to the arrangement, we recognized \$236 million of the \$310 million of advanced payments received from LightSquared as other operating income within "Other, net" in the first quarter 2012. We also refunded \$65 million in prepayments LightSquared made to cover Sprint's costs that were not ultimately incurred by us. In April 2012, we refunded approximately \$2 million of the remaining \$9 million of advanced payments as finalization of all remaining outstanding items subject to the termination and unwind provisions of the original arrangement. We recognized the remaining \$7 million of advanced payments as operating income during the second quarter of 2012. During the first quarter 2012, we impaired approximately \$66 million of capitalized assets that the Company no longer intends to deploy as a result of the termination of the spectrum hosting arrangement with LightSquared (see Note 9). The net gain of \$170 million recorded in the first quarter of 2012 will be substantially offset in future periods by operating expenses related to non-cancellable executory contracts with vendors that the Company entered into in contemplation of providing the spectrum hosting services to LightSquared.

Note 12. Commitments and Contingencies

Litigation, Claims and Assessments

In March 2009, a shareholder brought suit, *Bennett v. Sprint Nextel Corp.*, in the U.S. District Court for the District of Kansas, alleging that the Company and three of our former officers violated Section 10(b) of the Securities Exchange Act of 1934 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 our common stock from October 26, 2006 to February 27, 2008. On January 6, 2011, the Court denied our motion to dismiss. Subsequently, our motion to certify the January 6, 2011 order for an interlocutory appeal was denied, and discovery has begun. Plaintiff moved to certify a class of bondholders as well as owners of common stock, and we have opposed that motion. We believe the complaint is without merit and intend 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 shareholder derivative suits were filed against the Company and certain of our 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 we proceed with discovery in the *Bennett* case. 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 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. We moved to dismiss the complaint on June 14, 2012, and the parties are in the process of briefing that motion. We believe the complaint is without merit and intend to defend this matter vigorously. On July 23, 2012, the SEC issued a formal order of investigation relating to the Company's sales tax collection. The Company is cooperating with the staff of the

SEC in connection with the investigation. The Company cannot predict the outcome of, or the time-frame for, the conclusion of the SEC investigation. We do not expect the resolution of these matters to have a material adverse effect on our financial position or results of operations.

In addition, seven related shareholder derivative suits were filed against the Company and certain of its current and former officers and directors. Each suit alleges generally that the individual defendants breached their

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fiduciary duties to the Company and its shareholders 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, is pending in federal court in New York; one suit is pending in state court in Johnson County, Kansas; and five suits are pending in federal court in Kansas. The six Kansas suits have been stayed by agreement among the parties. We do not expect the resolution of these matters to have a material adverse effect on our financial position or results of operations.

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

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 state matters such as sales, use or property taxes, 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

The Report and Order includes 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 were required to relocate and reimburse the incumbent licensees in this band for their costs of relocation to another band designated by the FCC. We completed all of our 1.9 GHz incumbent relocation and reimbursement obligations in the second half of 2010.

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. 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 \$2.5 billion at the start of the project to \$910 million as of June 30, 2012, as approved by the FCC.

Total payments directly attributable to our performance under the Report and Order, from the inception of the program, are approximately \$3.1 billion, of which \$107 million was incurred related to FCC licenses during the six-month period ended June 30, 2012. When incurred, these costs are generally accounted for either as property, plant and equipment or as additions to FCC licenses. Although costs incurred to date have exceeded \$2.8 billion, not all of those costs have been reviewed and accepted as eligible by the transition administrator. Regardless, we continue to estimate that total eligible direct costs attributable to the spectrum reconfigurations will 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 Mexican border region for which there is currently no approved border plan.

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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 Sprint's 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. We anticipate that the continuing reconfiguration progress will be sufficient to support the 800 MHz portion of Sprint's Network Vision rollout. 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.

Note 13. Compensation Plans

As of June 30, 2012, Sprint sponsored three incentive plans: the 2007 Omnibus Incentive Plan (2007 Plan), the 1997 Long-Term Incentive Program (1997 Program) and the Nextel Incentive Equity Plan (Nextel Plan) (together, "Compensation Plans"). In the first quarter 2012, the Management Incentive Stock Option Plan (MISOP) became inactive when all outstanding options expired. 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 other eligible individuals as defined by the plan. In general, options are granted with an exercise price equal to the market value of the underlying shares on the grant date, vest on an annual basis over three or four years, and have a contractual term of ten years. Restricted stock units generally have performance and service requirements or service requirements only with vesting periods ranging from one to three years. Performance-based restricted stock units awarded in 2012 have a three-year performance period and vest subject to the Company's performance as compared to objectives established when the award was granted. Performance-based restricted stock units awarded in 2011 and 2010 have three distinct one-year performance periods and are granted in each period once the performance objectives are established, usually during the first quarter of each calendar year. 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. The Compensation Committee of our board of directors, or one or more executive officers should the Compensation Committee so authorize, as provided in the 2007 Plan, will determine the terms of each share and non-share based award. No new grants can be made under the 1997 Program or the Nextel Plan.

As of June 30, 2012, the number of shares available and reserved for future grants under the 2007 Plan totaled approximately 135 million common shares. The number of shares available under the 2007 Plan includes shares originally granted under the 1997 Program, the Nextel Plan or the MISOP that are forfeited, expired, or otherwise terminated, which totaled approximately 1 million shares in the three-month period ended June 30, 2012. As of June 30, 2012, restricted stock units and options to acquire approximately 81 million shares were outstanding under the 2007 Plan, restricted stock units and options to acquire approximately 8 million shares were outstanding under the 1997 Program, and options to acquire approximately 2 million shares were outstanding under the Nextel Plan. As of June 30, 2012, the ESPP has approximately 75 million common shares authorized and reserved for future purchases. We use new shares to satisfy share-based awards or treasury shares, if available.

Compensation Costs

The cost of employee services received in exchange for share-based awards classified as equity is measured using the estimated 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. Awards of instruments classified as liabilities are

measured at the estimated 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 from our incentive plans included in net loss were \$22 million and \$39 million for the three and six-month periods ended June 30, 2012, and \$19 million and \$37 million for the three and six-month periods ended June 30, 2011. The net income tax benefit recognized in the consolidated financial statements for share-based compensation awards for the same four periods was \$4 million, \$8 million, \$3 million and \$8 million, respectively.

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As of June 30, 2012, there was \$61 million of total unrecognized compensation cost related to non-vested incentive awards that are expected to be recognized over a weighted average period of 1.83 years. Cash received from exercise under all share-based payment arrangements, net of shares surrendered for employee tax obligations, was \$8 million for the six-month period ended June 30, 2011. No options were exercised in the six-month period ended June 30, 2012.

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. Options outstanding as of June 30, 2012 includes options granted under the 2007 Plan, the 1997 Program and the Nextel Plan, as discussed above.

There were no options granted in the three-month period ended June 30, 2012. Options to purchase approximately 12 million shares were granted during the six-month period ended June 30, 2012. The weighted average grant date fair value of options awarded during the six-month period ended June 30, 2012 was \$1.22 compared to \$1.89 for the same prior year period. The total intrinsic value of options exercised during the six-month period ended June 30, 2011 was \$3 million. There were no options exercised during the six-month period ended June 30, 2012.

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 and the 1997 Program, as discussed above. Restricted stock units granted in the three and six-month periods ended June 30, 2012 were insignificant and 13 million, respectively.

The total fair value of restricted stock units vested was \$2 million for the three and six-month periods ended June 30, 2012 and was \$3 million and \$15 million for the three and six-month periods ended June 30, 2011, respectively. The weighted-average grant date fair value of restricted stock units granted during the six-month period ended June 30, 2012 was \$2.24 per unit, compared with \$4.27 per unit for the same prior year period.

Certain restricted stock units outstanding as of June 30, 2012 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 and service criteria have been met.

Note 14. 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, computed using the treasury stock method, for the effects of potentially dilutive common shares, if the effect is not antidilutive. Potentially dilutive common shares issuable under our equity-based compensation plans where the average market price exceeded the exercise price were 12 million and 42 million shares as of June 30, 2012 and 2011, respectively. All such potentially dilutive shares were antidilutive for the six-month periods ended June 30, 2012 and 2011 and, therefore, have no effect on our determination of dilutive weighted average number of shares outstanding.

Note 15. 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 and accessories in the U.S., Puerto Rico and the U.S. Virgin Islands.

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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 services and use our back office systems and network assets in support of their telephone services provided over cable facilities primarily to residential end-use subscribers.

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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. Expenses and income items excluded from segment earnings are managed at the corporate level. Transactions between segments are generally accounted for based on estimated 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:

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended June 30, 2012				
Net operating revenues	\$8,067	\$774	\$2	\$8,843
Inter-segment revenues ⁽¹⁾	—	221	(221)) —
Total segment operating expenses	(6,768)	) (846)	) 222	(7,392)
Segment earnings	\$1,299	\$149	\$3	1,451
Less:				
Depreciation and amortization				(1,896)
Other, net ⁽²⁾				(184)
Operating loss				(629)
Interest expense				(321)
Equity in losses of unconsolidated investments and other, net			\$(398)	) (398)
Loss before income taxes				\$(1,348)

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended June 30, 2011				
Net operating revenues	\$7,452	\$857	\$2	\$8,311
Inter-segment revenues ⁽¹⁾	—	233	(233)) —
Total segment operating expenses	(6,350)	) (880)	) 233	(6,997)
Segment earnings	\$1,102	\$210	\$2	1,314
Less:				
Depreciation and amortization				(1,235)
Other, net				—
Operating income				79
Interest expense				(239)
Equity in losses of unconsolidated investments and other, net			\$(588)) (588)

Loss before income taxes

\$(748)

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Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Six Months Ended June 30, 2012				
Net operating revenues	\$16,017	\$1,555	\$5	\$17,577
Inter-segment revenues ⁽¹⁾	—	438	(438))
Total segment operating expenses	(13,666)	(1,683)	436	(14,913)
Segment earnings	\$2,351	\$310	\$3	2,664
Less:				
Depreciation and amortization				(3,562)
Other, net ⁽²⁾				14
Operating loss				(884)
Interest expense				(619)
Equity in losses of unconsolidated investments and other, net			\$(671)	(671)
Loss before income taxes				\$(2,174)
Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Six Months Ended June 30, 2011				
Net operating revenues	\$14,865	\$1,755	\$4	\$16,624
Inter-segment revenues ⁽¹⁾	—	455	(455))
Total segment operating expenses	(12,480)	(1,772)	456	(13,796)
Segment earnings	\$2,385	\$438	\$5	2,828
Less:				
Depreciation and amortization				(2,490)
Other, net				—
Operating income				338
Interest expense				(488)
Equity in losses of unconsolidated investments and other, net			\$(1,000)	(1,000)
Loss before income taxes				\$(1,150)
Other Information	Wireless	Wireline	Corporate and Other	Consolidated
	(in millions)			
Capital expenditures for the six months ended June 30, 2012	\$1,464	\$120	\$127	\$1,711
Capital expenditures for the six months ended June 30, 2011	\$1,187	\$99	\$117	\$1,403

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

Other, net for the three-month period ended June 30, 2012 consists of \$184 million of lease exit costs associated with the taking certain Nextel platform sites off-air in 2012 (see Note 9). Other, net for the six-month period ended June 30, 2012 consists of net operating income of \$236 million associated with the termination of the spectrum hosting arrangement with LightSquared (see Note 11), a gain of \$29 million on spectrum swap transactions, and a benefit of \$17 million resulting from favorable developments relating to access cost disputes associated with prior periods, partially offset by \$184 million of lease exit costs and \$84 million of asset impairment charges.

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