
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 September 30, 2019
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 CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

46-1170005
(I.R.S. Employer Identification No.)

6200 Sprint Parkway, Overland Park, Kansas
(Address of principal executive offices)

66251
(Zip Code)

Registrant's telephone number, including area code: (913) 794-1091

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, \$0.01 par value	S	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 NOVEMBER 11, 2019:

Sprint Corporation Common Stock	4,106,855,979
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SPRINT CORPORATION
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SPRINT CORPORATION CONSOLIDATED BALANCE SHEETS

	September 30,	March 31,
	2019	2019
	(in millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,262	\$ 6,982
Short-term investments	61	67
Accounts and notes receivable, net of allowance for doubtful accounts and deferred interest of \$382 and \$363, respectively	3,723	3,554
Device and accessory inventory	963	999
Prepaid expenses and other current assets	1,197	1,289
Total current assets	10,206	12,891
Property, plant and equipment, net	20,562	21,201
Costs to acquire a customer contract	1,712	1,559
Operating lease right-of-use assets	6,885	—
Intangible assets		
Goodwill	4,598	4,598
FCC licenses and other	41,481	41,465
Definite-lived intangible assets, net	1,413	1,769
Other assets	1,071	1,118
Total assets	\$ 87,928	\$ 84,601
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 3,918	\$ 3,961
Accrued expenses and other current liabilities	3,198	3,597
Current operating lease liabilities	1,835	—
Current portion of long-term debt, financing and finance lease obligations	4,101	4,557
Total current liabilities	13,052	12,115
Long-term debt, financing and finance lease obligations	33,268	35,366
Long-term operating lease liabilities	5,667	—
Deferred tax liabilities	7,489	7,556
Other liabilities	2,555	3,437
Total liabilities	62,031	58,474
Commitments and contingencies		
Stockholders' equity:		
Common stock, voting, par value \$0.01 per share, 9.0 billion authorized, 4.108 billion and 4.081 billion issued, respectively	41	41
Paid-in capital	28,349	28,306
Treasury shares, at cost	(16)	—
Accumulated deficit	(2,106)	(1,883)
Accumulated other comprehensive loss	(418)	(392)
Total stockholders' equity	25,850	26,072
Noncontrolling interests	47	55
Total equity	25,897	26,127
Total liabilities and equity	\$ 87,928	\$ 84,601

See Notes to the Consolidated Financial Statements

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<i>(in millions, except per share amounts)</i>				
Net operating revenues:				
Service	\$ 5,273	\$ 5,762	\$ 10,836	\$ 11,502
Equipment sales	1,192	1,418	2,412	2,591
Equipment rentals	1,330	1,253	2,689	2,465
	<u>7,795</u>	<u>8,433</u>	<u>15,937</u>	<u>16,558</u>
Net operating expenses:				
Cost of services (exclusive of depreciation and amortization included below)	1,775	1,694	3,485	3,371
Cost of equipment sales	1,359	1,517	2,700	2,787
Cost of equipment rentals (exclusive of depreciation below)	240	151	465	275
Selling, general and administrative	1,936	1,861	3,843	3,728
Depreciation - network and other	1,065	1,021	2,185	2,044
Depreciation - equipment rentals	1,056	1,181	2,085	2,317
Amortization	106	159	224	330
Other, net	21	71	258	113
	<u>7,558</u>	<u>7,655</u>	<u>15,245</u>	<u>14,965</u>
Operating income	<u>237</u>	<u>778</u>	<u>692</u>	<u>1,593</u>
Other (expense) income:				
Interest expense	(594)	(633)	(1,213)	(1,270)
Other income, net	14	79	42	121
	<u>(580)</u>	<u>(554)</u>	<u>(1,171)</u>	<u>(1,149)</u>
(Loss) income before income taxes	<u>(343)</u>	<u>224</u>	<u>(479)</u>	<u>444</u>
Income tax benefit (expense)	64	(17)	86	(64)
Net (loss) income	<u>(279)</u>	<u>207</u>	<u>(393)</u>	<u>380</u>
Less: Net loss (income) attributable to noncontrolling interests	5	(11)	8	(8)
Net (loss) income attributable to Sprint Corporation	<u>\$ (274)</u>	<u>\$ 196</u>	<u>\$ (385)</u>	<u>\$ 372</u>
Basic net (loss) income per common share attributable to Sprint Corporation	<u>\$ (0.07)</u>	<u>\$ 0.05</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>
Diluted net (loss) income per common share attributable to Sprint Corporation	<u>\$ (0.07)</u>	<u>\$ 0.05</u>	<u>\$ (0.09)</u>	<u>\$ 0.09</u>
Basic weighted average common shares outstanding	<u>4,098</u>	<u>4,061</u>	<u>4,092</u>	<u>4,036</u>
Diluted weighted average common shares outstanding	<u>4,098</u>	<u>4,124</u>	<u>4,092</u>	<u>4,095</u>
Other comprehensive (loss) income, net of tax:				
Net unrealized holding gains (losses) on securities and other	\$ 1	\$ 1	\$ (2)	\$ (7)
Net unrealized holding (losses) gains on derivatives	(6)	7	(27)	17
Net unrecognized net periodic pension and other postretirement benefits	1	1	3	3
Cumulative effect of accounting change	—	—	—	(8)
Other comprehensive (loss) income	<u>(4)</u>	<u>9</u>	<u>(26)</u>	<u>5</u>
Comprehensive (loss) income	<u>\$ (283)</u>	<u>\$ 216</u>	<u>\$ (419)</u>	<u>\$ 385</u>

See Notes to the Consolidated Financial Statements

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended September 30,	
	2019	2018
	(in millions)	
Cash flows from operating activities:		
Net (loss) income	\$ (393)	\$ 380
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Impairments	212	—
Depreciation and amortization	4,494	4,691
Provision for losses on accounts receivable	266	166
Share-based and long-term incentive compensation expense	63	68
Deferred income tax (benefit) expense	(106)	39
Amortization of long-term debt premiums, net	(31)	(67)
Loss on disposal of property, plant and equipment	465	343
Deferred purchase price from sale of receivables	—	(223)
Other changes in assets and liabilities:		
Accounts and notes receivable	(435)	85
Inventories and other current assets	503	168
Operating lease right-of-use assets	849	—
Accounts payable and other current liabilities	(111)	(95)
Current and long-term operating lease liabilities	(955)	—
Non-current assets and liabilities, net	(132)	(384)
Other, net	121	186
Net cash provided by operating activities	4,810	5,357
Cash flows from investing activities:		
Capital expenditures - network and other	(2,298)	(2,398)
Capital expenditures - leased devices	(3,302)	(3,524)
Expenditures relating to FCC licenses	(16)	(70)
Proceeds from sales and maturities of short-term investments	67	4,002
Purchases of short-term investments	(61)	(4,834)
Proceeds from sales of assets and FCC licenses	599	272
Proceeds from deferred purchase price from sale of receivables	—	223
Other, net	(9)	42
Net cash used in investing activities	(5,020)	(6,287)
Cash flows from financing activities:		
Proceeds from debt and financings	3,364	2,944
Repayments of debt, financing and finance lease obligations	(5,826)	(2,928)
Debt financing costs	(12)	(248)
Proceeds from issuance of common stock, net	(33)	276
Net cash (used in) provided by financing activities	(2,507)	44
Net decrease in cash, cash equivalents and restricted cash	(2,717)	(886)
Cash, cash equivalents and restricted cash, beginning of period	7,063	6,659
Cash, cash equivalents and restricted cash, end of period	\$ 4,346	\$ 5,773

See Notes to the Consolidated Financial Statements

SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in millions)

	Six Months Ended September 30, 2019								
	Common Stock			Treasury Shares		(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
	Shares	Amount	Paid-in Capital	Shares	Amount				
Balance, March 31, 2019	4,081	\$ 41	\$ 28,306	—	\$ —	\$ (1,883)	\$ (392)	\$ 55	\$ 26,127
Net loss						(111)		(3)	(114)
Other comprehensive loss, net of tax							(22)		(22)
Issuance of common stock, net	11		(15)		(2)				(17)
Share-based compensation expense			35						35
Other, net			(3)						(3)
Cumulative effect of accounting change						162			162
Balance, June 30, 2019	4,092	41	28,323	—	(2)	(1,832)	(414)	52	26,168
Net loss						(274)		(5)	(279)
Other comprehensive loss, net of tax							(4)		(4)
Issuance of common stock, net	16		(2)	2	(14)				(16)
Share-based compensation expense			28						28
Balance, September 30, 2019	4,108	\$ 41	\$ 28,349	2	\$ (16)	\$ (2,106)	\$ (418)	\$ 47	\$ 25,897

	Six Months Ended September 30, 2018								
	Common Stock			Treasury Shares		(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Shares	Amount	Paid-in Capital	Shares	Amount				
Balance, March 31, 2018	4,005	\$ 40	\$ 27,884	—	\$ —	\$ (1,255)	\$ (313)	\$ 63	\$ 26,419
Net income (loss)						176		(3)	173
Other comprehensive income, net of tax							4		4
Issuance of common stock, net	8		2	1	(4)				(2)
Share-based compensation expense			40						40
Capital contribution by SoftBank			1						1
Cumulative effect of accounting changes						1,315	(8)		1,307
Other, net			3						3
Increase (decrease) attributable to noncontrolling interests			8					(8)	—
Balance, June 30, 2018	4,013	40	27,938	1	(4)	236	(317)	52	27,945
Net income						196		11	207
Other comprehensive income, net of tax							9		9
Issuance of common stock, net	66	1	288	1	(11)				278
Share-based compensation expense			27						27
Capital contribution by SoftBank			1						1
Other, net			(3)						(3)
Balance, September 30, 2018	4,079	\$ 41	\$ 28,251	2	\$ (15)	\$ 432	\$ (308)	\$ 63	\$ 28,464

See Notes to the Consolidated Financial Statements

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation and Other Information

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 March 31, 2019. Unless the context otherwise requires, references to "Sprint," "we," "us," "our" and the "Company" mean Sprint Corporation and its consolidated subsidiaries for all periods presented, and references to "Sprint Communications" are to Sprint Communications, Inc. 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.

The consolidated financial statements include our accounts, those of our 100% owned subsidiaries, and subsidiaries we control or in which we have a controlling financial interest. For controlled subsidiaries that are not wholly-owned, the noncontrolling interests are included in "Net (loss) income" and "Total equity." All intercompany transactions and balances have been eliminated in consolidation.

Business Combination Agreement

On April 29, 2018, we announced that we entered into a Business Combination Agreement with T-Mobile US, Inc. (T-Mobile) to merge in an all-stock transaction for a fixed exchange ratio of 0.10256 of T-Mobile shares for each Sprint share, or the equivalent of 9.75 Sprint shares for each T-Mobile share (Merger Transaction). Immediately following the Merger Transaction, Deutsche Telekom AG and SoftBank Group Corp. are expected to hold approximately 42% and 27% of fully-diluted shares of the combined company, respectively, with the remaining 31% of the fully-diluted shares of the combined company held by public stockholders. The board of directors will consist of 14 directors, of which nine will be nominated by Deutsche Telekom AG, four will be nominated by SoftBank Group Corp., and the final director will be the CEO of the combined company. The combined company will be named T-Mobile. The Merger Transaction is subject to customary closing conditions, including certain state and federal regulatory approvals. Sprint and T-Mobile completed the Hart-Scott-Rodino filing with the Department of Justice (DOJ) on May 24, 2018. On June 18, 2018, the parties filed with the Federal Communications Commission (FCC) the merger applications, including the Public Interest Statement. On July 18, 2018, the FCC accepted the applications for filing and established a public comment period for the Merger Transaction. The formal comment period concluded on October 31, 2018. On May 20, 2019, to facilitate the FCC's review and approval of the FCC license transfers associated with the proposed Merger Transaction, we and T-Mobile filed with the FCC a written *ex parte* presentation (the Presentation) relating to the proposed Merger Transaction. The Presentation included proposed commitments from us and T-Mobile. On October 16, 2019, the FCC voted to approve the Merger Transaction. The Merger Transaction received clearance from the Committee on Foreign Investment in the United States on December 17, 2018.

On July 26, 2019, the DOJ and five State Attorneys General filed an action in the United States District Court for the District of Columbia that would resolve their objections to the Merger Transaction. Since then, four additional states have joined the DOJ action. The Merger Transaction has received approval from 18 of the 19 state public utility commissions. The parties are awaiting further regulatory approvals, and resolution of litigation filed by the Attorneys General of 15 states and the District of Columbia seeking to block the Merger Transaction. The parties to the Business Combination Agreement extended the Outside Date (as defined in the Business Combination Agreement) to November 1, 2019, or, if the Marketing Period (as defined in the Business Combination Agreement) is in effect at such time, then the Outside Date will be January 2, 2020. After November 1, 2019, Sprint and T-Mobile each have a right under the Business Combination Agreement to terminate that agreement at any time because the Merger Transactions were not completed as of that date.

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Also, on July 26, 2019, Sprint and T-Mobile announced agreements with DISH Network Corporation (DISH) in which new T-Mobile will divest Sprint's prepaid assets (excluding the Assurance brand Lifeline customers and the prepaid wireless customers of Shenandoah Telecommunications Company and Swiftel Communications, Inc.) and Sprint's 800 MHz spectrum assets to DISH for a total of approximately \$5.0 billion. Additionally, upon the closing of the divestiture transaction, new T-Mobile will provide DISH wireless customers access to its network for up to seven years and offer standard transition services arrangements to DISH during a transition period of up to three years. DISH will also have an option to take on leases for certain cell sites and retail locations that are decommissioned by the new T-Mobile, subject to any assignment restrictions. Under the terms of the arrangement, Sprint appointed individuals, subject to approval by the DOJ, to oversee the prepaid assets and maintain complete managerial responsibility, including the ability to make all business decisions relating to the operations of the prepaid assets independent of Sprint and T-Mobile. In connection with the execution of the firm agreements by and between DISH and the Company, as well as the agreements with the DOJ as outlined in the Proposed Final Judgment and Stipulation and Order, Sprint has not lost a controlling financial interest in its prepaid assets. The transactions with DISH are contingent on the successful closing of T-Mobile's merger with Sprint, among other closing conditions.

Note 2. New Accounting Pronouncements

Accounting Pronouncements Adopted During the Current Year

In February 2016, the Financial Accounting Standards Board (FASB) issued new authoritative literature, *Leases* (Topic 842), and has subsequently modified several areas of the standard in order to provide additional clarity and improvements. The new standard supersedes much of the existing lease guidance (Topic 840) to enhance the transparency and comparability of financial reporting related to leasing arrangements. This guidance requires lessees, among other things, to recognize right-of-use (ROU) assets and lease liabilities on their balance sheet for all leases. The criteria for distinguishing leases between finance and operating are substantially similar to criteria for distinguishing between capital leases and operating leases in previous lease guidance. In July 2018, the FASB made targeted improvements to the standard, including providing an additional and optional transition method. Under this method, an entity initially applies the standard at the adoption date, including the election of certain transition reliefs, and recognizes a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption.

The Company adopted this standard beginning on April 1, 2019 using the modified retrospective transition method such that the comparative period financial statements and disclosures were not adjusted. Results for reporting periods beginning after April 1, 2019 are presented under Topic 842, while amounts reported under prior periods have not been adjusted and continue to be reported under accounting standards in effect for those periods. See *Note 7. Leases* for additional information related to operating and financing leases, including qualitative and quantitative disclosures required under Topic 842.

The new standard provides for a number of optional practical expedients in transition. We elected the package of practical expedients as defined by the standard that allows an entity not to reassess:

- whether expired or existing contracts contain leases under the new definition of a lease;
- lease classification for expired or existing leases; and
- whether previously capitalized initial direct costs would qualify for capitalization under Topic 842.

Additionally, the Company elected the permitted practical expedient to use hindsight in determining the lease term under the new standard and the practical expedient related to land easements, allowing us to carry forward our accounting treatment for land easements under existing agreements.

The most significant change from adopting the new standard involved recognizing ROU assets and lease liabilities for operating leases which resulted in a material impact to our consolidated balance sheet. As of the adoption date, we recognized ROU assets in the amount of \$7.4 billion and related liabilities in current liabilities of \$1.8 billion and a long-term lease liability in the amount of \$6.3 billion. This impact is inclusive of the following:

- the recognition of the lease liability and ROU assets for operating leases that were not previously recorded. The ROU asset was adjusted for recognized balances associated with operating leases, including prepaid and deferred rent, cease-use liabilities and favorable or unfavorable intangible assets; and

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- the impact of our election to apply hindsight in determining the lease term, such that our lease liability generally only includes payments for the initial non-cancelable lease term.

As the Company has elected the modified retrospective transition method, any assets and liabilities that were recognized solely as a result of a transaction where the Company was the deemed owner during construction were derecognized at transition for completed construction sites. The Company funded certain construction costs which were concluded to be prepaid lease payments; consequently, such amounts were carried over at their depreciated balance of approximately \$0.6 billion and included in the associated finance lease ROU assets, which is included within "Property, Plant and Equipment, net" in the consolidated balance sheets.

Additionally, the Company is party to several leaseback arrangements. Under the transition provision of Topic 842, we were required to reassess the previously failed sale-leasebacks of certain Sprint-owned wireless communication tower sites and determine whether the transfer of the assets to the tower operator under the arrangement met the transfer of control criteria in the revenue standard and the new leasing standard and whether a sale should be recognized. We concluded that a sale should be recognized for the approximately 1,750 remaining tower sites transferred to a third-party under an agreement that closed in 2008. Upon adoption on April 1, 2019, we derecognized our existing long-term financial obligation and the tower-related property and equipment associated with these previously failed sale-leaseback tower sites and recognized a lease liability and ROU asset for the leaseback of the tower sites. The impacts from the change in accounting conclusion are a decrease to accumulated deficit of \$104 million, a decrease in liabilities of \$108 million and a decrease in property, plant and equipment, net of \$4 million upon transition to Topic 842.

For lease arrangements where we are the lessor, the adoption of the standard did not have a material impact. While the standard modifies the classification and accounting for sales-type and direct finance leases, substantially all of the Company's current handset leases are classified as operating leases. If terms remain consistent with the Company's current leasing program, we do not expect material sales-type or direct financing leases in future periods.

The cumulative after-tax effect of the changes made to our consolidated balance sheet for the adoption of Topic 842 effective for the Company on April 1, 2019 were as follows:

	March 31, 2019	Effects of the adoption of Topic 842	April 1, 2019
	(in millions)		
ASSETS			
Current assets:			
Prepaid expenses and other current assets	\$ 1,289	\$ (111)	\$ 1,178
Property, plant and equipment	41,740	(31)	41,709
Accumulated depreciation	(20,539)	27	(20,512)
Property, plant and equipment, net	21,201	(4)	21,197
Operating lease right-of-use assets	—	7,358	7,358
Definite-lived intangible assets, net	1,769	(119)	1,650
Other assets	1,118	(1)	1,117
LIABILITIES AND EQUITY			
Current liabilities:			
Accrued expenses and other current liabilities	\$ 3,597	\$ (178)	\$ 3,419
Current operating lease liabilities	—	1,813	1,813
Current portion of long-term debt, financing and finance lease obligations	4,557	(43)	4,514
Long-term debt, financing and finance lease obligations	35,366	(67)	35,299
Long-term operating lease liabilities	—	6,263	6,263
Deferred tax liabilities	7,556	46	7,602
Other liabilities	3,437	(873)	2,564
Stockholders' equity:			
(Accumulated deficit) retained earnings	(1,883)	162	(1,721)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In June 2018, the FASB issued authoritative guidance regarding *Compensation - Stock Compensation*, which expands the scope of ASC Topic 718 to include share-based payment transactions for acquiring goods and services from non-employees. The Company adopted this standard on April 1, 2019 with no impact to our consolidated financial statements at the date of adoption.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued authoritative guidance regarding *Financial Instruments - Credit Losses* and has subsequently modified several areas of the standard in order to provide additional clarity and improvements. The new standard requires entities to use a Current Expected Credit Loss impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost within the scope of the standard. The entity's estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts, which will result in recognition of lifetime expected credit losses. The standard will be effective for the Company's fiscal year beginning April 1, 2020, including interim reporting periods within that fiscal year, although early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued authoritative guidance regarding *Fair Value Measurement: Disclosure Framework*, which eliminates, adds and modifies certain disclosure requirements for fair value measurements. The standard will be effective for the Company for its fiscal year beginning April 1, 2020, including interim periods within that fiscal year, with early adoption permitted. The Company is currently evaluating the guidance and assessing its overall impact. However, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued authoritative guidance regarding *Intangibles - Goodwill and Other - Internal-Use Software*, which aligns the requirements for a customer to capitalize implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The standard will be effective for the Company for its fiscal year beginning April 1, 2020, including interim periods within that fiscal year, with early adoption permitted. The Company is currently evaluating the guidance and assessing its overall impact. However, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Note 3. Installment Receivables

Certain subscribers have the option to pay for their devices in installments, generally up to a 24-month period. Short-term installment receivables are recorded in "Accounts and notes receivable, net" and long-term installment receivables are recorded in "Other assets" in the consolidated balance sheets.

The following table summarizes the installment receivables:

	September 30, 2019	March 31, 2019
	(in millions)	
Installment receivables, gross	\$ 1,420	\$ 1,212
Deferred interest	(76)	(71)
Installment receivables, net of deferred interest	1,344	1,141
Allowance for credit losses	(234)	(215)
Installment receivables, net	<u>\$ 1,110</u>	<u>\$ 926</u>

Classified in the consolidated balance sheets as:

Accounts and notes receivable, net	\$ 845	\$ 679
Other assets	265	247
Installment receivables, net	<u>\$ 1,110</u>	<u>\$ 926</u>

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

	September 30, 2019			March 31, 2019		
	Prime	Subprime	Total	Prime	Subprime	Total
	(in millions)			(in millions)		
Unbilled	\$ 767	\$ 555	\$ 1,322	\$ 667	\$ 459	\$ 1,126
Billed - current	47	27	74	43	22	65
Billed - past due	10	14	24	10	11	21
Installment receivables, gross	<u>\$ 824</u>	<u>\$ 596</u>	<u>\$ 1,420</u>	<u>\$ 720</u>	<u>\$ 492</u>	<u>\$ 1,212</u>

Activity in the deferred interest and allowance for credit losses for the installment receivables was as follows:

	Six Months Ended	Twelve Months Ended
	September 30, 2019	March 31, 2019
	(in millions)	
Deferred interest and allowance for credit losses, beginning of period	\$ 286	\$ 323
Adjustment to deferred interest on short- and long-term installment receivables due to adoption of revenue recognition standard on April 1, 2018	—	(50)
Bad debt expense	90	116
Write-offs, net of recoveries	(72)	(118)
Change in deferred interest on short- and long-term installment receivables	6	15
Deferred interest and allowance for credit losses, end of period	<u>\$ 310</u>	<u>\$ 286</u>

Note 4. Financial Instruments

The Company carries certain assets and liabilities at fair value. Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs based on the observability as of the measurement date, is as follows: quoted prices in active markets for identical assets or liabilities; observable inputs other than the quoted prices in active markets for identical assets and liabilities; and unobservable inputs for which there is little or no market data, which require the Company to develop assumptions of what market participants would use in pricing the asset or liability.

The carrying amount of cash equivalents, accounts and notes receivable, and accounts payable approximates fair value. Short-term investments are recorded at amortized cost and the respective carrying amounts approximate the fair value that would be determined primarily using quoted prices in active markets. As of September 30, 2019 and March 31, 2019, short-term investments consisted of \$61 million and \$67 million of commercial paper, respectively. The fair value of marketable equity securities, totaling \$1 million for both periods ended September 30, 2019 and March 31, 2019, are measured on a recurring basis using quoted prices in active markets. Current and long-term debt inclusive of our other financings are carried at amortized cost.

Debt for which estimated fair value is determined based on unobservable inputs primarily represents borrowings under our secured equipment credit facilities, and sales of receivables under our Accounts Receivable Facility (Receivables Facility). See *Note 8. Long-Term Debt, Financing and Finance Lease Obligations* for additional information. The carrying amounts associated with these borrowings approximate fair value.

The estimated fair value of the majority of our current and long-term debt, excluding our secured equipment credit facilities, and sold wireless service, installment billing and future receivables is determined based on quoted prices in active markets or by using other observable inputs that are derived principally from, or corroborated by, observable market data.

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

	Carrying amount at September 30, 2019	Estimated Fair Value Using Input Type			Total estimated fair value
		Quoted prices in active markets	Observable	Unobservable	
		(in millions)			
Current and long-term debt and financing obligations	\$ 37,730	\$ 36,253	\$ 197	\$ 3,709	\$ 40,159

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	Carrying amount at March 31, 2019	Estimated Fair Value Using Input Type				
		Quoted prices in active markets	Observable		Unobservable	Total estimated fair value
			(in millions)			
Current and long-term debt and financing obligations	\$ 40,193	\$ 36,642	\$ 197	\$ 3,970	\$ 40,809	

Note 5. Property, Plant and Equipment

Property, plant and equipment consists primarily of network equipment, leased devices and other long-lived assets used to provide service to our subscribers. Non-cash accruals included in property, plant and equipment (excluding leased devices) totaled \$1.1 billion and \$1.2 billion as of September 30, 2019 and 2018, respectively.

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

	September 30, 2019	March 31, 2019
	(in millions)	
Land	\$ 105	\$ 246
Network equipment, site costs and related software	25,349	24,967
Buildings and improvements	415	856
Leased devices, non-network internal use software, office equipment and other	12,265	12,627
Construction in progress	2,846	3,044
Less: accumulated depreciation	(20,418)	(20,539)
Property, plant and equipment, net	<u>\$ 20,562</u>	<u>\$ 21,201</u>

Network equipment, site costs and related software includes switching equipment, cell site towers, site development costs, radio frequency equipment, network software, digital fiber optic cable, transport facilities and transmission-related equipment. Also included within this component are finance lease ROU assets, which primarily consist of prepayments of site rental costs for leases with an immaterial remaining lease obligation. Buildings and improvements principally consist of owned general office facilities, retail stores and leasehold improvements. Leased devices, non-network internal use software, office equipment and other primarily consists of leased devices, furniture, information technology systems, and equipment and vehicles. Construction in progress, which is not depreciated until placed in service, primarily includes materials, transmission and related equipment, labor, engineering, site development costs, interest and other costs relating to the construction and development of our network.

Sprint offers a leasing program to its customers whereby qualified subscribers can lease a device for a contractual period of time. At the end of the lease term, the subscriber has the option to return the device, continue leasing the device, or purchase the device. As of September 30, 2019, substantially all of our device leases were classified as operating leases. Purchases of leased devices are reported as cash outflows for "Capital expenditures - leased devices" in the consolidated statements of cash flows. The devices are then depreciated using the straight-line method to their estimated residual value generally over the term of the lease.

The following table presents leased devices and the related accumulated depreciation:

	September 30, 2019	March 31, 2019
	(in millions)	
Leased devices	\$ 10,557	\$ 10,972
Less: accumulated depreciation	(4,179)	(4,360)
Leased devices, net	<u>\$ 6,378</u>	<u>\$ 6,612</u>

During the six-month periods ended September 30, 2019 and 2018, we had non-cash transfers of returned leased devices from property, plant and equipment to device and accessory inventory at the lower of net book value or their estimated fair value of \$539 million and \$399 million, respectively. Non-cash accruals included in leased devices totaled \$127 million and \$207 million as of September 30, 2019 and 2018, respectively.

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During the three- and six-month periods ended September 30, 2019 and 2018, we recorded \$240 million, \$465 million, \$219 million and \$343 million, respectively, of loss on disposal of property, plant and equipment, net of recoveries. Net losses that resulted from the write-off of leased devices were primarily associated with lease cancellations prior to the scheduled customer lease terms where customers did not return the devices to us. Such losses were the primary driver of the loss on disposal of property, plant and equipment, net of recoveries, and were \$240 million, \$465 million, \$151 million and \$275 million for the three- and six-month periods ended September 30, 2019 and 2018, respectively, and are included in "Cost of equipment rentals" in our consolidated statements of comprehensive (loss) income. Additionally, during the three- and six-month periods ended September 30, 2018, we recorded \$68 million of losses primarily related to cell site construction costs and other network costs that are no longer recoverable as a result of changes in our network plans, which are included in "Other, net" in our consolidated statements of comprehensive (loss) income.

On June 27, 2019, the Company entered into a sale and leaseback agreement for our Overland Park, Kansas campus. The Company determined that the asset should be classified as held-for-sale as of June 30, 2019 and measured at the lower of its carrying amount or fair value less cost to sell resulting in the recognition of a non-cash impairment of approximately \$207 million included in "Other, net" within the consolidated statements of comprehensive (loss) income. On July 9, 2019, the sale closed resulting in the derecognition of the campus assets and the leaseback began.

Note 6. Intangible Assets

Indefinite-Lived Intangible Assets

Our indefinite-lived intangible assets consist of FCC licenses, which were acquired primarily through FCC auctions and business combinations, certain of our trademarks, and goodwill. At September 30, 2019, we held 800 MHz, 1.9 GHz and 2.5 GHz FCC licenses authorizing the use of radio frequency spectrum to deploy our wireless services. As long as the Company acts within the requirements and constraints of the regulatory authorities, the renewal and extension of these licenses is reasonably certain at minimal cost. Accordingly, we have concluded that FCC licenses are indefinite-lived intangible assets. 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.

The following provides the activity of indefinite-lived intangible assets within the consolidated balance sheets:

	March 31, 2019	Net Additions	September 30, 2019
	(in millions)		
FCC licenses	\$ 37,430	\$ 16	\$ 37,446
Trademarks	4,035	—	4,035
Goodwill ⁽¹⁾	4,598	—	4,598
	<u>\$ 46,063</u>	<u>\$ 16</u>	<u>\$ 46,079</u>

(1) Through March 31, 2019 accumulated impairment losses for goodwill were \$2.0 billion. There were no additional accumulated impairment losses for the six-month period ended September 30, 2019.

Assessment of Impairment

Our annual impairment testing date for goodwill and indefinite-lived intangible assets is January 1 of each year; however, we test for impairment between our annual tests if an event occurs or circumstances change that indicate that the asset may be impaired, or in the case of goodwill, that the fair value of the reporting unit is below its carrying amount. Our most recent test for impairment of goodwill was completed at January 1, 2019 and we concluded that the carrying value of the Wireless reporting unit exceeded its estimated fair value by \$2.0 billion. As a result, a goodwill impairment charge was recorded in our consolidated statements of operations for the year ended March 31, 2019. During the six-month period ended September 30, 2019, we did not record any further impairment to goodwill, nor did we record any impairment to other indefinite-lived intangible assets.

The determination of fair value requires considerable judgment and is highly sensitive to changes in underlying assumptions. Consequently, there can be no assurance that the estimates and assumptions made for the purposes of the goodwill, spectrum licenses, and Sprint and Boost Mobile trade names impairment tests will prove to be an accurate

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prediction of the future. Sustained declines in the Company's operating results, number of wireless subscribers, future forecasted cash flows, growth rates and other assumptions, as well as significant, persistent declines in the Company's stock price and related market capitalization could impact the underlying key assumptions and our estimated fair values, potentially leading to a future material impairment of goodwill or other indefinite-lived intangible assets.

Intangible Assets Subject to Amortization

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

		September 30, 2019			March 31, 2019		
	Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
(in millions)							
Customer relationships	5 to 8 years	\$ 6,563	\$ (6,236)	\$ 327	\$ 6,563	\$ (6,029)	\$ 534
Other intangible assets:							
Favorable spectrum leases	23 years	802	(207)	595	763	(150)	613
Favorable tower leases ⁽¹⁾	—	—	—	—	335	(215)	120
Trademarks	2 to 34 years	520	(97)	423	520	(89)	431
Other	5 to 10 years	142	(74)	68	137	(66)	71
Total other intangible assets		1,464	(378)	1,086	1,755	(520)	1,235
Total definite-lived intangible assets		\$ 8,027	\$ (6,614)	\$ 1,413	\$ 8,318	\$ (6,549)	\$ 1,769

(1) During the three-month period ended June 30, 2019, the Company adopted the new leasing standard and as a result, favorable tower leases were reclassified to ROU assets on the consolidated balance sheets. See Note 2. New Accounting Pronouncements and Note 7. Leases for further information.

Note 7. Leases

Leases (Topic 842) Disclosures

Lessee

We have operating and finance leases as a lessee for network equipment, cell sites, co-locations, dark fiber, office buildings, retail stores and kiosks, fleet vehicles, switch sites/points of presence, and office equipment and furniture. These leases, with few exceptions, provide for automatic renewal options and escalations that are either fixed or based on the consumer price index. Our leases have remaining lease terms of 1 to 20 years, some of which may include options to extend the leases for up to 20 years, and some of which may include options to terminate the leases within one year. Network equipment typically has initial non-cancelable terms of five to ten years with similar renewal options; however, extensions longer than ten years do occur. Cell sites generally have an initial non-cancelable lease term of five years with one to four renewal options to extend the lease in five-year increments. Retail stores generally have an initial non-cancelable lease term ranging from three to ten years with renewal options in five-year increments. Fleet vehicles generally have an initial non-cancelable lease term of three years with monthly renewal options to extend the lease. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants. Our lease term for accounting purposes is generally the initial non-cancelable lease term. We recognize lease expense for operating leases and amortization expense on finance leases on a straight-line basis over the lease term.

We determine if an arrangement is a lease at contract inception. A contract is or contains a lease if the contract conveys the right to control the identified asset for a period of time in exchange for consideration. The right to control an asset is defined as the right to obtain substantially all of the economic benefits from the use of the identified asset and includes the right to direct the use of the identified asset. Identified assets are either explicitly specified in the contract or are implicitly identified. Implicit identification includes a lease provision where a space or dimension is defined in the contract. This provision becomes explicit when equipment is physically placed on the respective space.

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For those identified leases, the Company records them on the balance sheet as ROU assets and corresponding lease liabilities. ROU assets represent our right to use an underlying asset for the lease term, and the lease liability represents our obligation to make lease payments arising from the lease. Finance leases have historically been recorded in "Property, plant and equipment, net" in the consolidated balance sheets. Under the new standard, finance lease assets are included in the ROU asset account within "Property, plant and equipment, net" in the consolidated balance sheets. The associated lease liabilities for our finance leases are immaterial. The ROU asset and lease liability for operating leases are initially measured and recorded at the present value of the expected future lease payments at contract commencement or modification. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective interest method. As of September 30, 2019 and April 1, 2019, ROU assets recorded under finance leases were \$612 million and \$613 million, respectively, and accumulated depreciation associated with finance leases was \$95 million and \$58 million, respectively.

The Company's lease portfolio is broad. Some leases include real estate taxes, common area maintenance, and management fees in the annual rental payments, while in other leases these amounts are charged separately. For all asset classes where the Company is the lessee, we have elected to not separate lease and non-lease components within a contract as defined under the new standard, instead separate lease and non-lease components are accounted for as a single lease component.

We utilize the Company's estimated incremental borrowing rate to discount future payments in the calculation of the lease liability and ROU asset. The Company determines the rates using a portfolio approach based on our current secured borrowings in order to approximate the rate of interest that the Company would have to pay to borrow an amount equal to the lease payments on a collateralized basis for a term similar to the lease term. The Company updates the rate monthly for new or modified leases.

Operating lease costs are recognized on the income statement on a straight-line basis over the lease term, with operating lease costs being recorded to cost of services or selling, general and administrative expense based on the primary use of the leased asset. Any rent abatements, along with rent escalations, are included in the computation of rent expense calculated on a straight-line basis over the lease term. Finance lease costs are recorded to depreciation expense, and interest expense is recognized using the effective interest rate method and included in interest expense in our consolidated statements of comprehensive (loss) income. Certain of our leases may require variable lease payments based on external indicators, including real estate taxes, common area charges and utility usage. These variable rent payments for both operating and finance leases are not included in the measurement of the lease liability and are expensed in the period incurred.

In 2005, Sprint entered into a lease leaseback arrangement with a third party that was subsequently acquired by Crown Castle International (CCI) whereby the third party would lease from us approximately 5,700 cell sites, which included the towers and related assets under a Master Lease (Master Lease Sites) and otherwise manage another 970 sites until which time those sites may be leased to CCI (Managed Sites). The term of the arrangement was 32 years and provides no renewal options. Sprint leases back space on certain of these towers. For those Master Lease Sites, CCI has assumed all rights and obligations that arise under the ground leases. As Sprint is only contingently liable for future ground lease payments for these sites, obligations for these ground leases are not included in Sprint's operating lease liabilities. For those Managed Sites, while CCI is required to make all cash payments to the landlord during the term of the arrangement, Sprint was not relieved of the primary obligation under the ground leases. Obligations during the term of the arrangement for these ground leases are included in operating lease liabilities of approximately \$210 million and \$207 million as of September 30, 2019 and April 1, 2019, respectively. Additionally, because Sprint has no future cash payments under these leases, they have been excluded from the tabular disclosures on weighted average remaining lease term and discount rate.

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The components of lease expense were as follows:

	Three Months Ended September 30, 2019	Six Months Ended September 30, 2019
	<i>(in millions)</i>	
Operating lease expense	\$ 547	\$ 1,077
Finance lease expense:		
Amortization of right-to-use assets	19	37
Interest on lease liabilities	—	1
Total finance lease expense	19	38
Variable lease expense	27	42
Total lease expense	<u>\$ 593</u>	<u>\$ 1,157</u>

The supplemental components of cash flows were as follows:

	Three Months Ended September 30, 2019	Six Months Ended September 30, 2019
	<i>(in millions)</i>	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	\$ 1	\$ 3
Operating cash flows from operating leases	601	1,177
Financing cash flows from finance leases	—	1
Total cash paid for amounts included in the measurement of lease liabilities	<u>\$ 602</u>	<u>\$ 1,181</u>
Non-cash investing and financing activities:		
Operating lease right-of-use assets obtained in exchange for lease obligations	\$ 268	\$ 381

Information relating to the lease term and discount rate excluding the Managed Sites is as follows:

	Six Months Ended September 30, 2019
Weighted average remaining lease term (years)	
Operating leases	5.0
Weighted average remaining discount rate	
Operating leases	6.1%

Maturities of operating lease liabilities as of September 30, 2019 were as follows:

	<i>(in millions)</i>
Remainder of fiscal year ending March 31, 2020	\$ 1,111
Fiscal year ending March 31, 2021	2,173
Fiscal year ending March 31, 2022	1,665
Fiscal year ending March 31, 2023	1,158
Fiscal year ending March 31, 2024	799
Thereafter	2,024
Total lease payments	<u>8,930</u>
Less imputed interest	<u>(1,428)</u>
Total	<u>\$ 7,502</u>

Lessor

Substantially all leases where the Company is the lessor are classified as operating leases under the previous literature. Due to the Company's election of the various practical expedients, we did not reassess the lease classification of existing leases upon adoption of Topic 842. The Company will continue to recognize the underlying asset and recognize lease income over the lease term. As of April 1, 2019, an immaterial amount of our handset leases met the criteria to be classified as direct financing or sales-type leases under the previous literature. We do not expect a material amount of new leases to be classified as direct financing or sales-type leases subsequent to adoption of Topic 842 if terms remain consistent with the Company's current leasing program.

SPRINT CORPORATION

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For handset leases, we separate lease and non-lease components within a contract as defined under Topic 842. The total consideration in the contract is allocated to each separate lease component and non-lease component based on each component's relative selling price, using observable standalone prices, or by maximizing other observable information. Each lease component is accounted for separately from the non-lease components of a contract.

The term of our handset leases are generally 18 months, and the customer is able to extend the lease on a month-to-month basis after the initial lease term. There is no early termination option; if the customer exits the service agreement early the remaining lease payments become immediately payable at that point. At the termination or expiration of a customer lease, the customer may purchase the leased device or return the device to the Company. As of September 30, 2019 and April 1, 2019, our estimated residual value of handsets under current operating leases was approximately \$3.5 billion and \$3.2 billion, respectively.

Accounting for device leases involves specific determinations under applicable lease accounting standards. These determinations affect the timing of revenue recognition and the timing and classification of the related cost of the device. If a lease is classified as an operating lease, revenue is recognized ratably over the lease term and the leased asset is included in "Property, plant and equipment, net" in the consolidated balance sheets and depreciated to its estimated residual value generally over the lease term. If the lease is classified as a sales-type lease, revenue is recognized at the commencement of the lease with a corresponding charge to cost of equipment sales. If the lease is classified as a direct-financing lease, there is no related revenue or cost of equipment sales recorded and the net investment in a leased asset is reported. The critical elements that we consider in determining the classification of our leased devices are the economic life and the fair value of the device, including the estimated residual value. For the purposes of assessing the economic life of a device, we consider both internal and external datasets including, but not limited to, the length of time subscribers use our devices, sales trends post launch, and transactions in the secondary market as there is currently a significant after-market for used wireless devices.

Adjustments to residual values of leased devices are recognized as a revision in depreciation estimates. We estimate that a 10% increase or decrease in the estimated residual values of devices under operating leases at September 30, 2019 would not have a material effect on depreciation expense over the next twelve months. For the quarter-ended September 30, 2019, the effects of changes in the estimated residual value of devices currently under operating leases have been immaterial.

Leases (Topic 840) Disclosures

As the result of adopting Topic 842 using the modified retrospective transition method, we did not restate the periods prior to the adoption date of April 1, 2019. These periods continue to be presented in accordance with Topic 840. See *Note 2. New Accounting Pronouncements* for further information.

Lessee

As of March 31, 2019, the minimum estimated amounts due under operating leases and capital leases were as follows:

Future Minimum Commitments	Operating Leases		Capital Leases and Financing Obligations	
			<i>(in millions)</i>	
Fiscal year ending March 31, 2020	\$	2,277	\$	262
Fiscal year ending March 31, 2021		2,199		150
Fiscal year ending March 31, 2022		1,793		92
Fiscal year ending March 31, 2023		1,358		44
Fiscal year ending March 31, 2024		1,039		12
Thereafter		3,101		—
Total lease payments	\$	11,767	\$	560

Operating Leases

Our rental commitments for operating leases, including lease renewals that are reasonably assured, consisted mainly of leases for cell and switch sites, real estate, information technology and network equipment and office space. Total rental expense was \$2.8 billion, \$2.7 billion, and \$3.1 billion, for the years ended March 31, 2019, 2018 and 2017, respectively.

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Tower Financing

During 2008, we sold and subsequently leased back approximately 3,000 cell sites, of which approximately 1,750 remained as of March 31, 2019. Terms extend through 2021, with renewal options for an additional 20 years. These cell sites were previously reported as part of "Property, plant and equipment, net" in our consolidated balance sheets due to our continued involvement with the property sold, and the transaction was accounted for as a financing. The financing obligation as of March 31, 2019 was \$109 million.

Upon adoption of the new leasing standard, we were required to reassess the previously failed sale-leasebacks and determine whether the transfer of the assets to the tower operator under the arrangement met the transfer of control criteria in the revenue standard and whether a sale should be recognized. We concluded that a sale had occurred and therefore, we derecognized our existing long-term financial obligation and the tower-related property and equipment associated with these sites as part of the cumulative effect adjustment on April 1, 2019.

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

	Interest Rates			Maturities			September 30, 2019	March 31, 2019
	(in millions)							
Notes								
Senior notes								
Sprint Corporation	7.13	-	7.88%	2021	-	2026	\$ 12,000	\$ 12,000
Sprint Communications, Inc.	6.00	-	11.50%	2020	-	2022	4,780	4,780
Sprint Capital Corporation	6.88	-	8.75%	2028	-	2032	4,475	6,204
Senior secured notes								
Sprint Spectrum Co LLC, Sprint Spectrum Co II LLC, Sprint Spectrum Co III LLC	3.36	-	5.15%	2021	-	2028	5,688	6,125
Guaranteed notes								
Sprint Communications, Inc.	7.00%			2020			1,000	1,000
Credit facilities								
Secured revolving bank credit facility	4.31%			2021			—	—
Secured term loans	4.56	-	5.06%	2024			5,885	5,915
PRWireless term loan	7.35%			2020			199	198
Export Development Canada (EDC)	4.31%			2019			—	300
Secured equipment credit facilities	3.53	-	4.22%	2021	-	2022	624	661
Accounts receivable facility	3.36	-	3.56%	2021			2,707	2,607
Financing obligations, finance lease and other obligations	2.35	-	12.00%	2020	-	2026	396	538
Net premiums and debt financing costs							(385)	(405)
							37,369	39,923
Less current portion							(4,101)	(4,557)
Long-term debt, financing and finance lease obligations							\$ 33,268	\$ 35,366

As of September 30, 2019, Sprint Corporation, had \$12.0 billion in aggregate principal amount of senior notes outstanding. In addition, as of September 30, 2019, the outstanding principal amount of the senior notes issued by Sprint Communications and Sprint Capital Corporation, the guaranteed notes issued by Sprint Communications, Sprint Communications' secured term loans and secured revolving bank credit facility, the secured equipment credit facilities, the Receivables Facility, and certain other obligations collectively totaled \$19.9 billion in principal amount of our long-term debt. Sprint Corporation fully and unconditionally guaranteed such indebtedness, which was issued by 100% owned subsidiaries. Although certain financing agreements restrict the ability of Sprint Communications and its subsidiaries to distribute cash to Sprint Corporation, the ability of the subsidiaries to distribute cash to their respective parents, including to Sprint Communications, generally is not restricted.

Cash interest payments, net of amounts capitalized of \$35 million and \$34 million, totaled \$1.2 billion and \$1.3 billion during the six-month periods ended September 30, 2019 and 2018, respectively.

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Notes

As of September 30, 2019, our outstanding notes consisted of senior notes and guaranteed notes, all of which are unsecured, as well as senior secured notes associated with our spectrum financing transactions. Cash interest on all of the notes is payable semi-annually in arrears with the exception of the spectrum financing senior secured notes, which is payable quarterly. As of September 30, 2019, \$27.9 billion aggregate principal amount of the notes was redeemable at the Company's discretion at the then-applicable redemption prices plus accrued interest.

As of September 30, 2019, \$23.5 billion aggregate principal amount of our senior notes, senior secured notes, and guaranteed notes provided holders with the right to require us to repurchase the notes if a change of control triggering event (as defined in the applicable indentures and supplemental indentures) occurs. In May 2018, we successfully completed consent solicitations with respect to certain series of Sprint Corporation, Sprint Communications, and Sprint Capital Corporation senior notes. As a result of the Sprint Corporation and Sprint Communications consent solicitations, the proposed merger transaction with T-Mobile, if consummated, will not constitute a change of control as defined in the applicable indentures governing the notes.

In May 2019, Sprint Capital Corporation retired \$1.7 billion aggregate principal amount upon maturity of its outstanding 6.900% Senior Notes.

Spectrum Financings

In October 2016, certain subsidiaries of Sprint Communications, which were not "Restricted Subsidiaries" under Sprint Capital Corporation's indentures, transferred certain directly held and third-party leased spectrum licenses (collectively, Spectrum Portfolio) to wholly-owned bankruptcy-remote special purpose entities (collectively, Spectrum Financing SPEs). The Spectrum Portfolio, which represented approximately 14% of Sprint's total spectrum holdings on a MHz-pops basis, was used as collateral to raise an initial \$3.5 billion in senior secured notes (2016 Spectrum-Backed Notes) bearing interest at 3.36% per annum under a \$7.0 billion securitization program. The 2016 Spectrum-Backed Notes are repayable over a five-year term, with interest-only payments over the first four quarters and amortizing quarterly principal payments thereafter commencing December 2017 through September 2021. During the six-month period ended September 30, 2019, we made scheduled principal repayments of \$437 million, resulting in a total principal amount outstanding related to the 2016 Spectrum-Backed Notes of \$1.8 billion as of September 30, 2019, of which \$875 million was classified as "Current portion of long-term debt, financing and finance lease obligations" in the consolidated balance sheets.

In March 2018, we amended the transaction documents governing the securitization program to allow for the issuance of more than \$7.0 billion of notes outstanding pursuant to the securitization program subject to certain conditions, which, among other things, may require the contribution of additional spectrum. Also, in March 2018, we issued approximately \$3.9 billion in aggregate principal amount of senior secured notes under the existing \$7.0 billion securitization program, consisting of two series of senior secured notes. The first series of notes totaled \$2.1 billion in aggregate principal amount, bears interest at 4.738% per annum, have quarterly interest-only payments until June 2021, and amortizing quarterly principal amounts thereafter commencing in June 2021 through March 2025. The second series of notes totaled approximately \$1.8 billion in aggregate principal amount, bears interest at 5.152% per annum, have quarterly interest-only payments until June 2023, and amortizing quarterly principal amounts thereafter commencing in June 2023 through March 2028. The Spectrum Portfolio, which also serves as collateral for the 2016 Spectrum-Backed Notes, remains substantially identical to the original portfolio from October 2016.

Simultaneously with the October 2016 offering, Sprint Communications entered into a long-term lease with the Spectrum Financing SPEs for the ongoing use of the Spectrum Portfolio. The spectrum lease is accounted for as an executory contract. Sprint Communications is required to make monthly lease payments to the Spectrum Financing SPEs at a market rate. The lease payments, which are guaranteed by Sprint Corporation and certain subsidiaries (none of which are "Restricted Subsidiaries" under Sprint Capital Corporation's indentures) of Sprint Communications (and are secured together with the obligations under another transaction document by substantially all of the assets of such entities on a pari passu basis up to an aggregate cap of \$3.5 billion with the grant of security under the secured term loan and revolving bank credit facility and EDC (as defined below) agreement), are sufficient to service all outstanding series of the senior secured notes and the lease also constitutes collateral for the senior secured notes. Because the Spectrum Financing SPEs are wholly-owned Sprint subsidiaries, these entities are consolidated and all intercompany activity has been eliminated.

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Each Spectrum Financing SPE is a separate legal entity with its own separate creditors who will be entitled, prior to and upon the liquidation of the Spectrum Financing SPEs, to be satisfied out of the Spectrum Financing SPEs' assets prior to any assets of the Spectrum Financing SPEs becoming available to Sprint. Accordingly, the assets of the Spectrum Financing SPEs are not available to satisfy the debts and other obligations owed to other creditors of Sprint until the obligations of the Spectrum Financing SPEs under the spectrum-backed senior secured notes are paid in full.

In June 2018, we obtained consent under the spectrum-backed senior secured notes indenture to amend the indenture such that the proposed merger transaction with T-Mobile, if consummated, will not constitute a change of control as defined in the indenture.

Credit Facilities

Secured Term Loan and Revolving Bank Credit Facility

On February 3, 2017, we entered into a \$6.0 billion credit agreement, consisting of a \$4.0 billion, seven-year secured term loan (Initial Term Loan) that matures in February 2024 and a \$2.0 billion secured revolving bank credit facility that expires in February 2021. As of September 30, 2019, \$116 million in letters of credit were outstanding under the secured revolving bank credit facility, including the letter of credit required by the Report and Order. See *Note 12*.

Commitments and Contingencies for additional information. As a result of the outstanding letters of credit, which directly reduce the availability of borrowings, the Company had approximately \$1.9 billion of borrowing capacity available under the secured revolving bank credit facility as of September 30, 2019. The bank credit facility requires a ratio (Leverage Ratio) of total indebtedness to trailing four quarters earnings before interest, taxes, depreciation and amortization and other non-recurring items, as defined by the bank credit facility (adjusted EBITDA), not to exceed 3.75 to 1.0 through the fiscal quarter ending December 31, 2019. The Leverage Ratio must not exceed 3.5 to 1.0 for the fiscal quarter ended March 31, 2020 and each fiscal quarter ending thereafter through expiration of the facility. The Initial Term Loan has an interest rate equal to LIBOR plus 250 basis points and the secured revolving bank credit facility has an interest rate equal to LIBOR plus a spread that varies depending on the Leverage Ratio. During the six-month period ended September 30, 2019, we made principal repayments on the Initial Term Loan totaling \$20 million resulting in a total principal amount outstanding for the Initial Term Loan of \$3.9 billion as of September 30, 2019.

In consideration of the Initial Term Loan, we entered into a five-year fixed-for-floating interest rate swap on a \$2.0 billion notional amount that has been designated as a cash flow hedge. The effective portion of changes in fair value are recorded in "Other comprehensive (loss) income" in the consolidated statements of comprehensive (loss) income and the ineffective portion, if any, is recorded as "Interest expense" in current period earnings in the consolidated statements of comprehensive (loss) income. The fair value of the interest rate swap was a liability of \$22 million and an asset of \$13 million as of September 30, 2019 and March 31, 2019, respectively, which was recorded in "Other liabilities" and "Other assets," respectively, in the consolidated balance sheets.

On November 26, 2018, the credit agreement was amended to, among other things, authorize incremental secured term loans (Incremental Term Loans) totaling \$2.0 billion, of which \$1.1 billion was borrowed. On February 26, 2019, the remaining \$900 million was borrowed. The Incremental Term Loans mature in February 2024, have interest rates equal to LIBOR plus 300 basis points and increased the total credit facility to \$8.0 billion.

PRWireless Term Loan

During the three-month period ended December 31, 2017, Sprint and PRWireless PR, Inc. completed a transaction to combine their operations in Puerto Rico and the U.S. Virgin Islands into a new joint venture. Prior to the formation of the new entity, PRWireless PR, Inc. had incurred debt under a secured term loan, which became debt of the new entity upon the transaction close. The secured term loan bears interest at 5.25% plus LIBOR and expires in June 2020. As of September 30, 2019, the joint venture had a total principal amount outstanding of \$199 million. On November 1, 2019, Sprint prepaid the total principal amount outstanding of \$199 million under the PRWireless term loan previously due in June 2020.

EDC Agreement

Through September 15, 2019, the Company had amounts outstanding under the EDC agreement, which provided for security and covenant terms similar to our secured term loan and revolving bank credit facility. On September 16, 2019, the Company prepaid the total principal amount outstanding under the EDC facility of \$300 million previously due in December 2019.

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Secured Equipment Credit Facilities

Finnvera plc (Finnvera)

The Finnvera secured equipment credit facility provided for the ability to finance network equipment-related purchases from Nokia Solutions and Networks US LLC, USA. During the six-month period ended September 30, 2019, we made principal repayments totaling \$41 million on the facility resulting in a total principal amount of \$51 million outstanding as of September 30, 2019.

K-sure

The K-sure secured equipment credit facility provides for the ability to finance network equipment-related purchases from Samsung Telecommunications America, LLC. In October 2018, we amended the secured equipment credit facility to extend the borrowing availability through September 2019. Such borrowings are contingent upon the amount and timing of network equipment-related purchases made by Sprint. During the six-month period ended September 30, 2019, we drew \$96 million and made principal repayments totaling \$72 million on the facility, resulting in a total principal amount of \$474 million outstanding as of September 30, 2019.

Delcredere | Ducroire (D/D)

The D/D secured equipment credit facility provided for the ability to finance network equipment-related purchases from Alcatel-Lucent USA Inc. During the six-month period ended September 30, 2019, we made principal repayments totaling \$20 million on the facility resulting in a total principal amount of \$99 million outstanding as of September 30, 2019.

Borrowings under the Finnvera, K-sure and D/D secured equipment credit facilities are each secured by liens on the respective network equipment purchased. In addition, repayments of outstanding amounts borrowed under the secured equipment credit facilities cannot be redrawn. Each of these facilities is fully and unconditionally guaranteed by both Sprint Communications and Sprint Corporation. As of September 30, 2019, the K-sure facility, the Finnvera and D/D facilities had no available borrowing capacity. The secured equipment credit facilities have certain key covenants similar to those in our secured term loan and revolving bank credit facility.

Accounts Receivable Facility

Transaction Overview

Our Receivables Facility provides us the opportunity to sell certain wireless service receivables, installment receivables, and future amounts due from customers who lease certain devices from us to unaffiliated third parties (the Purchasers). The maximum funding limit under the Receivables Facility is \$4.5 billion. While we have the right to decide how much cash to receive from each sale, the maximum amount of cash available to us varies based on a number of factors and, as of September 30, 2019, represents approximately 50% of the total amount of the eligible receivables sold to the Purchasers. As of September 30, 2019, the total amount outstanding under our Receivables Facility was \$2.7 billion and the total amount available to be drawn was \$670 million. However, subsequent to September 30, 2019, Sprint repaid approximately \$700 million under the Receivables Facility reducing amounts outstanding to \$2.0 billion. In February 2017, the Receivables Facility was amended and Sprint regained effective control over the receivables transferred to the Purchasers by obtaining the right, under certain circumstances, to repurchase them. Subsequent to the February 2017 amendment, all proceeds received from the Purchasers in exchange for the transfer of our wireless service and installment receivables are recorded as borrowings. Repayments and borrowings under the Receivables Facility are reported as financing activities in the consolidated statements of cash flows. All cash collected on repurchased receivables subsequent to the February 2017 amendment was recognized in investing activities in the consolidated statements of cash flows. In June 2018, the Receivables Facility was amended to, among other things, extend the maturity date to June 2020, increase the maximum funding limit by \$200 million, reduce financing costs, add month-to-month lease receivables as eligible receivables for leases that extend past their original lease term, and change the Purchasers' commitment allocations. The Purchasers' commitments are allocated 22% to wireless service receivables and 78% to a combined pool of installment receivables, future lease receivables and month-to-month lease receivables. In June 2019, the Receivables Facility was further amended to extend the maturity date to February 2021. During the six-month period ended September 30, 2019, we drew \$3.2 billion and repaid \$3.1 billion to the Purchasers.

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Prior to the February 2017 amendment, wireless service and installment receivables sold to the Purchasers were treated as a sale of financial assets and we derecognized these receivables, as well as the related allowances, and recognized the net proceeds received in cash provided by operating activities in the consolidated statements of cash flows. The total proceeds from the sale of these receivables were comprised of a combination of cash, which was recognized as operating activities within our consolidated statements of cash flows, and a deferred purchase price (DPP). The DPP was realized by us upon either the ultimate collection of the underlying receivables sold to the Purchasers or upon Sprint's election to receive additional advances in cash from the Purchasers subject to the total availability under the Receivables Facility. All cash collections on the DPP were recognized as investing activities in the consolidated statements of cash flows. The fees associated with these sales were recognized in "Selling, general and administrative" in the consolidated statements of comprehensive (loss) income through the date of the February 2017 amendment. Subsequent to the February 2017 amendment, the sale of wireless service and installment receivables are reported as financings, which is consistent with our historical treatment for the sale of future lease receivables, and the associated fees are recognized as "Interest expense" in the consolidated statements of comprehensive (loss) income.

Transaction Structure

Sprint contributes certain wireless service, installment and future lease receivables, as well as the associated leased devices, to Sprint's wholly-owned consolidated bankruptcy-remote special purpose entities (SPEs). At Sprint's direction, the SPEs have sold, and will continue to sell, wireless service, installment and future lease receivables to the Purchasers or to a bank agent on behalf of the Purchasers. Leased devices will remain with the SPEs, once sales are initiated, and continue to be depreciated over their estimated useful life. As of September 30, 2019, wireless service, installment and lease receivables contributed to the SPEs and included in "Accounts and notes receivable, net" in the consolidated balance sheets were \$2.7 billion and the long-term portion of installment receivables included in "Other assets" in the consolidated balance sheets was \$248 million. As of September 30, 2019, the net book value of devices contributed to the SPEs was \$6.3 billion.

Each SPE is a separate legal entity with its own separate creditors who will be entitled, prior to and upon the liquidation of the SPE, to be satisfied out of the SPE's assets prior to any assets in the SPE becoming available to Sprint. Accordingly, the assets of the SPE are not available to pay creditors of Sprint or any of its affiliates (other than any other SPE), although collections from these receivables in excess of amounts required to repay the advances, yield and fees of the Purchasers and other creditors of the SPEs may be remitted to Sprint during and after the term of the Receivables Facility.

Sales of eligible receivables by the SPEs generally occur daily and are settled on a monthly basis. Sprint pays a fee for the drawn and undrawn portions of the Receivables Facility. A subsidiary of Sprint services the receivables in exchange for a monthly servicing fee, and Sprint guarantees the performance of the servicing obligations under the Receivables Facility.

Variable Interest Entity

Sprint determined that certain of the Purchasers, which are multi-seller asset-backed commercial paper conduits (Conduits) are considered variable interest entities because they lack sufficient equity to finance their activities. Sprint's interest in the receivables purchased by the Conduits is not considered a variable interest because Sprint's interest is in assets that represent less than 50% of the total activity of the Conduits.

Financing Obligations, Finance Lease and Other Obligations

Tower Financing

During 2008, we sold and subsequently leased back approximately 3,000 cell sites, of which approximately 1,750 remained as of March 31, 2019. Terms extend through 2021, with renewal options for an additional 20 years. These cell sites were previously reported as part of "Property, plant and equipment, net" in our consolidated balance sheets due to our continued involvement with the property sold, and the transaction was accounted for as a financing. The financing obligation as of March 31, 2019 was \$109 million.

Upon adoption of the new leasing standard, we were required to reassess the previously failed sale-leasebacks and determine whether the transfer of the assets to the tower operator under the arrangement met the transfer of control criteria in the revenue standard and whether a sale should be recognized. We concluded that a sale had occurred and therefore, we

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derecognized our existing long-term financial obligation and the tower-related property and equipment associated with these sites as part of the cumulative effect adjustment on April 1, 2019. Refer to *Note 7. Leases* for additional information.

Finance Lease and Other Obligations

In May 2016, Sprint closed on a transaction with Shentel to acquire one of our wholesale partners, NTELOS Holdings Corporation (nTelos). The total consideration for this transaction included \$181 million, on a net present value basis, of notes payable to Shentel. Sprint will satisfy its obligations under the notes payable over an expected term of five to six years, of which the remaining obligation is \$131 million as of September 30, 2019. The remainder of our finance lease and other obligations of \$24 million and \$241 million as of September 30, 2019, respectively are primarily for the use of wireless network equipment.

Covenants

Certain indentures and other agreements require compliance with various covenants, including covenants that limit the ability of the Company and its subsidiaries to sell all or substantially all of its assets, limit the ability of the Company and its subsidiaries to incur indebtedness and liens, and require that we maintain certain financial ratios, each as defined by the terms of the indentures, supplemental indentures and financing arrangements.

As of September 30, 2019, the Company was in compliance with all restrictive and financial covenants associated with its borrowings. A default under any of our borrowings could trigger defaults under certain of our other debt obligations, which in turn could result in the maturities being accelerated.

Under our secured revolving bank credit facility, we are currently restricted from paying cash dividends because our ratio of total indebtedness to adjusted EBITDA (each as defined in the applicable agreements) exceeds 2.5 to 1.0.

Note 9. Revenues from Contracts with Customers

The Company adopted *Revenue from Contracts with Customers* (Topic 606) beginning on April 1, 2018 using the modified retrospective method. Upon adoption, the Company applied the standard only to contracts that were not completed, referred to as open contracts. We operate two reportable segments: Wireless and Wireline.

Disaggregation of Revenue

We disaggregate revenue based upon differences in accounting for underlying performance obligations. Accounting differences related to our performance obligations are driven by various factors, including the type of product offering provided, the type of customer, and the expected timing of payment for goods and services.

The following table presents disaggregated reported revenue by category:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<i>(in millions)</i>				
Service revenue				
Postpaid	\$ 4,218	\$ 4,255	\$ 8,417	\$ 8,443
Prepaid	792	954	1,635	1,936
Wholesale, affiliate and other	36	293	321	587
Wireline	227	260	463	536
Total service revenue	5,273	5,762	10,836	11,502
Equipment sales	1,192	1,418	2,412	2,591
Equipment rentals	1,330	1,253	2,689	2,465
Total revenue	<u>\$ 7,795</u>	<u>\$ 8,433</u>	<u>\$ 15,937</u>	<u>\$ 16,558</u>

Contract Assets and Liabilities

The relationship between the satisfaction of our performance obligations and collection of payments from the customer will vary depending upon the type of contract. In Wireless subsidized contracts, payment related to equipment performance obligations is partially collected upfront and partially collected over the related service period resulting in a

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contract asset position at contract inception. In traditional Wireless installment billing contracts, the full amount of consideration related to equipment performance obligations is recognized as a receivable at contract inception and collected ratably in accordance with payment terms attached to the installment note. Traditional Wireless installment billing contracts are subject to an accounting contract duration of one month and therefore, do not result in the recognition of a contract position. In Wireless installment billing contracts that include a substantive termination penalty such as when customers receive a monthly service credit to offset monthly payments against applicable installment billing notes, the amount of the total transaction price that is allocated to equipment performance obligations is less than the amount recognized as a noncontingent receivable from the customer at contract inception resulting in a contract liability position. In Wireless leasing contracts, the amount of cash received at inception is generally larger than the amount of upfront revenue allocated and recognized as rental income. This results in a contract liability at contract inception, which is often partially composed of deferred rental income. In prepaid contracts initiated in our indirect channel, customers may purchase a device at a discount.

The Company will often reimburse the dealer some portion of this discount, which is expected to be recovered through future sales of monthly service. This results in a contract asset position at contract inception. In circumstances where prepaid customers prepay account balances, which can be used to purchase future Wireless goods or services, those amounts are recognized as a contract liability until the point where prepayments are redeemed for goods or services and the related performance obligations have been satisfied. In Wireline contracts, we record a contract position, either a contract asset or a contract liability depending upon the specific facts and circumstances of the contract, including to reflect differences between the amount of revenue allocated to equipment delivered upfront and the contractually stated price for that equipment, or if we collect nonrefundable upfront payments from customers related to installation and activation.

We capitalize incremental commissions directly related to the acquisition or renewal of customer contracts, to the extent that the costs are expected to be recovered. Capitalized costs are amortized on a straight-line basis over the shorter of the expected customer life or the expected benefit related directly to those costs.

The following table presents the opening and closing balances of our contract assets, contract liabilities, and receivables balances, as well as capitalized costs associated with contracts with customers:

	September 30, 2019	March 31, 2019
	(in millions)	
Contract assets and liabilities		
Contract assets ⁽¹⁾	\$ 1,031	\$ 928
Billed trade receivables	2,679	2,690
Unbilled trade receivables	1,091	945
Contract liabilities	986	1,009
Other related assets		
Capitalized costs to acquire a customer contract:		
Sales commissions - beginning balance	\$ 1,559	
Sales commissions - additions	610	
Amortization of capitalized sales commissions	(457)	
Net costs to acquire a customer contract	<u>\$ 1,712</u>	

(1) The fluctuation correlates directly to the execution of new customer contracts and invoicing and collections from customers in the normal course of business.

The following table presents revenue recognized during the six-month periods ended September 30, 2019 and 2018:

	Six Months Ended September 30, 2019	2018
	(in millions)	
Amounts included in the beginning of period contract liability balance	\$ 909	\$ 942

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Remaining Performance Obligations

The aggregate amount of total transaction price allocated to performance obligations in contracts existing as of the balance sheet date, which are wholly or partially unsatisfied as of the end of the reporting period, and the expected time frame for satisfaction of those wholly or partially unsatisfied performance obligations, are as follows:

	<i>(in millions)</i>
Remainder of fiscal year ending March 31, 2020	\$ 4,683
Fiscal year ending March 31, 2021	3,864
Thereafter	62
Total	<u>\$ 8,609</u>

The amounts disclosed above relate to the allocation of revenue amongst performance obligations in contracts existing as of the balance sheet date, and not to any differences between the timing of revenue recognition and recognition of receivables or cash collection. As a result, those amounts are not necessarily reflected as a contract liability as of the balance sheet date. Included in the above amounts are \$1.7 billion for the year ending March 31, 2020 and \$1.3 billion for the year ending March 31, 2021, respectively, related to the allocation of the total transaction price to future operating lease revenues. Additionally, amounts disclosed above include estimates of variable consideration, where applicable.

Our Wireless contracts generally do not involve variable consideration, other than expected adjustments to the total transaction price related to future price concessions and product returns and service refunds, all of which we are able to reasonably estimate at contract inception based upon historical experience with similar contracts and similar types of customers. In accordance with the practical expedients:

- the amounts disclosed above do not include revenue allocated to wholly or partially unsatisfied performance obligations for which the accounting contract duration at contract inception is less than 12 months, which includes expected revenues from traditional installment billing contracts with a one-month accounting contract duration;
- the amounts disclosed above do not include variable consideration resulting from monthly customer charges intended to partially recover taxes imposed on the Company, including fees related to the Universal Service Fund. Such fees are based on the customer's estimated monthly voice usage and are therefore, allocated to corresponding distinct months of Wireless services; and
- the amounts disclosed above do not include variable consideration resulting from monthly charges to Wireless wholesale customers. Such fees are based on the customer's monthly usage of capacity and are therefore, allocated to corresponding distinct months of Wireless services.

Wireline contracts are generally not subject to significant amounts of variable consideration, other than charges intended to partially recover taxes imposed on the Company, including fees related to the Universal Service Fund. Such fees are based on the customer's estimated monthly usage and are therefore, allocated to corresponding distinct months of Wireline services and recognized as revenue when invoiced in accordance with the practical expedient. Our Wireline contracts do typically provide the customer with monthly options to purchase goods or services at prices commensurate with the standalone selling prices for those goods or services as determined at contract inception.

Note 10. Severance and Exit Costs

Severance and exit costs consist of severance costs associated with reductions in our work force, and primarily exit costs related to payments that will continue to be made under our backhaul access contracts for which we will no longer receive any economic benefit.

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. The net expenses are included in "Other, net" within the consolidated statements of comprehensive (loss) income:

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	March 31, 2019	Net Expense	Cash Payments and Other	September 30, 2019
	(in millions)			
Severance costs	\$ 6	\$ 1 ⁽¹⁾	\$ (4)	\$ 3
Exit costs	61	45 ⁽²⁾	(54)	52
	<u>\$ 67</u>	<u>\$ 46</u>	<u>\$ (58)</u>	<u>\$ 55</u>

(1) For the six-month period ended September 30, 2019, we recognized costs of \$1 million (\$1 million costs Wireless, \$1 million costs Wireline, \$1 million benefit Corporate).

(2) For the six-month period ended September 30, 2019, we recognized costs of \$45 million (\$45 million costs Wireless, \$1 million benefit Wireline, \$1 million costs Corporate) as "Severance and exit costs."

We continually refine our network strategy and evaluate other potential network initiatives to improve the overall performance of our network. As it relates to our network strategy, lease exit costs are now under the scope of Topic 842 and part of our evaluation of the remaining amortization period for the ROU asset, which is also subject to asset impairment testing. Additionally, major cost cutting initiatives are expected to continue to reduce operating expenses and improve our operating cash flows. As a result of these ongoing activities, we may incur future material charges associated with lease and access exit costs, severance, asset impairments, and accelerated depreciation, among others.

Note 11. Income Taxes

The differences that caused our effective income tax rates to differ from the 21% U.S. federal statutory rate for income taxes were as follows:

	Six Months Ended September 30,	
	2019	2018
	(in millions)	
Income tax benefit (expense) at the federal statutory rate	\$ 101	\$ (93)
Effect of:		
State income taxes, net of federal income tax effect	18	(34)
State law changes, net of federal income tax effect	(1)	59
Increase deferred tax liability for organizational restructuring	(4)	(13)
Credit for increasing research activities	6	11
Change in federal and state valuation allowance	(37)	11
Other, net	3	(5)
Income tax benefit (expense)	<u>\$ 86</u>	<u>\$ (64)</u>
Effective income tax rate	<u>18.0%</u>	<u>14.4%</u>

Income tax benefit of \$86 million for the six-month period ended September 30, 2019 represented a consolidated effective tax rate of 18%. During the period, we recognized a \$37 million tax expense for federal and state valuation allowance. This expense partially offsets the tax benefit recognized from the pre-tax book loss at the U.S. federal statutory tax rate.

Income tax expense of \$64 million for the six-month period ended September 30, 2018 represented a consolidated effective tax rate of 14%. During the period, we recognized a \$59 million tax benefit for the impact of state law changes enacted during the period, partially offset by a \$13 million tax expense attributable to organizational restructuring. These adjustments were primarily driven by the change in carrying value of our deferred tax assets and liabilities on temporary differences.

As of September 30, 2019 and March 31, 2019, we maintained unrecognized tax benefits of \$247 million and \$242 million, respectively. Cash paid for income taxes, net was \$37 million and \$53 million for the six-month periods ended September 30, 2019 and 2018, respectively.

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Note 12. Commitments and Contingencies

Litigation, Claims and Assessments

In September 2019, Sprint notified the FCC that the Company had claimed monthly subsidies for serving subscribers even though these subscribers may not have met usage requirements under Sprint's usage policy for the Lifeline program. The Company provides service to eligible Lifeline subscribers under the Assurance Wireless brand for whom it seeks reimbursement from the Universal Service Fund. In 2016, the FCC enacted changes to the Lifeline program, which required Sprint to update how it determined qualifying subscriber usage. An inadvertent coding issue in the system used to identify qualifying subscriber usage occurred in July 2017 while the system was being updated to address the required changes. Sprint claimed monthly subsidies for serving Lifeline subscribers that may not have met Sprint's usage requirements under the Lifeline program. When the Company became aware of the issue, we immediately investigated and proactively raised the identified issue with the FCC and the appropriate state regulators. We corrected the functionality and assessed the impact of identified changes. Resolution of this matter could require us to pay fines and penalties, which could be material to our consolidated financial statements. We are committed to reimbursing federal and state governments for any subsidy payments that were collected incorrectly as a result of the system issue and have recorded an estimate of those reimbursements in the three- and six-month periods ended September 30, 2019.

On April 22, 2019, a purported stockholder of the Company filed a putative class action complaint in the Southern District of New York against the Company and two of our executive officers, captioned *Meneses v. Sprint Corporation, et al.* On June 5, 2019, a second purported stockholder of the Company filed a putative class action complaint in the Southern District of New York against the Company and two of our executive officers, captioned *Soloman v. Sprint Corporation, et al.* The complaints in the *Meneses* and *Soloman* actions allege that the Company and the two executive officers violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 by issuing untrue statements related to certain postpaid net subscriber additions. The complaints seek damages and reasonable attorneys fees. The Company believes the lawsuits are without merit. On June 24, 2019, the *Meneses* action was voluntarily dismissed.

On April 19, 2012, the New York Attorney General filed a complaint alleging that Sprint Communications had fraudulently failed to collect and pay sales taxes on the sale of wireless telephone services since July 2005. Although Sprint has settled the dispute with the State of New York, eight related stockholder derivative suits have been filed against Sprint Communications and certain of its current and former officers and directors. Each suit alleges generally that the individual defendants breached their fiduciary duties to Sprint Communications and its stockholders by allegedly permitting, and failing to disclose, the actions alleged in the suit filed by the New York Attorney General. One suit, filed by the Louisiana Municipal Police Employees Retirement System, was dismissed by a federal court. Two suits were filed in state court in Johnson County, Kansas and one of those suits was dismissed as premature; and five suits are pending in federal court in Kansas. The remaining Kansas suits have been stayed pending resolution of the Attorney General's suit. 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 federal or state matters such as sales, use or property taxes, or other charges were found to be mistaken, it could result in payments by us. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial position or results of operations.

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Spectrum Reconfiguration Obligations

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

The minimum cash obligation was \$2.8 billion under the Report and Order. We are, however, obligated to continue to pay the full amount of the costs relating to the reconfiguration plan, although those costs have exceeded \$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. The letter of credit was initially \$2.5 billion but has been reduced during the course of the proceeding to \$74 million as of September 30, 2019. Since the inception of the program, we have incurred payments of approximately \$3.6 billion directly attributable to our performance under the Report and Order, including \$7 million during the six-month period ended September 30, 2019. When incurred, substantially all costs are accounted for as additions to FCC licenses with the remainder as property, plant and equipment. Based on our expenses to date and on third party administrator's audits, we have exceeded the \$2.8 billion minimum cash obligation required by the FCC. On October 12, 2017, the FCC released a Declaratory Ruling that we have met the minimum cash obligation under the Report and Order and concluded that Sprint will not be required to make any payments to the U.S. Treasury.

We have recently reported to the FCC that virtually all of the public safety reconfiguration is complete across the country, including along the southern border markets, which had been delayed due to coordination efforts with Mexico. Accordingly, Sprint has received its full allotment of replacement spectrum in the 800 MHz band and Sprint faces no impediments in deploying 3G CDMA and 4G LTE on this spectrum in combination with its spectrum in the 1.9 GHz and 2.5 GHz bands. A small number of non-public safety operators must still complete certain retuning work and complete administrative tasks in states along the southern border, however, these remaining activities do not impact Sprint's operations.

Note 13. Per Share Data

The computation of basic and diluted net (loss) income per common share attributable to Sprint was as follows:

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
<i>(in millions, except per share amounts)</i>				
Net (loss) income	\$ (279)	\$ 207	\$ (393)	\$ 380
Less: Net loss attributable to noncontrolling interests	5	(11)	8	(8)
Net (loss) income attributable to Sprint	\$ (274)	\$ 196	\$ (385)	\$ 372
Basic weighted average common shares outstanding	4,098	4,061	4,092	4,036
Effect of dilutive securities:				
Options and restricted stock units	—	60	—	55
Warrants ⁽¹⁾	—	3	—	4
Diluted weighted average common shares outstanding	4,098	4,124	4,092	4,095
Basic net (loss) income per common share attributable to Sprint	\$ (0.07)	\$ 0.05	\$ (0.09)	\$ 0.09
Diluted net (loss) income per common share attributable to Sprint	\$ (0.07)	\$ 0.05	\$ (0.09)	\$ 0.09
Potentially dilutive securities:				
Outstanding stock options ⁽²⁾	73	6	73	6

(1) For the six-month period ended September 30, 2018, dilutive securities attributable to warrants include 1 million shares issuable under the warrant held by SoftBank. At the close of the merger with SoftBank, the warrant was issued at \$5.25 per share. On July 10, 2018, SoftBank exercised its warrant in full to purchase 55 million shares of Sprint common stock for \$287 million.

(2) Potentially dilutive securities were not included in the computation of diluted net (loss) income per common share if to do so would have been antidilutive.

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Note 14. Segments

Sprint operates two reportable segments: Wireless and Wireline.

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

We define segment earnings as wireless or wireline operating income (loss) before other segment expenses such as depreciation, amortization, severance, exit costs, goodwill impairments, asset impairments, and other items, if any, solely and directly attributable to the segment representing items of a non-recurring or unusual nature. Expense and income items excluded from segment earnings are managed at the corporate level. Transactions between segments are generally accounted for based on market rates, which we believe approximate fair value. The Company generally re-establishes these rates at the beginning of each fiscal year. The impact of intercompany pricing rate changes to our Wireline segment earnings does not affect our consolidated results of operations as our Wireless segment has an equivalent offsetting impact in cost of services.

Segment financial information is as follows:

<u>Statement of Operations Information</u>	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Three Months Ended September 30, 2019				
Net operating revenues	\$ 7,567	\$ 227	\$ 1	\$ 7,795
Inter-segment revenues ⁽¹⁾	—	73	(73)	—
Total segment operating expenses ⁽²⁾	(5,005)	(305)	69	(5,241)
Segment earnings (loss)	<u>\$ 2,562</u>	<u>\$ (5)</u>	<u>\$ (3)</u>	2,554
Less:				
Depreciation - network and other				(1,065)
Depreciation - equipment rentals				(1,056)
Amortization				(106)
Merger costs ⁽²⁾				(69)
Other, net ⁽³⁾				(21)
Operating income				237
Interest expense				(594)
Other income, net				14
Loss before income taxes				\$ (343)

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Statement of Operations Information	Wireless including hurricane	Wireless hurricane	Wireless excluding hurricane	Wireline	Corporate, Other and Eliminations	Consolidated
<i>(in millions)</i>						
Three Months Ended September 30, 2018						
Net operating revenues ⁽⁴⁾	\$ 8,169	\$ (3)	\$ 8,166	\$ 260	\$ 4	\$ 8,430
Inter-segment revenues ⁽¹⁾	—	—	—	68	(68)	—
Total segment operating expenses ⁽²⁾⁽⁴⁾	(4,883)	(7)	(4,890)	(348)	64	(5,174)
Segment earnings (loss)	<u>\$ 3,286</u>	<u>\$ (10)</u>	<u>\$ 3,276</u>	<u>\$ (20)</u>	<u>\$ —</u>	<u>3,256</u>
Less:						
Depreciation - network and other						(1,021)
Depreciation - equipment rentals						(1,181)
Amortization						(159)
Hurricane-related reimbursements ⁽⁴⁾						32
Merger costs ⁽²⁾						(56)
Other, net ⁽³⁾						(93)
Operating income						778
Interest expense						(633)
Other income, net						79
Income before income taxes						<u>\$ 224</u>

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
<i>(in millions)</i>				
Six Months Ended September 30, 2019				
Net operating revenues	\$ 15,468	\$ 463	\$ 6	\$ 15,937
Inter-segment revenues ⁽¹⁾	—	144	(144)	—
Total segment operating expenses ⁽²⁾	(9,869)	(612)	140	(10,341)
Segment earnings (loss)	<u>\$ 5,599</u>	<u>\$ (5)</u>	<u>\$ 2</u>	<u>5,596</u>
Less:				
Depreciation - network and other				(2,185)
Depreciation - equipment rentals				(2,085)
Amortization				(224)
Merger costs ⁽²⁾				(152)
Other, net ⁽³⁾				(258)
Operating income				692
Interest expense				(1,213)
Other income, net				42
Loss before income taxes				<u>\$ (479)</u>

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Statement of Operations Information	Wireless including hurricane	Wireless hurricane	Wireless excluding hurricane	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)					
Six Months Ended September 30, 2018						
Net operating revenues ⁽⁴⁾	\$ 16,014	\$ (3)	\$ 16,011	\$ 536	\$ 8	\$ 16,555
Inter-segment revenues ⁽¹⁾	—	—	—	130	(130)	—
Total segment operating expenses ⁽²⁾⁽⁴⁾	(9,410)	(7)	(9,417)	(728)	126	(10,019)
Segment earnings (loss)	<u>\$ 6,604</u>	<u>\$ (10)</u>	<u>\$ 6,594</u>	<u>\$ (62)</u>	<u>\$ 4</u>	6,536
Less:						
Depreciation - network and other						(2,044)
Depreciation - equipment rentals						(2,317)
Amortization						(330)
Hurricane-related reimbursements ⁽⁴⁾						32
Merger costs ⁽²⁾						(149)
Other, net ⁽³⁾						(135)
Operating income						1,593
Interest expense						(1,270)
Other income, net						121
Income before income taxes						<u>\$ 444</u>

Other Information

	Wireless	Wireline	Corporate and Other	Consolidated
	(in millions)			
Capital expenditures for the six months ended September 30, 2019	\$ 5,292	\$ 58	\$ 250	\$ 5,600
Capital expenditures for the six months ended September 30, 2018	\$ 5,644	\$ 106	\$ 172	\$ 5,922

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

(2) The three- and six-month periods ended September 30, 2019 and 2018 includes \$69 million, \$152 million, \$56 million, and \$149 million, respectively, of merger-related costs, which were recorded in "Selling, general and administrative" in the consolidated statements of comprehensive (loss) income.

(3) Other, net for the three- and six-month periods ended September 30, 2019 consists of \$2 million and \$212 million, respectively, of asset impairment charges primarily related to the sale and leaseback of our Overland Park, Kansas campus and \$19 million and \$46 million, respectively, of severance and exit costs due to access termination charges and reductions in work force. Other, net for the three- and six-month periods ended September 30, 2018 consists of \$25 million and \$33 million, respectively, of severance and exit costs primarily due to reductions in work force, access termination charges and lease exit costs. In addition, both the three- and six-month periods ended September 30, 2018 consist of a \$68 million loss on disposal of property, plant and equipment primarily related to cell site construction costs and other network costs that are no longer recoverable as a result of changes in our network plans. The six-month period ended September 30, 2018 consists of \$34 million associated with the purchase of certain leased spectrum assets, which upon termination of the related spectrum leases resulted in the accelerated recognition of the unamortized favorable lease balances.

(4) The three- and six-month periods ended September 30, 2018 includes \$32 million of hurricane-related reimbursements, which are classified in our consolidated statements of comprehensive (loss) income as follows: \$3 million as revenue in net operating revenues, \$6 million as cost of services, \$1 million as selling, general and administrative expenses and \$22 million as other, net, all within the Wireless segment.

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Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations⁽¹⁾	Consolidated
<i>(in millions)</i>				
Three Months Ended September 30, 2019				
Service revenue	\$ 5,010	\$ 282	\$ (73)	\$ 5,219
Wireless equipment sales	1,192	—	—	1,192
Wireless equipment rentals	1,330	—	—	1,330
Other	35	18	1	54
Total net operating revenues	\$ 7,567	\$ 300	\$ (72)	\$ 7,795
<i>(in millions)</i>				
Three Months Ended September 30, 2018				
Service revenue ⁽²⁾	\$ 5,206	\$ 303	\$ (68)	\$ 5,441
Wireless equipment sales	1,418	—	—	1,418
Wireless equipment rentals	1,253	—	—	1,253
Other	289	25	4	318
Total net operating revenues	\$ 8,166	\$ 328	\$ (64)	\$ 8,430
<i>(in millions)</i>				
Six Months Ended September 30, 2019				
Service revenue	\$ 10,052	\$ 571	\$ (144)	\$ 10,479
Wireless equipment sales	2,412	—	—	2,412
Wireless equipment rentals	2,689	—	—	2,689
Other	315	36	6	357
Total net operating revenues	\$ 15,468	\$ 607	\$ (138)	\$ 15,937
<i>(in millions)</i>				
Six Months Ended September 30, 2018				
Service revenue ⁽²⁾	\$ 10,376	\$ 617	\$ (130)	\$ 10,863
Wireless equipment sales	2,591	—	—	2,591
Wireless equipment rentals	2,465	—	—	2,465
Other	579	49	8	636
Total net operating revenues	\$ 16,011	\$ 666	\$ (122)	\$ 16,555

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

(2) Service revenue related to the Wireless segment in the three- and six-month periods ended September 30, 2018 excludes \$3 million of hurricane-related revenue reimbursements reflected in net operating revenues in our consolidated statements of comprehensive (loss) income.

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Note 15. Related-Party Transactions

In addition to agreements arising out of or relating to the SoftBank Merger, Sprint has entered into various other arrangements with SoftBank, its controlled affiliates (SoftBank Parties) or with third parties to which SoftBank Parties are also parties, including arrangements for international wireless roaming, wireless and wireline call termination, real estate, logistical management, and other services.

Brightstar

We have arrangements with Brightstar US, Inc. (Brightstar), whereby Brightstar provides supply chain and inventory management services to us in our indirect channels and whereby Sprint may sell new and used devices and new accessories to Brightstar for its own purposes. To facilitate certain of these arrangements, we have extended a \$700 million credit line to Brightstar to assist with the purchasing and distribution of devices and accessories. As a result, we shifted our concentration of credit risk away from our indirect channel partners to Brightstar. As Brightstar is a subsidiary of SoftBank, we expect SoftBank will provide the necessary support to ensure that Brightstar will fulfill its obligations to us under these arrangements. However, we have no assurance that SoftBank will provide such support.

The supply chain and inventory management arrangement included, among other things, that Brightstar may purchase inventory from the original equipment manufacturers to sell directly to our indirect dealers. As compensation for these services, we remit per unit fees to Brightstar for each device sold to dealers or retailers in our indirect channels. During the three- and six-month periods ended September 30, 2019 and 2018, we incurred fees under these arrangements totaling \$14 million, \$27 million, \$16 million and \$33 million, respectively, which are recognized in "Cost of equipment sales" and "Selling, general and administrative" expenses in the consolidated statements of comprehensive (loss) income. Additionally, we have an arrangement with Brightstar whereby they perform certain of our reverse logistics including device buyback, trade-in technology and related services.

During the three-month period ended September 30, 2017, we entered into an arrangement with Brightstar whereby accessories previously procured by us and sold to customers in our direct channels are now procured and consigned to us from Brightstar. Amounts billed from the sale of accessory inventory are remitted to Brightstar. In exchange for our efforts to sell accessory inventory owned by Brightstar, we received a fixed fee from Brightstar for each device activated in our direct channels. In August 2018, the arrangement was amended and we received a share of the profits associated with the sale of accessory inventory owned by Brightstar. For the three- and six-month periods ended September 30, 2019 and 2018, Sprint earned fees under these arrangements of \$42 million, \$84 million, \$48 million and \$97 million, respectively, which are recognized as other revenue within "Service revenue" in the consolidated statements of comprehensive (loss) income.

Amounts included in our consolidated financial statements associated with these supply chain and inventory management arrangements with Brightstar were as follows:

Consolidated balance sheets:	<u>September 30, 2019</u>		<u>March 31, 2019</u>	
	(in millions)			
Accounts receivable	\$	211	\$	187
Accounts payable and accrued expenses and other current liabilities	\$	78	\$	109

Consolidated statements of comprehensive (loss) income:	<u>Three Months Ended</u>				<u>Six Months Ended</u>	
	<u>September 30,</u>				<u>September 30,</u>	
	<u>2019</u>		<u>2018</u>		<u>2019</u>	
	<u>2018</u>		<u>2019</u>		<u>2018</u>	
	(in millions)					
Equipment sales	\$	352	\$	414	\$	696
Cost of equipment sales	\$	382	\$	434	\$	743
					\$	829
					\$	866

SoftBank

Included in "Other liabilities" in the consolidated balance sheets is \$127 million payable to a SoftBank affiliate for reimbursement of legal and consulting fees in connection with the proposed merger with T-Mobile paid to third parties on behalf of Sprint.

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Note 16. Guarantor Financial Information

On September 11, 2013, Sprint Corporation issued \$2.25 billion aggregate principal amount of 7.250% notes due 2021 and \$4.25 billion aggregate principal amount of 7.875% notes due 2023 in a private placement transaction with registration rights. On December 12, 2013, Sprint Corporation issued \$2.5 billion aggregate principal amount of 7.125% notes due 2024 in a private placement transaction with registration rights. Each of these issuances is fully and unconditionally guaranteed by Sprint Communications (Subsidiary Guarantor), which is a 100% owned subsidiary of Sprint Corporation (Parent/Issuer). In connection with the foregoing, in November 2014, the Company and Sprint Communications completed an offer to exchange the notes for a new issue of substantially identical exchange notes registered under the Securities Act of 1933. We did not receive any proceeds from this exchange offer. In addition, on February 24, 2015, Sprint Corporation issued \$1.5 billion aggregate principal amount of 7.625% notes due 2025, and on February 20, 2018, Sprint Corporation issued \$1.5 billion aggregate principal amount of 7.625% senior notes due 2026, which are fully and unconditionally guaranteed by Sprint Communications.

During the six-month periods ended September 30, 2019 and 2018, there were non-cash equity distributions from the non-guarantor subsidiaries to Subsidiary Guarantor of approximately \$31 million and \$1.3 billion, respectively, as a result of organizational restructuring for tax purposes. As of September 30, 2019, there were \$23.6 billion of intercompany notes issued by the Subsidiary Guarantor to the non-guarantor subsidiaries. The notes are subordinated to all unaffiliated third-party obligations of Sprint Corporation and its subsidiaries.

Under the Subsidiary Guarantor's secured revolving bank credit facility, the Subsidiary Guarantor is currently restricted from paying cash dividends to the Parent/Issuer or any non-guarantor subsidiary because the ratio of total indebtedness to adjusted EBITDA (each as defined in the applicable agreement) exceeds 2.5 to 1.0.

Sprint has a Receivables Facility providing for the sale of eligible wireless service, installment and certain future lease receivables. In October 2016, Sprint transferred certain directly held and third-party leased spectrum licenses to wholly-owned bankruptcy-remote special purpose entities as part of the spectrum financing transaction. In connection with both the Receivables Facility and the spectrum financing transactions, Sprint formed certain wholly-owned bankruptcy-remote subsidiaries that are included in the non-guarantor subsidiaries' condensed consolidated financial information. Each of these is a separate legal entity with its own separate creditors who will be entitled, prior to and upon its liquidation, to be satisfied out of its assets prior to any assets becoming available to Sprint. See *Note 8. Long-Term Debt, Financing and Finance Lease Obligations* for additional information.

We have accounted for investments in subsidiaries using the equity method. Presented below is the condensed consolidating financial information.

SPRINT CORPORATION
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CONDENSED CONSOLIDATING BALANCE SHEET

	September 30, 2019				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 3,876	\$ 386	\$ —	\$ 4,262
Short-term investments	—	61	—	—	61
Accounts and notes receivable, net	96	220	3,723	(316)	3,723
Current portion of notes receivable from consolidated affiliates	—	424	—	(424)	—
Device and accessory inventory	—	—	963	—	963
Prepaid expenses and other current assets	—	9	1,188	—	1,197
Total current assets	96	4,590	6,260	(740)	10,206
Investments in subsidiaries	25,567	17,144	—	(42,711)	—
Property, plant and equipment, net	—	—	20,562	—	20,562
Costs to acquire a customer contract	—	—	1,712	—	1,712
Operating lease right-of-use assets	—	—	6,885	—	6,885
Due from consolidated affiliates	290	5,215	—	(5,505)	—
Notes receivable from consolidated affiliates	11,895	23,143	—	(35,038)	—
Intangible assets					
Goodwill	—	—	4,598	—	4,598
FCC licenses and other	—	—	41,481	—	41,481
Definite-lived intangible assets, net	—	—	1,413	—	1,413
Other assets	—	40	1,031	—	1,071
Total assets	\$ 37,848	\$ 50,132	\$ 83,942	\$ (83,994)	\$ 87,928
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ —	\$ —	\$ 3,918	\$ —	\$ 3,918
Accrued expenses and other current liabilities	103	228	3,183	(316)	3,198
Current operating lease liabilities	—	—	1,835	—	1,835
Current portion of long-term debt, financing and finance lease obligations	—	2,574	1,527	—	4,101
Current portion of notes payable to consolidated affiliates	—	—	424	(424)	—
Total current liabilities	103	2,802	10,887	(740)	13,052
Long-term debt, financing and finance lease obligations	11,895	9,105	12,268	—	33,268
Long-term operating lease liabilities	—	—	5,667	—	5,667
Notes payable to consolidated affiliates	—	11,895	23,143	(35,038)	—
Deferred tax liabilities	—	—	7,489	—	7,489
Other liabilities	—	763	1,792	—	2,555
Due to consolidated affiliates	—	—	5,505	(5,505)	—
Total liabilities	11,998	24,565	66,751	(41,283)	62,031
Commitments and contingencies					
Total stockholders' equity	25,850	25,567	17,144	(42,711)	25,850
Noncontrolling interests	—	—	47	—	47
Total equity	25,850	25,567	17,191	(42,711)	25,897
Total liabilities and equity	\$ 37,848	\$ 50,132	\$ 83,942	\$ (83,994)	\$ 87,928

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CONDENSED CONSOLIDATING BALANCE SHEET

	March 31, 2019				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$ —	\$ 6,605	\$ 377	\$ —	\$ 6,982
Short-term investments	—	67	—	—	67
Accounts and notes receivable, net	96	233	3,554	(329)	3,554
Current portion of notes receivable from consolidated affiliates	—	424	—	(424)	—
Device and accessory inventory	—	—	999	—	999
Prepaid expenses and other current assets	—	9	1,280	—	1,289
Total current assets	96	7,338	6,210	(753)	12,891
Investments in subsidiaries	25,785	17,363	—	(43,148)	—
Property, plant and equipment, net	—	—	21,201	—	21,201
Costs to acquire a customer contract	—	—	1,559	—	1,559
Due from consolidated affiliates	288	2,418	—	(2,706)	—
Notes receivable from consolidated affiliates	11,883	23,567	—	(35,450)	—
Intangible assets					
Goodwill	—	—	4,598	—	4,598
FCC licenses and other	—	—	41,465	—	41,465
Definite-lived intangible assets, net	—	—	1,769	—	1,769
Other assets	—	52	1,066	—	1,118
Total assets	\$ 38,052	\$ 50,738	\$ 77,868	\$ (82,057)	\$ 84,601
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ —	\$ —	\$ 3,961	\$ —	\$ 3,961
Accrued expenses and other current liabilities	97	230	3,599	(329)	3,597
Current portion of long-term debt, financing and finance lease obligations	—	1,373	3,184	—	4,557
Current portion of notes payable to consolidated affiliates	—	—	424	(424)	—
Total current liabilities	97	1,603	11,168	(753)	12,115
Long-term debt, financing and finance lease obligations	11,883	10,660	12,823	—	35,366
Notes payable to consolidated affiliates	—	11,883	23,567	(35,450)	—
Deferred tax liabilities	—	—	7,556	—	7,556
Other liabilities	—	807	2,630	—	3,437
Due to consolidated affiliates	—	—	2,706	(2,706)	—
Total liabilities	11,980	24,953	60,450	(38,909)	58,474
Commitments and contingencies					
Total stockholders' equity	26,072	25,785	17,363	(43,148)	26,072
Noncontrolling interests	—	—	55	—	55
Total equity	26,072	25,785	17,418	(43,148)	26,127
Total liabilities and equity	\$ 38,052	\$ 50,738	\$ 77,868	\$ (82,057)	\$ 84,601

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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME

	Three Months Ended September 30, 2019				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	<i>(in millions)</i>				
Net operating revenues:					
Service	\$ —	\$ —	\$ 5,273	\$ —	\$ 5,273
Equipment sales	—	—	1,192	—	1,192
Equipment rentals	—	—	1,330	—	1,330
	—	—	7,795	—	7,795
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	1,775	—	1,775
Cost of equipment sales	—	—	1,359	—	1,359
Cost of equipment rentals (exclusive of depreciation below)	—	—	240	—	240
Selling, general and administrative	—	—	1,936	—	1,936
Depreciation - network and other	—	—	1,065	—	1,065
Depreciation - equipment rentals	—	—	1,056	—	1,056
Amortization	—	—	106	—	106
Other, net	—	—	21	—	21
	—	—	7,558	—	7,558
Operating income	—	—	237	—	237
Other income (expense):					
Interest income	226	509	118	(837)	16
Interest expense	(226)	(522)	(683)	837	(594)
(Losses) earnings of subsidiaries	(274)	(260)	—	534	—
Other expense, net	—	(1)	(1)	—	(2)
	(274)	(274)	(566)	534	(580)
(Loss) income before income taxes	(274)	(274)	(329)	534	(343)
Income tax benefit	—	—	64	—	64
Net (loss) income	(274)	(274)	(265)	534	(279)
Less: Net loss attributable to noncontrolling interests	—	—	5	—	5
Net (loss) income attributable to Sprint Corporation	(274)	(274)	(260)	534	(274)
Other comprehensive (loss) income	(4)	(4)	1	3	(4)
Comprehensive (loss) income	\$ (278)	\$ (278)	\$ (264)	\$ 537	\$ (283)

SPRINT CORPORATION
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CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended September 30, 2018				
	<i>Parent/Issuer</i>	<i>Subsidiary Guarantor</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated</i>
	<i>(in millions)</i>				
Net operating revenues:					
Service	\$ —	\$ —	\$ 5,762	\$ —	\$ 5,762
Equipment sales	—	—	1,418	—	1,418
Equipment rentals	—	—	1,253	—	1,253
	—	—	8,433	—	8,433
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	1,694	—	1,694
Cost of equipment sales	—	—	1,517	—	1,517
Cost of equipment rentals (exclusive of depreciation below)	—	—	151	—	151
Selling, general and administrative	—	—	1,861	—	1,861
Depreciation - network and other	—	—	1,021	—	1,021
Depreciation - equipment rentals	—	—	1,181	—	1,181
Amortization	—	—	159	—	159
Other, net	—	—	71	—	71
	—	—	7,655	—	7,655
Operating income	—	—	778	—	778
Other income (expense):					
Interest income	226	545	340	(1,062)	49
Interest expense	(226)	(638)	(831)	1,062	(633)
Earnings (losses) of subsidiaries	196	267	—	(463)	—
Other income, net	—	22	8	—	30
	196	196	(483)	(463)	(554)
Income (loss) before income taxes	196	196	295	(463)	224
Income tax expense	—	—	(17)	—	(17)
Net income (loss)	196	196	278	(463)	207
Less: Net income attributable to noncontrolling interests	—	—	(11)	—	(11)
Net income (loss) attributable to Sprint Corporation	196	196	267	(463)	196
Other comprehensive income (loss)	9	9	3	(12)	9
Comprehensive income (loss)	\$ 205	\$ 205	\$ 281	\$ (475)	\$ 216

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME

	Six Months Ended September 30, 2019				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	<i>(in millions)</i>				
Net operating revenues:					
Service	\$ —	\$ —	\$ 10,836	\$ —	\$ 10,836
Equipment sales	—	—	2,412	—	2,412
Equipment rentals	—	—	2,689	—	2,689
	—	—	15,937	—	15,937
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	3,485	—	3,485
Cost of equipment sales	—	—	2,700	—	2,700
Cost of equipment rentals (exclusive of depreciation below)	—	—	465	—	465
Selling, general and administrative	—	—	3,843	—	3,843
Depreciation - network and other	—	—	2,185	—	2,185
Depreciation - equipment rentals	—	—	2,085	—	2,085
Amortization	—	—	224	—	224
Other, net	—	—	258	—	258
	—	—	15,245	—	15,245
Operating income	—	—	692	—	692
Other income (expense):					
Interest income	452	1,035	259	(1,700)	46
Interest expense	(452)	(1,072)	(1,389)	1,700	(1,213)
(Losses) earnings of subsidiaries	(385)	(346)	—	731	—
Other expense, net	—	(2)	(2)	—	(4)
	(385)	(385)	(1,132)	731	(1,171)
(Loss) income before income taxes	(385)	(385)	(440)	731	(479)
Income tax benefit	—	—	86	—	86
Net (loss) income	(385)	(385)	(354)	731	(393)
Less: Net loss attributable to noncontrolling interests	—	—	8	—	8
Net (loss) income attributable to Sprint Corporation	(385)	(385)	(346)	731	(385)
Other comprehensive (loss) income	(26)	(26)	1	25	(26)
Comprehensive (loss) income	\$ (411)	\$ (411)	\$ (353)	\$ 756	\$ (419)

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	Six Months Ended September 30, 2018				
	<i>Parent/Issuer</i>	<i>Subsidiary Guarantor</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated</i>
	<i>(in millions)</i>				
Net operating revenues:					
Service	\$ —	\$ —	\$ 11,502	\$ —	\$ 11,502
Equipment sales	—	—	2,591	—	2,591
Equipment rentals	—	—	2,465	—	2,465
	—	—	16,558	—	16,558
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	3,371	—	3,371
Cost of equipment sales	—	—	2,787	—	2,787
Cost of equipment rentals (exclusive of depreciation below)	—	—	275	—	275
Selling, general and administrative	—	—	3,728	—	3,728
Depreciation - network and other	—	—	2,044	—	2,044
Depreciation - equipment rentals	—	—	2,317	—	2,317
Amortization	—	—	330	—	330
Other, net	—	—	113	—	113
	—	—	14,965	—	14,965
Operating income	—	—	1,593	—	1,593
Other income (expense):					
Interest income	452	1,092	342	(1,795)	91
Interest expense	(452)	(1,209)	(1,404)	1,795	(1,270)
Earnings (losses) of subsidiaries	372	469	—	(841)	—
Other income, net	—	20	10	—	30
	372	372	(1,052)	(841)	(1,149)
Income (loss) before income taxes	372	372	541	(841)	444
Income tax expense	—	—	(64)	—	(64)
Net income (loss)	372	372	477	(841)	380
Less: Net income attributable to noncontrolling interests	—	—	(8)	—	(8)
Net income (loss) attributable to Sprint Corporation	\$ 372	\$ 372	\$ 469	\$ (841)	\$ 372
Other comprehensive income (loss)	5	5	(10)	5	5
Comprehensive income (loss)	\$ 377	\$ 377	\$ 467	\$ (836)	\$ 385

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Six Months Ended September 30, 2019				
	<i>Parent/Issuer</i>	<i>Subsidiary Guarantor</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated</i>
	<i>(in millions)</i>				
Cash flows from operating activities:					
Net cash (used in) provided by operating activities	\$ —	\$ (88)	\$ 4,898	\$ —	\$ 4,810
Cash flows from investing activities:					
Capital expenditures - network and other	—	—	(2,298)	—	(2,298)
Capital expenditures - leased devices	—	—	(3,302)	—	(3,302)
Expenditures relating to FCC licenses	—	—	(16)	—	(16)
Proceeds from sales and maturities of short-term investments	—	67	—	—	67
Purchases of short-term investments	—	(61)	—	—	(61)
Change in amounts due from/due to consolidated affiliates	33	(2,743)	—	2,710	—
Proceeds from sales of assets and FCC licenses	—	—	599	—	599
Proceeds from intercompany note advance to consolidated affiliate	—	424	—	(424)	—
Other, net	—	3	(12)	—	(9)
Net cash provided by (used in) investing activities	33	(2,310)	(5,029)	2,286	(5,020)
Cash flows from financing activities:					
Proceeds from debt and financings	—	—	3,364	—	3,364
Repayments of debt, financing and finance lease obligations	—	(330)	(5,496)	—	(5,826)
Debt financing costs	—	(2)	(10)	—	(12)
Proceeds from issuance of common stock, net	(33)	—	—	—	(33)
Change in amounts due from/due to consolidated affiliates	—	—	2,710	(2,710)	—
Repayments of intercompany note advance from parent	—	—	(424)	424	—
Net cash (used in) provided by financing activities	(33)	(332)	144	(2,286)	(2,507)
Net (decrease) increase in cash, cash equivalents and restricted cash	—	(2,730)	13	—	(2,717)
Cash, cash equivalents and restricted cash, beginning of period	—	6,606	457	—	7,063
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ 3,876	\$ 470	\$ —	\$ 4,346

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Six Months Ended September 30, 2018				
	<i>Parent/Issuer</i>	<i>Subsidiary Guarantor</i>	<i>Non-Guarantor Subsidiaries</i>	<i>Eliminations</i>	<i>Consolidated</i>
	<i>(in millions)</i>				
Cash flows from operating activities:					
Net cash (used in) provided by operating activities	\$ —	\$ (209)	\$ 5,566	\$ —	\$ 5,357
Cash flows from investing activities:					
Capital expenditures - network and other	—	—	(2,398)	—	(2,398)
Capital expenditures - leased devices	—	—	(3,524)	—	(3,524)
Expenditures relating to FCC licenses	—	—	(70)	—	(70)
Proceeds from sales and maturities of short-term investments	—	4,002	—	—	4,002
Purchases of short-term investments	—	(4,834)	—	—	(4,834)
Change in amounts due from/due to consolidated affiliates	(248)	(320)	—	568	—
Proceeds from sales of assets and FCC licenses	—	—	272	—	272
Proceeds from deferred purchase price from sale of receivables	—	—	223	—	223
Proceeds from intercompany note advance to consolidated affiliate	—	424	—	(424)	—
Other, net	—	—	42	—	42
Net cash (used in) provided by investing activities	(248)	(728)	(5,455)	144	(6,287)
Cash flows from financing activities:					
Proceeds from debt and financings	—	—	2,944	—	2,944
Repayments of debt, financing and finance lease obligations	—	(20)	(2,908)	—	(2,928)
Debt financing costs	(28)	(9)	(211)	—	(248)
Proceeds from issuance of common stock, net	276	—	—	—	276
Change in amounts due from/due to consolidated affiliates	—	—	568	(568)	—
Repayments of intercompany note advance from parent	—	—	(424)	424	—
Net cash provided by (used in) financing activities	248	(29)	(31)	(144)	44
Net (decrease) increase in cash, cash equivalents and restricted cash	—	(966)	80	—	(886)
Cash, cash equivalents and restricted cash, beginning of period	—	6,222	437	—	6,659
Cash, cash equivalents and restricted cash, end of period	\$ —	\$ 5,256	\$ 517	\$ —	\$ 5,773

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 17. Additional Financial Information

Cash, Cash Equivalents and Restricted Cash

The following provides the classifications of cash, cash equivalents and restricted cash in the consolidated balance sheets:

	September 30, 2019	March 31, 2019
	<i>(in millions)</i>	
Cash and cash equivalents	\$ 4,262	\$ 6,982
Restricted cash in Other assets ⁽¹⁾	84	81
Cash, cash equivalents and restricted cash	<u>\$ 4,346</u>	<u>\$ 7,063</u>

⁽¹⁾ Restricted cash in Other assets is required as part of our spectrum financing transactions.

Accounts Payable

Accounts payable at both September 30, 2019 and March 31, 2019 include liabilities in the amount of \$75 million for payments issued in excess of associated bank balances but not yet presented for collection.

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

Sprint Corporation, including its consolidated subsidiaries, is a communications company offering a comprehensive range of wireless and wireline communications products and services that are designed to meet the needs of individual consumers, businesses, government subscribers, and resellers. Unless the context otherwise requires, references to "Sprint," "we," "us," "our" and the "Company" mean Sprint Corporation and its consolidated subsidiaries for all periods presented, and references to "Sprint Communications" are to Sprint Communications, Inc. and its consolidated subsidiaries.

Description of the Company

We are a large wireless communications company in the U.S., as well as a provider of wireline services. Our services are provided through our ownership of extensive wireless networks, an all-digital global wireline network and a Tier 1 Internet backbone.

We offer wireless and wireline services to subscribers in all 50 states, Puerto Rico, and the U.S. Virgin Islands under the Sprint corporate brand, which includes our retail brands of Sprint®, Boost Mobile®, Virgin Mobile®, and Assurance Wireless® on our wireless networks utilizing various technologies including third generation (3G) code division multiple access (CDMA) and fourth generation (4G) services utilizing Long Term Evolution (LTE). In 2019, Sprint launched fifth generation (5G) service in nine major cities, which is supported by our available 2.5 GHz spectrum. We utilize these networks to offer our wireless subscribers differentiated products and services through the use of a single network or a combination of these networks.

Business Combination Agreement

On April 29, 2018, we announced that we entered into a Business Combination Agreement with T-Mobile US, Inc. (T-Mobile) to merge in an all-stock transaction for a fixed exchange ratio of 0.10256 of T-Mobile shares for each Sprint share, or the equivalent of 9.75 Sprint shares for each T-Mobile share (Merger Transaction). Immediately following the Merger Transaction, Deutsche Telekom AG and SoftBank Group Corp. are expected to hold approximately 42% and 27% of fully-diluted shares of the combined company, respectively, with the remaining 31% of the fully-diluted shares of the combined company held by public stockholders. The board of directors will consist of 14 directors, of which nine will be nominated by Deutsche Telekom AG, four will be nominated by SoftBank Group Corp., and the final director will be the CEO of the combined company. The combined company will be named T-Mobile. The Merger Transaction is subject to customary closing conditions, including certain state and federal regulatory approvals. Sprint and T-Mobile completed the Hart-Scott-Rodino filing with the Department of Justice (DOJ) on May 24, 2018. On June 18, 2018, the parties filed with the Federal Communications Commission (FCC) the merger applications, including the Public Interest Statement. On July 18, 2018, the FCC accepted the applications for filing and established a public comment period for the Merger Transaction. The formal comment period concluded on October 31, 2018. On May 20, 2019, to facilitate the FCC's review and approval of the FCC license transfers associated with the proposed Merger Transaction, we and T-Mobile filed with the FCC a written *ex parte* presentation (the Presentation) relating to the proposed Merger Transaction. The Presentation included proposed commitments from us and T-Mobile. On October 16, 2019, the FCC voted to approve the Merger Transaction. The Merger Transaction received clearance from the Committee on Foreign Investment in the United States on December 17, 2018.

On July 26, 2019, the DOJ and five State Attorneys General filed an action in the United States District Court for the District of Columbia that would resolve their objections to the Merger Transaction. Since then, four additional states have joined the DOJ action. The Merger Transaction has received approval from 18 of the 19 state public utility commissions. The parties are awaiting further regulatory approvals, and resolution of litigation filed by the Attorneys General of 15 states and the District of Columbia seeking to block the Merger Transaction. The parties to the Business Combination Agreement extended the Outside Date (as defined in the Business Combination Agreement) to November 1, 2019, or, if the Marketing Period (as defined in the Business Combination Agreement) is in effect at such time, then the Outside Date will be January 2, 2020. After November 1, 2019, Sprint and T-Mobile each have a right under the Business Combination Agreement to terminate that agreement at any time because the Merger Transactions were not completed as of that date.

Also, on July 26, 2019, Sprint and T-Mobile announced agreements with DISH Network Corporation (DISH) in which new T-Mobile will divest Sprint's prepaid businesses (excluding the Assurance brand Lifeline customers and the prepaid wireless customers of Shenandoah Telecommunications Company and Swiftel Communications, Inc.) and Sprint's 800 MHz spectrum assets to DISH for a total of approximately \$5.0 billion. Additionally, upon the closing of the divestiture transaction, new T-Mobile will provide DISH wireless customers access to its network for up to seven years and offer standard transition services arrangements to DISH during a transition period of up to three years. DISH will also have an

option to take on leases for certain cell sites and retail locations that are decommissioned by the new T-Mobile, subject to any assignment restrictions. Under the terms of the arrangement, Sprint appointed individuals, subject to approval by the DOJ, to oversee the prepaid assets and maintain complete managerial responsibility, including the ability to make all business decisions relating to the operations of the prepaid assets independent of Sprint and T-Mobile. In connection with the execution of the firm agreements by and between DISH and the Company, as well as the agreements with the DOJ as outlined in the Proposed Final Judgment and Stipulation and Order, Sprint has not lost a controlling financial interest in its prepaid assets. The transactions with DISH are contingent on the successful closing of T-Mobile's merger with Sprint among other closing conditions.

Leases

The Company adopted *Leases* (Topic 842) beginning on April 1, 2019 using the modified retrospective transition method. See *Note 7. Leases* in Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for additional information related to operating and financing leases, including qualitative and quantitative disclosures required under Topic 842. The impact to our consolidated financial statements of adopting Topic 842 is presented in *Note 2. New Accounting Pronouncements* in Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q.

Wireless

We offer wireless services on a postpaid and prepaid payment basis to retail subscribers and also on a wholesale basis, which includes the sale of wireless services that utilize the Sprint network but are sold under the wholesaler's brand.

Postpaid

In our postpaid portfolio, we offer several price plans for both consumer and business subscribers. Many of our price plans include unlimited talk, text and data or allow subscribers to purchase monthly data allowances. We also offer family plans that include multiple lines of service under one account.

Under the Sprint brand, we currently offer our devices through leasing and installment billing programs, and within limited plan offerings devices may be subsidized in exchange for a service contract. Our Sprint branded leasing and installment billing programs do not require a long-term service contract but offer devices tied to service plans at lower monthly rates when compared to subsidy plans. The installment billing program requires the subscriber to pay full or a discounted retail price based on promotional activities for the device over the installment period. The leasing program requires the subscriber to pay a rental fee over the lease term. In July 2017, we introduced the Sprint Flex program, which gives customers the opportunity to enjoy their phone before deciding what option (upgrade, continue leasing, return or buy) works best for their lifestyle. Depending on device type, certain leases carry an option to upgrade to a new device annually prior to expiration of the lease. The terms of our lease and installment billing contracts require that customers maintain service otherwise the balance of the remaining contractual obligation on the device is due upon termination of their service. The subsidy program, which has been de-emphasized, requires a long-term service contract and allows a subscriber to purchase a device generally at a discount. In our non-Sprint branded postpaid plan, we offer devices through an installment billing program while requiring service to be purchased on a prepaid basis. The majority of Sprint's current handset activations occur on our Sprint Flex leasing program.

Prepaid

Our prepaid portfolio currently includes multiple brands, each designed to appeal to specific subscriber uses and demographics. Additionally, a subsidy program is available within certain prepaid plan offerings. In our indirect channel, customers who activate service under certain prepaid plan offerings are able to purchase devices at a discount. Boost Mobile primarily serves subscribers that are looking for value without data limits. Virgin Mobile primarily serves subscribers that are looking to optimize spend but need solutions that offer control, flexibility and connectivity through various plans with high speed data options. Virgin Mobile is also designated as a Lifeline-only Eligible Telecommunications Carrier. Under the Assurance Wireless brand, Virgin Mobile provides service to Lifeline eligible subscribers (for whom it seeks reimbursement from the federal Universal Service Fund) and subscribers who have lost their Lifeline eligibility and retain Assurance Wireless retail service. The Lifeline program requires applicants to meet certain eligibility requirements and existing subscribers must recertify as to those requirements annually.

Wholesale

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

We continue to support the open development of applications, content, and devices on the Sprint network. In addition, we enable a variety of business and consumer third-party relationships through our portfolio of machine-to-machine solutions, which we offer on a retail postpaid and wholesale basis. Our machine-to-machine solutions portfolio provides a secure, real-time and reliable wireless two-way data connection across a broad range of connected devices.

Wireline

We provide a suite of wireline communication services to other communications companies and targeted business customers. In addition, our Wireline segment provides data and IP communication services to our Wireless segment. We provide long distance services and operate all-digital global long distance and Tier 1 IP networks.

Business Strategies and Key Priorities

Our business strategy is to be responsive to changing customer mobility demands of existing and potential customers, and to expand our business into new areas of customer value and economic opportunity through innovation and differentiation. To help lay the foundation for these future growth opportunities, our strategy revolves around targeted investment in the following key priority areas:

- our Next-Gen network plan will deliver competitive coverage, faster speeds and more capacity;
- create a compelling unlimited value proposition;
- provide the best digital customer experience; and
- engage our employees by making Sprint a great place to work.

While the Company launched 5G in select cities in the first half of 2019 and we plan to continue to invest in our network during the next few years, many of the underlying service quality, scale, and financial challenges remain. We aim to use our spectrum to build our 5G network on 2.5 GHz spectrum. See *Network* below for more information regarding our network plans and potential challenges to our rollout of 5G.

We aim to create a compelling unlimited value proposition by leveraging our spectrum holdings while remaining the price leader on Unlimited plan offerings and taking our brand to the next level.

We plan to continue to invest in digital capabilities and artificial intelligence to improve the customer experience. We are focused on finding the right balance between physical and digital retail to serve customers wherever and whenever they want.

We have recruited leaders in our industry from around the globe and employ an organizational focus to ensure Sprint has a work environment employees recommend.

Network

We continue to increase coverage and capacity by densifying and evolving our existing network toward 5G. Densification, which includes increasing the number of small cells and antennas, is intended to enhance coverage and capacity across the network. We are also deploying new technologies, such as Massive MIMO and carrier aggregation, which allows us to move more data at faster speeds over the same spectrum and eventually migrate customers to an all IP network, supporting both Voice over LTE and data. Additionally, our introduction of tri-band devices, including those with 5G capabilities, allows us to manage and operate our network more efficiently and at a lower cost. We have continued to see positive results from these infrastructure upgrades in key U.S. markets. While Sprint will build 5G in a number of cities throughout the country, its current 5G build plans will result in coverage that is limited to major cities and the surrounding areas rather than coverage that blankets the entire geography of the United States. Sprint's ability to expand its 5G network footprint outside of metro areas will be limited by its financial resources, lack of scale and access to low-band spectrum. Moreover, Sprint plans to focus on creating a 5G ecosystem for smartphones and other mobile devices rather than stationary devices.

The 2.5 GHz spectrum band carries the highest percentage of Sprint's LTE data traffic. We have significant additional capacity to grow the use of our 2.5 GHz spectrum holdings into the future. Sprint believes it is well-positioned with spectrum holdings of more than 160 MHz of 2.5 GHz spectrum in the top 100 markets in the U.S. Sprint's spectrum

holdings allow us to introduce 5G in parallel with 4G service over the same 2.5 GHz spectrum band, supporting the early introduction of 5G devices without disrupting the capacity needed to support our 4G users.

Overall, our densification and introduction of 5G technologies are expected to continue to enhance the customer experience by adding data capacity, increasing the wireless data speeds available to our customers, and improving network performance for both voice and data services, especially in the geographic areas where 5G will be provided. In the event the Merger Transaction is not completed, our ability to provide a nationwide network capable of competing effectively with other competitors in the wireless industry will depend on our access to, and deployment of, adequate low-band spectrum. As part of the evolution of our existing network toward 5G, we plan to modify our existing backhaul architecture to enable increased capacity to our network at a lower cost by either negotiating lower vendor pricing for existing Ethernet technology or replacing Ethernet with fiber. We expect to incur termination costs associated with Ethernet contractual commitments with third-party vendors ranging between approximately \$80 million to \$100 million, of which the majority are expected to be incurred by December 31, 2020.

As previously announced, in 2019 Sprint launched 5G service in nine major cities. Once 5G-compatible equipment is in place and activated, customers in those cities will have access to Sprint's 5G network if they are in range of a cell site that has been equipped with a 5G radio supported by available 2.5 GHz spectrum and have a 5G-capable device. As more and more sites are 5G-enabled, customers in those areas will be able to have an increasing percentage of their mobile experiences on 5G rather than on LTE or 3G.

If the Merger Transaction with T-Mobile is not completed, it is expected that Sprint will not be able to deploy a nationwide 5G network on the same scale and on the same timeline as the combined company. For example, Sprint's standalone 5G network would be geographically limited due to both Sprint's limited current network footprint on which to build 5G sites and the cost of utilizing 2.5 GHz spectrum for 5G.

RESULTS OF OPERATIONS

Consolidated Results of Operations

The following table provides an overview of the consolidated results of operations.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	<i>(in millions)</i>			
Wireless segment earnings	\$ 2,562	\$ 3,276	\$ 5,599	\$ 6,594
Wireline segment loss	(5)	(20)	(5)	(62)
Corporate, other and eliminations	(3)	—	2	4
Consolidated segment earnings	2,554	3,256	5,596	6,536
Depreciation - network and other	(1,065)	(1,021)	(2,185)	(2,044)
Depreciation - equipment rentals	(1,056)	(1,181)	(2,085)	(2,317)
Amortization	(106)	(159)	(224)	(330)
Other, net	(90)	(117)	(410)	(252)
Operating income	237	778	692	1,593
Interest expense	(594)	(633)	(1,213)	(1,270)
Other income, net	14	79	42	121
Income tax benefit (expense)	64	(17)	86	(64)
Net (loss) income	\$ (279)	\$ 207	\$ (393)	\$ 380

Depreciation Expense - Network and Other

Depreciation expense - network and other increased \$44 million, or 4%, and \$141 million, or 7%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to increased depreciation on new asset additions, partially offset by decreases associated with fully depreciated or retired assets.

Depreciation Expense - Equipment Rentals

Depreciation expense - equipment rentals decreased \$125 million, or 11%, and \$232 million, or 10%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to decreased depreciation for fully depreciated or retired leased devices combined with favorable changes to leased device residual values.

Amortization Expense

Amortization expense decreased \$53 million, or 33%, and \$106 million, or 32%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to customer relationship intangible assets that are amortized using the sum-of-the-months'-digits method, which results in higher amortization rates in early periods that decline over time.

Other, net

The following table provides additional information regarding items included in "Other, net" for the three- and six-month periods ended September 30, 2019 and 2018.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	<i>(in millions)</i>			
Severance and exit costs	\$ (19)	\$ (25)	\$ (46)	\$ (33)
Loss on disposal of property, plant and equipment, net	—	(68)	—	(68)
Contract termination costs	—	—	—	(34)
Merger costs	(69)	(56)	(152)	(149)
Asset impairments	(2)	—	(212)	—
Hurricane-related reimbursements	—	32	—	32
Total	\$ (90)	\$ (117)	\$ (410)	\$ (252)

Other, net represented an expense of \$90 million and \$410 million for the three- and six-month periods ended September 30, 2019, respectively. During the three- and six-month periods ended September 30, 2019, we recognized \$2 million and \$212 million, respectively, of asset impairment expense primarily related to the sale and leaseback of our Overland Park, Kansas campus and severance and exit costs of \$19 million and \$46 million, respectively, due to access termination charges and reductions in work force. In addition, during the three- and six-month periods ended September 30, 2019, we incurred merger-related costs of \$69 million and \$152 million, respectively, which were recorded in "Selling, general and administrative" in the consolidated statements of comprehensive (loss) income.

Other, net represented an expense of \$117 million and \$252 million for the three- and six-month periods ended September 30, 2018, respectively. During the three- and six-month periods ended September 30, 2018, we recognized severance and exit costs of \$25 million and \$33 million, respectively, primarily due to reductions in work force, access termination charges and lease exit costs. During the three-month period ended September 30, 2018, we recorded a \$68 million loss on disposal of property, plant and equipment primarily related to cell site construction costs and other network costs that are no longer recoverable as a result of changes in our network plans. During the three-month period ended June 30, 2018, we recognized \$34 million associated with the purchase of certain leased spectrum assets, which upon termination of the related spectrum leases resulted in the accelerated recognition of the unamortized favorable lease balances. In addition, during the three- and six-month periods ended September 30, 2018, we incurred merger-related costs of \$56 million and \$149 million, respectively, which were recorded in "Selling, general and administrative" in the consolidated statements of comprehensive (loss) income. We also recorded \$32 million of hurricane-related reimbursements during the three-month period ended September 30, 2018, which were recorded as "Service revenue" in net operating revenues, "Cost of services," "Selling, general and administrative," and "Other, net" in the consolidated statements of comprehensive (loss) income.

Interest Expense

Interest expense decreased \$39 million, or 6%, and \$57 million, or 4%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The effective interest rate, which includes capitalized interest, on the weighted average long-term debt balance of \$36.7 billion and \$37.6 billion was 6.7% and 6.6% for the three- and six-month periods ended September 30, 2019, respectively. The effective interest rate, which includes capitalized interest, on the weighted average long-term debt balance of \$40.0 billion and \$40.2 billion was 6.5% for both the three- and six-month periods ended September 30, 2018, respectively. See "Liquidity and Capital Resources" for more information on the Company's financing activities.

Other income, net

Other income, net was \$14 million, and \$42 million for the three- and six-month periods ended September 30, 2019, respectively, and primarily represents interest income. Other income, net was \$79 million and \$121 million for the

three- and six-month periods ended September 30, 2018, respectively. Interest income during the three- and six-month periods ended September 30, 2018 was \$47 million and \$90 million, respectively. In addition, during the three- and six-month periods ended September 30, 2018 we recognized other income of \$24 million as a result of a tax-related legal settlement.

Income Taxes

Income tax benefit of \$64 million and \$86 million for the three- and six-month periods ended September 30, 2019, respectively, represented a consolidated effective tax rate of 19% and 18%, respectively. During the six-month period ended September 30, 2019, we recognized a \$37 million tax expense for federal and state valuation allowance. This expense partially offsets the tax benefit recognized from the pre-tax book loss at the U.S. federal statutory tax rate.

Income tax expense of \$17 million and \$64 million for the three- and six-month periods ended September 30, 2018, respectively, represented a consolidated effective tax rate of 7% and 14%, respectively. During the three-month period ended September 30, 2018, we recognized a \$35 million tax benefit for the impact of state law changes enacted during the period. The tax benefit was driven by changes to the carrying value of our deferred tax assets and liabilities on temporary differences. During the six-month period ended September 30, 2018, we recognized a \$59 million tax benefit for the impact of state law changes enacted during the period, partially offset by a \$13 million tax expense attributable to organizational restructuring. These adjustments were primarily driven by the change in carrying value of our deferred tax assets and liabilities on temporary differences.

As of September 30, 2019, we maintained valuation allowance on deferred tax assets primarily related to net operating loss carryforwards. As of each reporting date, we consider new evidence, both positive and negative, that could affect our view of the future realization of deferred tax assets. Provisions included in federal and state tax laws, in particular alternative cost recovery methods for fixed assets applicable in future periods, can significantly impact the timing of deductions for tax purposes that may result in projected taxable income during the net operating loss carryforward periods. This projected taxable income would be a positive source of evidence. We believe that there is a reasonable possibility that within the next 12 months sufficient positive evidence may become available to allow us to reach a conclusion that a portion of the valuation allowance on deferred tax assets related to certain net operating losses will no longer be needed. Release of the valuation allowance would result in the recognition of the deferred tax assets and a non-cash tax benefit for the period the release is recorded. The exact timing and amount of the valuation allowance release are subject to change depending on the results of operations and the timing of future taxable income.

Segment Earnings - Wireless

Wireless segment earnings are a function of wireless net operating revenues inclusive of wireless service revenue, the sale of wireless devices (handsets, tablets and wearables), broadband devices, connected devices, leasing wireless devices, and commissions on the device insurance and accessory programs. Combined with wireless net operating revenues, Wireless segment earnings are also a function of costs of equipment sales and rentals, costs to acquire subscribers, and network and interconnection costs to serve those subscribers, as well as other Wireless segment operating expenses. The cost of equipment sales and equipment rentals primarily includes equipment costs associated with our installment billing and subsidy programs, and loss on disposal of property, plant and equipment, net of recoveries, resulting from the write-off of leased devices where customers did not return the devices to us. The costs to acquire our subscribers also includes marketing and sales costs incurred to attract those subscribers. Network costs primarily represent switch and cell site costs, backhaul costs, and interconnection costs, which generally consist of per-minute usage fees and roaming fees paid to other carriers. The remaining costs associated with operating the Wireless segment include the costs to operate our customer care organization and administrative support. Wireless service revenue, costs to acquire subscribers, and variable network and interconnection costs fluctuate with the changes in our subscriber base and their related usage, but some cost elements do not fluctuate in the short-term with these changes.

As shown by the table above under "Consolidated Results of Operations," Wireless segment earnings represented almost all of our total consolidated segment earnings for the three- and six-month periods ended September 30, 2019 and 2018. Within the Wireless segment, postpaid wireless services represent the most significant contributor to earnings and is driven by the number of postpaid subscribers utilizing our services, as well as average revenue per user (ARPU). The wireless industry is subject to competition to retain and acquire subscribers of wireless services. All markets in which we operate have high rates of penetration for wireless services, and we expect this competition and market penetration to continue to pressure our share of gross additions and rates of churn.

Device Financing Programs

We offer a leasing program whereby qualified subscribers can lease a device for a contractual period of time, and an installment billing program that allows subscribers to purchase a device by paying monthly installments, generally over 24 months. In July 2017, we introduced the Sprint Flex program, which gives customers the opportunity to enjoy their phone before deciding what option (upgrade, continue leasing, return or buy) works best for their lifestyle. Depending on device type, certain leases carry an option to upgrade to a new device annually prior to expiration of the lease. At the end of the lease term, the subscriber has the option to return the device, continue leasing the device, or purchase the device.

As of September 30, 2019, substantially all of our device leases were classified as operating leases and predominantly all of our subscribers choose to lease devices from us under the Sprint Flex program. As a result, the leased devices are classified as property, plant and equipment when leased to subscribers through Sprint's direct channels. For leases in the indirect channel, we purchase the devices at lease inception from the dealer, which are then capitalized to property, plant and equipment. Lease revenue is recorded monthly over the term of the lease and the cost of the device is depreciated to its estimated residual value, generally over the lease term. As these devices are classified as property, plant and equipment, the cost of the device is not recorded as cost of equipment sales compared to when sold under the installment billing or traditional subsidy program but rather is recorded as depreciation expense, which results in a significant positive impact to Wireless segment earnings. Depreciation expense incurred on leased devices for the three- and six-month periods ended September 30, 2019 and 2018, was \$1.1 billion, \$2.1 billion, \$1.2 billion and \$2.3 billion, respectively.

Under the installment billing program, we recognize a majority of the revenue associated with future expected installment payments at the time of sale of the device to Sprint branded customers. As compared to our traditional subsidy program, this results in better alignment of the revenue with the cost of the device. The impact to Wireless earnings from the sale of devices under our installment billing program is neutral except for the impact from promotional offers.

Our device leasing and installment billing programs require a greater use of cash flow in the early part of the device contracts as our subscribers will generally pay less upfront than through our traditional subsidy program. The accounts receivable facility discussed in "Liquidity and Capital Resources" partially mitigates the significant use of cash from purchasing devices from original equipment manufacturers (OEMs) to fulfill our leasing and installment billing programs.

Wireless Segment Earnings Trends

Sprint offers lower monthly service fees without a traditional contract as an incentive to attract subscribers to certain of our service plans. These lower rates for service are available whether the subscriber brings their own device, pays the full or discounted retail price for the device, leases their device through our Sprint Flex leasing program, or purchases the device under our installment billing program. We expect our postpaid ARPU to decline in fiscal year 2019 due to the mix of devices resulting from higher data device sales, which generally have a lower ARPU than handsets, and continued promotional activities. Since inception, the combination of lower-priced plans and our leasing and installment billing programs have been accretive to Wireless segment earnings. We expect that trend to continue so long as we are able to attract subscribers, particularly postpaid handset subscribers. Additionally, we expect prepaid service revenue to decline in fiscal year 2019 due to the continued amortization of contract balances as a result of the adoption of *Revenue from Contracts with Customers* (Topic 606).

We began to experience net losses of postpaid handset subscribers in mid-2013. Since the release of our price plans associated with device financing options, results have shown improvement in trends of postpaid handset subscribers starting with the quarter ended September 30, 2015. However, we began to experience net losses of postpaid handset subscribers starting with the quarter ended September 30, 2018 through the current quarter. We continue to take initiatives to provide the best value in wireless service while continuing to enhance our network performance, coverage and capacity in order to attract and retain valuable handset subscribers. In addition, we continue to evaluate our cost model to operationalize the most effective cost structure but expect any improvements in 2019 to be fully offset by incremental costs associated with the network and customer experience initiatives.

The following table provides an overview of the results of operations of our Wireless segment.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Wireless Segment Earnings	<i>(in millions)</i>			
Postpaid ⁽¹⁾	\$ 4,218	\$ 4,252	\$ 8,417	\$ 8,440
Prepaid	792	954	1,635	1,936
Retail service revenue	5,010	5,206	10,052	10,376
Wholesale, affiliate and other	35	289	315	579
Total service revenue	5,045	5,495	10,367	10,955
Equipment sales	1,192	1,418	2,412	2,591
Equipment rentals	1,330	1,253	2,689	2,465
Total net operating revenues	7,567	8,166	15,468	16,011
Cost of services (exclusive of depreciation and amortization)	(1,591)	(1,472)	(3,110)	(2,901)
Cost of equipment sales	(1,359)	(1,517)	(2,700)	(2,787)
Cost of equipment rentals (exclusive of depreciation)	(240)	(151)	(465)	(275)
Selling, general and administrative expense	(1,815)	(1,750)	(3,594)	(3,454)
Total net operating expenses	(5,005)	(4,890)	(9,869)	(9,417)
Wireless segment earnings	\$ 2,562	\$ 3,276	\$ 5,599	\$ 6,594

(1) Postpaid service revenue in the three- and six-month periods ended September 30, 2018 excludes \$3 million of hurricane-related revenue reimbursements.

Service Revenue

Our Wireless segment generates service revenue from the sale of wireless services and the sale of wholesale and other services. Service revenue consists of fixed monthly recurring charges, variable usage charges and miscellaneous fees such as activation fees, international long distance and roaming, commissions on the device insurance program, late payment and administrative fees, and certain regulatory-related fees, net of service credits.

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

- revenue generated from each subscriber, which is a function of the types and amount of services utilized by each subscriber and the rates charged for those services; and
- the number of subscribers that we serve, which is a function of our ability to retain existing subscribers and acquire new subscribers.

Retail comprises those subscribers to whom Sprint directly provides wireless services, whether those services are provided on a postpaid or a prepaid basis. We also categorize our retail subscribers as prime and subprime based on subscriber credit profiles. We use proprietary scoring systems that measure the credit quality of our subscribers using several factors, such as credit bureau information, subscriber credit risk scores and service plan characteristics. Payment history is subsequently monitored to further evaluate subscriber credit profiles. Wholesale and affiliates are those subscribers who are served through MVNO and affiliate relationships and other arrangements. Under the MVNO relationships, wireless services are sold by Sprint to other companies that resell those services to subscribers.

Retail service revenue decreased \$196 million, or 4%, and \$324 million, or 3% for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The decreases were primarily due to lower prepaid service revenue due to the continued amortization of contract balances as a result of the adoption of Topic 606, combined with lower average revenue per postpaid subscriber driven by higher data device sales which generally have a lower ARPU than handsets, an increase in service offers and other promotional activities and lower prepaid subscribers. The decrease was partially offset by an increase in average postpaid subscribers.

Wholesale, affiliate and other revenues decreased \$254 million, or 88%, and \$264 million, or 46% for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The decrease was primarily due to lower Lifeline revenue as a result of estimated reimbursements to federal and state governments for subsidies claimed contrary to Sprint's usage policy as well as lower claims during the quarter. Additionally, the decrease in revenues was also due to the continued amortization of contract balances as a result of the adoption of Topic 606 combined with lower fees earned under an accessories arrangement with Brightstar. The decrease was partially offset by an increase in

revenues associated with a reciprocal long-term lease agreement with T-Mobile. In September 2018, we signed a reciprocal long-term lease agreement with T-Mobile in which both parties have the right to use a portion of spectrum owned by the other party. Approximately 79% of our total wholesale and affiliate subscribers represent connected devices. These devices generate revenue which varies based on usage.

Average Monthly Service Revenue per Subscriber and Subscriber Trends

The table below summarizes average number of retail subscribers. Additional information about the number of subscribers, net additions (losses) to subscribers, and average rates of monthly postpaid and prepaid subscriber churn for each quarter since the quarter ended June 30, 2018 may be found in the tables below.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	<i>(subscribers in thousands)</i>			
Average postpaid subscribers	33,240	32,242	33,061	32,146
Average prepaid subscribers	8,533	8,984	8,635	9,006
Average retail subscribers	41,773	41,226	41,696	41,152

The table below summarizes ARPU. Additional information about ARPU for each quarter since the quarter ended June 30, 2018 may be found in the tables on the following pages.

	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
ARPU ⁽¹⁾ :				
Postpaid	\$ 42.30	\$ 43.99	\$ 42.43	\$ 43.77
Prepaid	\$ 30.97	\$ 35.40	\$ 31.57	\$ 35.83
Average retail	\$ 39.98	\$ 42.09	\$ 40.18	\$ 42.02

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

Postpaid ARPU for the three- and six-month periods ended September 30, 2019 decreased compared to the same periods in 2018 primarily due to lower service revenue resulting from higher data device sales which generally have a lower ARPU than handsets and increased promotional activities. Prepaid ARPU decreased for the three- and six-month periods ended September 30, 2019 compared to the same periods in 2018 primarily due to lower service revenue due to the continued amortization of contract balances as a result of the adoption of Topic 606 and from promotional activities. (See "Subscriber Results" below for more information.)

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The following table shows (a) net additions (losses) of wireless subscribers, (b) our total subscribers, and (c) end of period connected device subscribers as of the end of each quarterly period beginning with the quarter ended June 30, 2018.

	June 30, 2018	Sept 30, 2018	Dec 31, 2018	March 31, 2019	June 30, 2019	Sept 30, 2019
Net additions (losses) (in thousands)⁽¹⁾						
Postpaid	123	109	309	169	134	273
Prepaid	3	(14)	(173)	(30)	(169)	(207)
Wholesale and affiliates	(69)	(115)	(88)	(147)	(140)	(462)
Total Wireless	57	(20)	48	(8)	(175)	(396)
End of period subscribers (in thousands)⁽¹⁾						
Postpaid ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	32,187	32,296	32,605	32,774	33,075	33,348
Prepaid ⁽³⁾⁽⁴⁾	9,033	9,019	8,846	8,816	8,647	8,440
Wholesale and affiliates ⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	13,347	13,232	13,044	12,897	12,590	12,128
Total Wireless	54,567	54,547	54,495	54,487	54,312	53,916

Supplemental data - connected devices

End of period subscribers (in thousands)⁽²⁾						
Retail postpaid	2,429	2,585	2,821	3,121	3,453	3,718
Wholesale and affiliates	10,963	10,838	10,563	10,384	9,968	9,585
Total	13,392	13,423	13,384	13,505	13,421	13,303

- (1) A subscriber is defined as an individual line of service associated with each device activated by a customer. Subscribers that transfer from their original service category classification to another service category are generally reflected as a net loss to the original service category and a net addition to their new service category. There is no net effect for such subscriber changes to the total wireless net additions (losses) or end of period subscribers.
- (2) End of period connected devices are included in retail postpaid or wholesale and affiliates end of period subscriber totals for all periods presented.
- (3) During the three-month period ended June 30, 2018, we ceased selling devices in our installment billing program under one of our brands and as a result, 45,000 subscribers were migrated back to prepaid from postpaid.
- (4) As a result of our affiliate agreement with Shentel, certain subscribers have been transferred from postpaid and prepaid to affiliates. During the three-month period ended June 30, 2018, 10,000 and 4,000 subscribers were transferred from postpaid and prepaid, respectively, to affiliates.
- (5) During the three-month period ended June 30, 2019, one of our postpaid customers purchased a wholesale MVNO and as a result, 167,000 subscribers were transferred from the wholesale to the postpaid subscriber base.
- (6) Subscribers through some of our MVNO relationships have inactivity either in voice usage or primarily as a result of the nature of the device where activity only occurs when data retrieval is initiated by the end-user and may occur infrequently. Although we continue to provide these subscribers access to our network through our MVNO relationships, approximately 2,392,000 subscribers at September 30, 2019 through these MVNO relationships have been inactive for at least six months, with no associated revenue during the six-month period ended September 30, 2019.
- (7) On April 1, 2018, 115,000 wholesale subscribers were removed from the subscriber base with no impact to revenue. During the three-month period ended December 31, 2018, an additional 100,000 wholesale subscribers were removed from the subscriber base with no impact to revenue.

The following table shows our average rates of monthly postpaid and prepaid subscriber churn as of the end of each quarterly period beginning with the quarter ended June 30, 2018.

	June 30, 2018	Sept 30, 2018	Dec 31, 2018	March 31, 2019	June 30, 2019	Sept 30, 2019
Monthly subscriber churn rate⁽¹⁾						
Postpaid	1.63%	1.78%	1.85%	1.81%	1.74%	1.87%
Prepaid	4.17%	4.74%	4.83%	4.37%	4.23%	4.94%

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

The following table shows our postpaid and prepaid ARPU as of the end of each quarterly period beginning with the quarter ended June 30, 2018.

	June 30, 2018	Sept 30, 2018	Dec 31, 2018	March 31, 2019	June 30, 2019	Sept 30, 2019
ARPU						
Postpaid	\$ 43.55	\$ 43.99	\$ 43.64	\$ 43.25	\$ 42.57	\$ 42.30
Prepaid	\$ 36.27	\$ 35.40	\$ 34.53	\$ 33.67	\$ 32.15	\$ 30.97

Subscriber Results

Retail Postpaid — During the three-month period ended September 30, 2019, net postpaid subscriber additions were 273,000 compared to 109,000 in the same period in 2018. Net subscriber results include tablet net additions of 33,000 during the three-month period ended September 30, 2019 compared to 3,000 in the same period in 2018 and additions in other data devices of 331,000 and 140,000 during the three-month period ended September 30, 2019 and three-month period ended September 30, 2018, respectively, both of which generally have a significantly lower ARPU as compared to handset subscribers. The increase in net postpaid subscriber additions in the current quarter were primarily driven by net subscriber additions of other data devices and non-Sprint branded retail postpaid phones, partially offset by an increase in postpaid phone churn driven by subscribers exiting multi-line introductory promotional offers, competitive pressures and network-related churn. Marketing efforts by other wireless carriers, including device promotions, to incent subscribers to switch carriers also negatively impact churn, which has a negative effect on earnings.

The Company's non-Sprint branded postpaid offering allows prepaid customers to purchase a device under our installment billing program. This program provides prepaid customers with access to this offer under their respective brands. Qualified customers on this non-Sprint branded postpaid offering receive an extension of credit to purchase their device. The subscriber will remain classified as postpaid at the conclusion of their installment billing payments. For the quarter ended September 30, 2019, net subscriber additions and end of period subscribers under the non-Sprint branded postpaid plan offering were 107,000 and 777,000, respectively, and are included in total retail postpaid subscribers above.

Retail Prepaid — During the three-month period ended September 30, 2019, we lost 207,000 net prepaid subscribers compared to 14,000 in the same period in 2018. The increase in net prepaid subscriber losses in the quarter was primarily due to lower gross additions as a result of exiting certain channels, combined with subscriber losses due to continued competitive pressures in the market.

Wholesale and Affiliate Subscribers — Wholesale and affiliate subscribers represent customers that are served on our networks through companies that resell our wireless services to their subscribers, customers residing in affiliate territories and connected devices that utilize our network. Of the 12.1 million subscribers included in wholesale and affiliates, approximately 79% represent connected devices. Wholesale and affiliate net subscriber losses were 462,000 during the three-month period ended September 30, 2019 compared to net losses of 115,000 during the same period in 2018, inclusive of net losses of connected devices totaling 383,000 and 125,000, respectively. The net losses in the three-month period ended September 30, 2019 were primarily attributable to a decline in connected devices, partially offset by an increase in subscribers through our postpaid resellers.

Cost of Services

Cost of services consists primarily of:

- costs to operate and maintain our networks, including direct switch and cell site costs, such as rent, utilities, maintenance, labor costs associated with network employees, and spectrum frequency leasing costs;
- fixed and variable interconnection costs, the fixed component of which consists of monthly flat-rate fees for facilities leased from local exchange carriers and other providers based on the number of cell sites and switches in service in a particular period and the related equipment installed at each site, and the variable component generally consists of per-minute use fees charged by wireline providers for calls terminating on their networks and fluctuates in relation to the level and duration of those terminating calls;
- long distance costs paid to other carriers;
- regulatory fees;
- roaming fees paid to other carriers; and
- fixed and variable costs relating to payments to third parties for the subscriber use of their proprietary data applications, such as messaging, music and cloud services and connected vehicle fees.

Cost of services increased \$119 million, or 8%, and \$209 million, or 7%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher network costs including cell site maintenance, software and costs associated with a reciprocal long-term lease agreement with T-Mobile, combined with an increase in roaming costs due to higher data volume. These increases were partially offset by lower roaming rates and declines in network labor and backhaul costs.

Equipment Sales and Cost of Equipment Sales

Our devices are sold to customers through installment billing and subsidy programs. We recognize equipment sales and corresponding costs of equipment sales when title and risk of loss passes to the indirect dealer or end-use subscriber, assuming all other revenue recognition criteria are met. Under the installment billing program, the device is

generally sold at full or a discounted retail price and we recognize most of the future expected installment payments at the time of sale of the device. Under the subsidy program, which has been de-emphasized, we offer certain incentives, such as new devices at heavily discounted prices, to retain and acquire subscribers. The cost of these incentives is recorded as a reduction to the total transaction price and allocated to performance obligations.

Cost of equipment sales includes equipment costs (primarily devices and accessories), order fulfillment related expenses, and write-downs of inventory related to shrinkage and obsolescence. Additionally, cost of equipment sales is reduced by any rebates that are earned from the equipment manufacturers. Cost of equipment sales in excess of the net revenue generated from equipment sales is referred to in the industry as equipment net subsidy. As postpaid subscribers migrate from acquiring devices through our subsidy program to our leasing or installment billing programs, equipment net subsidy continues to decline.

The net impact to equipment sales revenue and cost of equipment sales from the sale of devices under our installment billing program is relatively neutral except for the impact from promotional offers.

Equipment sales decreased \$226 million, or 16%, and \$179 million, or 7%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The decrease in equipment sales for the three-month period ended September 30, 2019 was primarily due to a lower average sales price per postpaid and prepaid device sold and a decline in the number of postpaid and prepaid devices sold. The decrease in equipment sales for the six-month period ended September 30, 2019 was primarily due to a lower average sales price per postpaid device sold, a decline in the number of prepaid devices sold and a decrease in the volume of used postpaid devices sold to third parties. These decreases for the six-month period ended were partially offset by an increase in the number of postpaid devices sold and a higher average sales price per prepaid device sold. Higher postpaid data device sales, which generally have a lower average sales price than postpaid handsets, contributed to the lower average sales price per postpaid device sold for both the three- and six-month periods ended September 30, 2019. Cost of equipment sales decreased \$158 million, or 10%, and \$87 million, or 3%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The decrease in the three-month period was primarily due to a lower average cost per postpaid device sold and a decline in the number of prepaid and postpaid devices sold. The decrease in the six-month period was primarily due to a lower average cost per postpaid device sold, a decline in the number of prepaid devices sold and a decrease in the volume of used postpaid devices sold to third parties, partially offset by an increase in the number of postpaid devices sold and a higher average cost per prepaid device sold. Higher postpaid data device sales, which generally have a lower average cost than postpaid handsets, contributed to the lower average cost per postpaid device sold for both the three- and six-month periods ended September 30, 2019.

Equipment Rentals and Cost of Equipment Rentals

Under our leasing program, we recognize revenue from equipment rentals over the term of the operating lease. Cost of equipment rentals includes losses on disposal of property, plant and equipment, net of recoveries, resulting from the write-off of leased devices. The losses on disposal of property, plant and equipment, net of recoveries, result from the write-off of leased devices associated with lease cancellations prior to the scheduled customer lease terms where customers did not return the devices to us. We expect to incur losses in future periods as a result of customers who do not return devices under our leasing program.

We expect that the revenues derived from leasing our devices to customers will be less than the costs of the devices as the life of the device exceeds the contractual lease period. We offer the Sprint Flex program to customers as an additional option to purchase services utilizing our wireless network. While revenue derived from providing devices to customers contributes to our consolidated earnings, wireless service is the major contributor. Therefore, we believe the evaluation of the Company's central operations, which is to provide wireless service to customers, are best viewed at the consolidated level. Accordingly, we believe consolidated level metrics such as operating income and cash flows from operations are the best indicators of our overall ability to generate cash.

Equipment rentals increased \$77 million, or 6%, and \$224 million, or 9%, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher revenue from the leasing program as more subscribers are choosing to lease their device and the mix of devices leased. Cost of equipment rentals increased \$89 million, or 59%, and \$190 million, or 69% for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to an increase in loss on disposal of property, plant and equipment, net of recoveries associated with non-returned leased devices.

Selling, General and Administrative Expense

Sales and marketing expenses primarily consist of subscriber acquisition costs, including commissions paid to our indirect dealers, third-party distributors and retail sales force for new device activations and upgrades, residual payments to our indirect dealers, commission payments made to OEMs or other device distributors for direct source handsets, payroll and facilities costs associated with our retail sales force, marketing employees, advertising, media programs and sponsorships, including costs related to branding. Commission costs determined to be incremental, recoverable and directly associated with subscriber contracts are deferred and amortized to sales and marketing expense. General and administrative expenses primarily consist of costs for billing, customer care and information technology operations, bad debt expense and administrative support activities, including collections, legal, finance, human resources, corporate communications, and strategic planning.

Sales and marketing expenses decreased \$29 million, or 3%, and \$8 million, or relatively flat, for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to lower retail labor expenses combined with a decrease in payments to OEMs for direct source handsets as a result of lower volume of device sales, partially offset by higher commission expenses.

General and administrative expenses increased \$94 million, or 14%, and \$132 million, or 10% for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily due to higher bad debt expenses and an increase in other general and administrative and customer care expenses.

Bad debt expense increased \$41 million, or 38%, and \$100 million, or 60% for the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018, primarily related to higher installment billing reserves due to an increase in subscribers entering into installment billing contracts and an increase in service revenue bad debt. We reassess our allowance for doubtful accounts quarterly.

Segment Earnings - Wireline

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

We continue to assess the portfolio of services provided by our Wireline business and are focusing our efforts on IP-based data services. Standalone voice services have been discontinued and we continue to de-emphasize and shutdown non-IP-based data services. Our Wireline segment markets and sells its services primarily through direct sales representatives.

Wireline segment earnings are primarily a function of wireline service revenue, network and interconnection costs, and other Wireline segment operating expenses. Network costs primarily represent special access costs and interconnection costs, which generally consist of domestic and international per-minute usage fees paid to other carriers. The remaining costs associated with operating the Wireline segment include the costs to operate our customer care and billing organizations in addition to administrative support. Wireline service revenue and variable network and interconnection costs fluctuate with the changes in our customer base and their related usage, but some cost elements do not fluctuate in the short-term with the changes in our customer usage. Our wireline services provided to our Wireless segment are generally accounted for based on market rates, which we believe approximate fair value. The Company generally re-establishes these rates at the beginning of each fiscal year. The impact of intercompany pricing rate changes to our Wireline segment earnings does not affect our consolidated results of operations as our Wireless segment has an equivalent offsetting impact in cost of services.

The following table provides an overview of the results of operations of our Wireline segment.

Wireline Segment Loss	Three Months Ended		Six Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
	<i>(in millions)</i>			
Total net service revenues	\$ 300	\$ 328	\$ 607	\$ 666
Cost of services	(256)	(295)	(518)	(606)
Selling, general and administrative expense	(49)	(53)	(94)	(122)
Total net operating expenses	(305)	(348)	(612)	(728)
Wireline segment loss	\$ (5)	\$ (20)	\$ (5)	\$ (62)

Service Revenues

Service revenues for the three- and six-month periods ended September 30, 2019 decreased \$28 million, or 9%, and \$59 million, or 9%, respectively, compared to the same periods in 2018. The decrease was driven by fewer customers using IP-based data services as we continue to migrate customers from TDM to Ethernet-based data services.

Costs of Services

Costs of services include access costs paid to local phone companies, other domestic service providers and foreign phone companies to complete calls made by our domestic subscribers, costs to operate and maintain our networks, and costs of customer premise equipment. Costs of services decreased \$39 million, or 13%, and \$88 million, or 15%, in the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The decrease was primarily due to lower access expense as the result of our TDM migration efforts.

Selling, General and Administrative Expense

Selling, general and administrative expense decreased \$4 million, or 8%, and \$28 million, or 23%, in the three- and six-month periods ended September 30, 2019, respectively, compared to the same periods in 2018. The decrease was primarily due to lower shared administrative and employee-related costs required to support the Wireline segment as a result of the decline in revenue. Total selling, general and administrative expense as a percentage of net service revenues was 16% and 15% for the three- and six-month periods ended September 30, 2019, as compared to 16% and 18% for the three- and six-month periods ended September 30, 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flow

	Six Months Ended	
	September 30,	
	2019	2018
	<i>(in millions)</i>	
Net cash provided by operating activities	\$ 4,810	\$ 5,357
Net cash used in investing activities	\$ (5,020)	\$ (6,287)
Net cash (used in) provided by financing activities	\$ (2,507)	\$ 44

Operating Activities

Net cash provided by operating activities of \$4.8 billion for the six-month period ended September 30, 2019 decreased \$547 million from the same period in 2018. The change was primarily due to decreased cash received from customers of \$942 million, partially offset by a reduction in vendor- and labor-related payments of \$373 million.

Net cash provided by operating activities of \$5.4 billion for the six-month period ended September 30, 2018 increased \$631 million from the same period in 2017. The increase was primarily due to \$906 million of increased cash received from customers, of which \$417 million is related to an increase in installment billing receivables collected due to an amendment to our Receivables Facility in February 2017. All cash collected on the underlying receivables generated after the amendment is reflected in operating activities, as described below in *Accounts Receivable Facility*. The increased cash received from customers was partially offset by increased vendor- and labor-related payments of \$308 million.

Investing Activities

Net cash used in investing activities for the six-month period ended September 30, 2019 decreased \$1.3 billion compared to the same period in 2018 primarily due to decreased purchases of short-term investments of \$4.8 billion, partially offset by decreased proceeds from the sale of short-term investments of \$3.9 billion. In addition, we had a decrease in leased device purchases of \$222 million and increased proceeds from sales of assets of \$327 million.

Net cash used in investing activities for the six-month period ended September 30, 2018 increased \$6.1 billion compared to the same period in 2017 primarily due to increased net purchases of short-term investments of \$4.7 billion, increased network and other capital expenditures of \$555 million and increased leased device purchases of \$459 million. In addition, we had a decrease of \$417 million due to an amendment to our Receivables Facility in February 2017. All cash collected on the underlying receivables generated after the amendment is reflected in operating activities, as described below in *Accounts Receivable Facility*.

Financing Activities

Net cash used in financing activities of \$2.5 billion for the six-month period ended September 30, 2019 increased \$2.6 billion compared to the same period in 2018 primarily due to an increase in repayments of debt, financing and finance lease obligations. Total principal repayments include \$1.7 billion, \$3.1 billion, \$300 million, \$437 million and \$133 million for the Sprint Capital Corporation 6.900% Senior Notes due 2019, Receivables Facility, Export Development Canada (EDC) facility, the 2016 spectrum financing transaction and the secured equipment credit facilities, respectively. These payments were partially offset by Receivables Facility borrowings of \$3.2 billion.

Net cash provided by financing activities of \$44 million for the six-month period ended September 30, 2018 was primarily due to Receivables Facility borrowings of \$2.9 billion and proceeds from issuance of common stock, net of \$276 million primarily related to SoftBank exercising its warrant in full to purchase 55 million shares of Sprint common stock in July 2018. These proceeds were partially offset by principal repayments of \$2.3 billion, \$438 million and \$94 million for the Receivables Facility, the 2016 Spectrum Transaction and the secured equipment credit facilities, respectively. Additionally, we paid \$248 million in debt financing costs primarily due to fees related to the consent solicitations as a result of the Business Combination Agreement with T-Mobile.

Working Capital

We had negative working capital of \$2.8 billion and working capital of \$776 million as of September 30, 2019 and March 31, 2019, respectively. The change in working capital was primarily due to a decline in cash and cash equivalents driven by the increase in repayments of debt, financing and finance lease obligations as described above. The remaining balance was due to changes to other working capital items.

Long-Term Debt and Other Funding Sources

Our device leasing and installment billing programs require a greater use of operating cash flow in the early part of the device contracts as our subscribers will generally pay less upfront than through our traditional subsidy program. The Receivables Facility described below was designed to help mitigate the significant use of cash from purchasing devices from OEMs to fulfill our installment billing and leasing programs.

Accounts Receivable Facility

Our Receivables Facility provides us the opportunity to sell certain wireless service receivables, installment receivables, and future amounts due from customers who lease certain devices from us to unaffiliated third parties (the Purchasers). The maximum funding limit under the Receivables Facility is \$4.5 billion. In February 2017, the Receivables Facility was amended and Sprint regained effective control over the receivables transferred to the Purchasers by obtaining the right, under certain circumstances, to repurchase them. Subsequent to the February 2017 amendment, all proceeds received from the Purchasers in exchange for the transfer of our wireless service and installment receivables are recorded as borrowings. Repayments and borrowings under the Receivables Facility are reported as financing activities in the consolidated statements of cash flows. All cash collected on repurchased receivables subsequent to the February 2017 amendment was recognized in investing activities in the consolidated statements of cash flows. In June 2018, the Receivables Facility was amended to, among other things, extend the maturity date to June 2020, increase the maximum funding limit by \$200 million, reduce financing costs and add month-to-month lease receivables as eligible receivables for leases that extend past their original lease term. In June 2019, the Receivables Facility was further amended to extend the maturity date to February 2021. While we have the right to decide how much cash to receive from each sale, the maximum amount of cash available to us varies based on a number of factors and, as of September 30, 2019, represents approximately 50% of the total amount of the eligible receivables sold to the Purchasers. As of September 30, 2019, the total amount outstanding under our

Receivables Facility was \$2.7 billion and the total amount available to be drawn was \$670 million. However, subsequent to September 30, 2019, Sprint repaid approximately \$700 million under the Receivables Facility reducing amounts outstanding to \$2.0 billion. During the six-month period ended September 30, 2019, we drew \$3.2 billion and repaid \$3.1 billion to the Purchasers, which were reflected as financing activities in the consolidated statements of cash flows. Sprint contributes certain wireless service, installment and future lease receivables, as well as the associated leased devices, to Sprint's wholly-owned consolidated bankruptcy-remote special purpose entities (SPEs). At Sprint's direction, the SPEs have sold, and will continue to sell, wireless service, installment and future lease receivables to the Purchasers or to a bank agent on behalf of the Purchasers. Leased devices will remain with the SPEs, once sales are initiated, and continue to be depreciated over their estimated useful life. As of September 30, 2019, wireless service, installment and lease receivables contributed to the SPEs and included in "Accounts and notes receivable, net" in the consolidated balance sheets were \$2.7 billion and the long-term portion of installment receivables included in "Other assets" in the consolidated balance sheets was \$248 million. As of September 30, 2019, the net book value of devices contributed to the SPEs was \$6.3 billion.

Spectrum Financings

In October 2016, certain subsidiaries of Sprint Communications, which were not "Restricted Subsidiaries" under Sprint Capital Corporation's indentures, transferred certain directly held and third-party leased spectrum licenses (collectively, Spectrum Portfolio) to wholly-owned bankruptcy-remote special purpose entities (collectively, Spectrum Financing SPEs). The Spectrum Portfolio, which represented approximately 14% of Sprint's total spectrum holdings on a MHz-pops basis, was used as collateral to raise an initial \$3.5 billion in senior secured notes (2016 Spectrum-Backed Notes) bearing interest at 3.36% per annum under a \$7.0 billion securitization program. The 2016 Spectrum-Backed Notes are repayable over a five-year term, with interest-only payments over the first four quarters and amortizing quarterly principal payments thereafter commencing December 2017 through September 2021. During the six-month period ended September 30, 2019, we made scheduled principal repayments of \$437 million, resulting in a total principal amount outstanding related to the 2016 Spectrum-Backed Notes of \$1.8 billion as of September 30, 2019, of which \$875 million was classified as "Current portion of long-term debt, financing and finance lease obligations" in the consolidated balance sheets.

In March 2018, we amended the transaction documents governing the securitization program to allow for the issuance of more than \$7.0 billion of notes outstanding pursuant to the securitization program subject to certain conditions, which, among other things, may require the contribution of additional spectrum. Also, in March 2018, we issued approximately \$3.9 billion in aggregate principal amount of senior secured notes under the existing \$7.0 billion securitization program, consisting of two series of senior secured notes. The first series of notes totaled \$2.1 billion in aggregate principal amount, bears interest at 4.738% per annum, have quarterly interest-only payments until June 2021, and amortizing quarterly principal amounts thereafter commencing in June 2021 through March 2025. The second series of notes totaled approximately \$1.8 billion in aggregate principal amount, bears interest at 5.152% per annum, have quarterly interest-only payments until June 2023, and amortizing quarterly principal amounts thereafter commencing in June 2023 through March 2028. The Spectrum Portfolio, which also serves as collateral for the 2016 Spectrum-Backed Notes, remains substantially identical to the original portfolio from October 2016.

Simultaneously with the October 2016 offering, Sprint Communications entered into a long-term lease with the Spectrum Financing SPEs for the ongoing use of the Spectrum Portfolio. The spectrum lease is accounted for as an executory contract. Sprint Communications is required to make monthly lease payments to the Spectrum Financing SPEs at a market rate. The lease payments, which are guaranteed by Sprint Corporation and certain subsidiaries (none of which are "Restricted Subsidiaries" under Sprint Capital Corporation's indentures) of Sprint Communications (and are secured together with the obligations under another transaction document by substantially all of the assets of such entities on a pari passu basis up to an aggregate cap of \$3.5 billion with the grant of security under the secured term loan and revolving bank credit facility and EDC (as defined below) agreement), are sufficient to service all outstanding series of the senior secured notes and the lease also constitutes collateral for the senior secured notes. Because the Spectrum Financing SPEs are wholly-owned Sprint subsidiaries, these entities are consolidated and all intercompany activity has been eliminated.

Each Spectrum Financing SPE is a separate legal entity with its own separate creditors who will be entitled, prior to and upon the liquidation of the Spectrum Financing SPEs, to be satisfied out of the Spectrum Financing SPEs' assets prior to any assets of the Spectrum Financing SPEs becoming available to Sprint. Accordingly, the assets of the Spectrum Financing SPEs are not available to satisfy the debts and other obligations owed to other creditors of Sprint until the obligations of the Spectrum Financing SPEs under the spectrum-backed senior secured notes are paid in full.

In June 2018, we obtained consent under the spectrum-backed senior secured notes indenture to amend the indenture such that the proposed merger transaction with T-Mobile, if consummated, will not constitute a change of control as defined in the indenture.

Credit Facilities

Secured Term Loan and Revolving Bank Credit Facility

On February 3, 2017, we entered into a \$6.0 billion credit agreement, consisting of a \$4.0 billion, seven-year secured term loan (Initial Term Loan) that matures in February 2024 and a \$2.0 billion secured revolving bank credit facility that expires in February 2021. The bank credit facility requires a ratio (Leverage Ratio) of total indebtedness to trailing four quarters earnings before interest, taxes, depreciation and amortization and other non-recurring items, as defined by the bank credit facility (adjusted EBITDA), not to exceed 3.75 to 1.0 through the fiscal quarter ending December 31, 2019. The Leverage Ratio must not exceed 3.5 to 1.0 for the fiscal quarter ended March 31, 2020 and each fiscal quarter ending thereafter through expiration of the facility. The Initial Term Loan has an interest rate equal to LIBOR plus 250 basis points and the secured revolving bank credit facility has an interest rate equal to LIBOR plus a spread that varies depending on the Leverage Ratio. During the six-month period ended September 30, 2019, we made principal repayments on the Initial Term Loan totaling \$20 million resulting in a total principal amount outstanding for the Initial Term Loan of \$3.9 billion as of September 30, 2019.

On November 26, 2018, the credit agreement was amended to, among other things, authorize Incremental Term Loans totaling \$2.0 billion, of which \$1.1 billion was borrowed. On February 26, 2019, the remaining \$900 million was borrowed. The Incremental Term Loans mature in February 2024, have interest rates equal to LIBOR plus 300 basis points and increased the total credit facility to \$8.0 billion.

PRWireless Term Loan

During the three-month period ended December 31, 2017, Sprint and PRWireless PR, Inc. completed a transaction to combine their operations in Puerto Rico and the U.S. Virgin Islands into a new joint venture. Prior to the formation of the new entity, PRWireless PR, Inc. had incurred debt under a secured term loan, which became debt of the new entity upon the transaction close. The secured term loan bears interest at 5.25% plus LIBOR and expires in June 2020. As of September 30, 2019, the joint venture had a total principal amount outstanding of \$199 million. On November 1, 2019, Sprint prepaid the total principal amount outstanding of \$199 million under the PRWireless term loan previously due in June 2020.

Export Development Canada Agreement

Through September 15, 2019, the Company had amounts outstanding under the EDC agreement, which provided for security and covenant terms similar to our secured term loan and revolving bank credit facility. On September 16, 2019, the Company prepaid the total principal amount outstanding under the EDC facility of \$300 million previously due in December 2019.

Secured equipment credit facilities

Finnvera plc (Finnvera)

The Finnvera secured equipment credit facility provided for the ability to finance network equipment-related purchases from Nokia Solutions and Networks US LLC, USA. During the six-month period ended September 30, 2019, we made principal repayments totaling \$41 million on the facility resulting in a total principal amount of \$51 million outstanding as of September 30, 2019.

K-sure

The K-sure secured equipment credit facility provides for the ability to finance network equipment-related purchases from Samsung Telecommunications America, LLC. In October 2018, we amended the secured equipment credit facility to extend the borrowing availability through September 2019. Such borrowings are contingent upon the amount and timing of network equipment-related purchases made by Sprint. During the six-month period ended September 30, 2019, we drew \$96 million and made principal repayments totaling \$72 million on the facility resulting in a total principal amount of \$474 million outstanding as of September 30, 2019.

Delcredere | Ducroire (D/D)

The D/D secured equipment credit facility provided for the ability to finance network equipment-related purchases from Alcatel-Lucent USA Inc. In September 2017, we amended the secured equipment credit facility to restore previously expired commitments of \$150 million. During the six-month period ended September 30, 2019, we made principal

repayments totaling \$20 million on the facility resulting in a total principal amount of \$99 million outstanding as of September 30, 2019.

Borrowings under the Finnvera, K-sure and D/D secured equipment credit facilities are each secured by liens on the respective network equipment purchased pursuant to each facility's credit agreement. In addition, repayments of outstanding amounts borrowed under the secured equipment credit facilities cannot be redrawn. Each of these facilities is fully and unconditionally guaranteed by both Sprint Communications and Sprint Corporation. As of September 30, 2019, the K-sure facility, the Finnvera and D/D facilities had no available borrowing capacity.

As of September 30, 2019, our Leverage Ratio, as defined by our secured revolving bank credit facility was 3.1 to 1.0. Because our Leverage Ratio exceeded 2.5 to 1.0 at period end, we were restricted from paying cash dividends.

Liquidity and Capital Resources

As of September 30, 2019, our liquidity, including cash and cash equivalents, short-term investments, available borrowing capacity under our secured revolving bank credit facility and availability under our Receivables Facility was \$6.9 billion. Our cash, cash equivalents and short-term investments totaled \$4.3 billion as of September 30, 2019 compared to \$7.0 billion as of March 31, 2019. As of September 30, 2019, we had availability of \$1.9 billion under the secured revolving bank credit facility. Amounts available under our Receivables Facility as of September 30, 2019 totaled \$670 million.

As of September 30, 2019, we offered two device financing programs that allow subscribers to forgo traditional service contracts and pay less upfront for devices in exchange for lower monthly service fees, early upgrade options, or both. While a majority of the revenue associated with the installment billing program is recognized at the time of sale along with the related cost of equipment sales, lease revenue associated with our leasing program is recorded monthly over the term of the lease and the cost of the device is depreciated to its estimated residual value generally over the lease term, which creates a positive impact to Wireless segment earnings. If the mix of leased devices continues to increase, we expect this positive impact on the financial results of Wireless segment earnings to continue and depreciation expense to increase. The leasing and installment billing programs will continue to require a greater use of cash flows in the earlier part of the contracts as the subscriber will generally pay less upfront than through our traditional subsidy program because they are financing the device. The Receivables Facility was established to help mitigate the use of cash from purchasing devices from OEMs to fulfill our leasing and installment billing programs.

To meet our liquidity requirements, we look to a variety of sources. In addition to our existing cash and cash equivalents, short-term investments, and cash generated from operating activities, we raise funds as necessary from external sources. We rely on our ability to issue debt and equity securities, the ability to access other forms of financing, including debt financing, some of which is secured by our assets, proceeds from the sale of certain accounts receivable and future lease receivables, proceeds from future financing transactions, such as spectrum, and the borrowing capacity available under our credit facilities to support our short- and long-term liquidity requirements. We believe our existing available liquidity and cash flows from operations will be sufficient to meet our funding requirements over the next twelve months, including debt service requirements and other significant future contractual obligations.

To maintain an adequate amount of available liquidity and execute our current business plan, which includes, among other things, network deployment and maintenance, subscriber growth, data usage capacity needs and the expected achievement of a cost structure intended to improve profitability and to meet our long-term debt service requirements and other significant future contractual obligations, we will need to continue to raise additional funds from external sources. If we are unable to obtain external funding, fail to operationalize the most effective cost structure, or are unsuccessful in attracting valuable subscribers such as postpaid handset subscribers, our operations could be adversely affected, which may lead to defaults under certain of our borrowings.

Depending on the amount of any difference in actual results versus what we currently expect, it may make it difficult for us to generate sufficient earnings before interest, taxes, depreciation and amortization and other non-recurring items (adjusted EBITDA) to remain in compliance with our financial covenants or be able to meet our debt service obligations, which could result in acceleration of our indebtedness, or adversely impact our ability to raise additional funding through the sources described above, or both. If such events occur, we may engage with our lenders to obtain appropriate waivers or amendments of our credit facilities or refinance borrowings, or seek funding from other external sources, although there is no assurance we would be successful in any of these actions.

A default under certain of our borrowings could trigger defaults under certain of our other financing obligations, which in turn could result in the maturities being accelerated. Certain indentures and other agreements governing our financing obligations require compliance with various covenants, including covenants that limit the Company's ability to sell

certain of its assets, limit the Company and its subsidiaries' ability to incur indebtedness and liens, and require that we maintain certain financial ratios, each as defined by the terms of the indentures, related supplemental indentures and other agreements. Our ability to obtain additional financing, including monetizing certain of our assets or to modify the terms of our existing financing, on terms acceptable to us, or at all, may require T-Mobile's consent under the contractual restrictions contained in the Business Combination Agreement.

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

- projected revenues and expenses relating to our operations, including those related to our installment billing and leasing programs;
- anticipated levels and timing of capital expenditures, including assumptions regarding lower unit costs, network capacity additions and upgrades, and the deployment of new technologies in our networks, FCC license acquisitions, and purchases of leased devices;
- scheduled principal payments on debt, credit facilities and financing obligations, including \$28.3 billion coming due over the next five fiscal years;
- cash needs related to our device financing programs;
- availability under the Receivables Facility, which terminates in February 2021;
- availability of our \$2.0 billion secured revolving bank credit facility, which expires in February 2021;
- raising additional funds from external sources;
- the expected use of cash and cash equivalents in the near-term;
- any additional contributions we may make to our pension plan;
- estimated residual values of devices related to our device leasing program; and
- other future contractual obligations and general corporate expenditures.

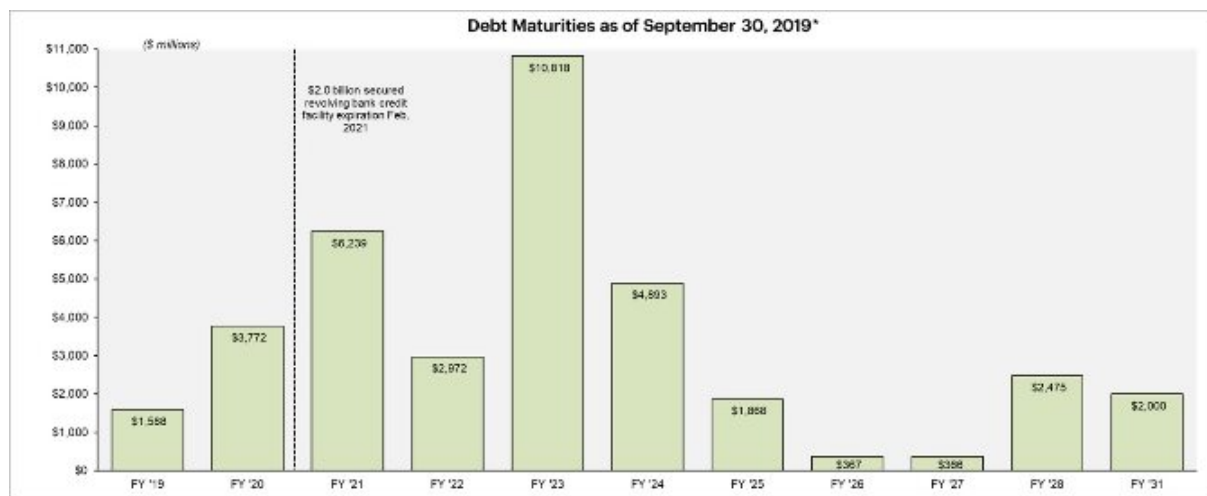
Our ability to fund our needs from external sources is ultimately affected by the overall capacity and availability in the banking and securities markets, and the availability of other financing alternatives, as well as our performance and our credit ratings. Given our recent financial performance as well as the volatility in these markets, we continue to monitor them closely but may be limited in our ability to maintain financial flexibility at a reasonable cost of capital or at all.

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

Rating Agency	Rating					
	Issuer Rating	Unsecured Notes	Guaranteed Notes	Secured Bank Credit Facility	Spectrum Notes	Outlook
Moody's	B2	B3	B1	Ba2	Baa2	Watch Positive
Standard and Poor's	B	B	B+	BB-	N/A	Watch Developing
Fitch	B+	B+	BB	BB+	BBB	Watch Positive

FUTURE CONTRACTUAL OBLIGATIONS

With the adoption of Topic 842 on April 1, 2019, Sprint elected the hindsight practical expedient in determining the lease term. Upon adoption of the standard, our expected lease term for our cell sites was shortened to the initial non-cancelable term only. Historically, we included renewal assumptions in our lease term if the non-cancelable term was less than ten years and the corresponding payments were reflected in our future contractual obligations. This change resulted in a decrease to future contractual obligations of approximately \$1.6 billion. There have been no other significant changes to our future contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended March 31, 2019. Below is a graph depicting our future principal maturities of debt as of September 30, 2019.



OFF-BALANCE SHEET FINANCING

As of September 30, 2019, we did not participate in, or secure, financings for any unconsolidated special purpose entities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Sprint applies those accounting policies that management believes best reflect the underlying business and economic events, consistent with U.S. GAAP. Inherent in such policies are certain key assumptions and estimates made by management. Management regularly updates its estimates used in the preparation of the consolidated financial statements based on its latest assessment of the current and projected business and general economic environment. See *Note 7. Leases* in Notes to the Consolidated Financial Statements in Part I, Item 1. of this Quarterly Report on Form 10-Q for a full discussion of critical accounting policies related to the adoption of Topic 842. Additional information regarding the Company's Critical Accounting Policies and Estimates is included in Item 7. of the Company's Annual Report on Form 10-K for the year ended March 31, 2019.

FINANCIAL STRATEGIES

General Risk Management Policies

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

Derivative instruments are primarily used for hedging and risk management purposes. Hedging activities may be done for various purposes, including, but not limited to, mitigating the risks associated with an asset, liability, committed transaction or probable forecasted transaction. We seek to minimize counterparty credit risk through credit approval and

review processes, credit support agreements, continual review and monitoring of all counterparties, and thorough legal review of contracts. Exposure to market risk is controlled by regularly monitoring changes in hedge positions under normal and stress conditions to ensure they do not exceed established limits.

OTHER INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

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

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

Merger Transaction:

- the failure to obtain, or delays in obtaining, required regulatory approvals for the Merger Transaction, and the risk that such approvals may result in the imposition of conditions that could adversely affect the combined company or the expected benefits of the Merger Transaction, or the failure to satisfy any of the other conditions to the Merger Transaction on a timely basis or at all;
- the occurrence of events that may give rise to a right of one or both of the parties to terminate the Business Combination Agreement;
- the diversion of management and financial resources toward the completion of the Merger Transaction;
- adverse effects on the market price of our common stock or on our or T-Mobile's operating results because of a failure to complete the Merger Transaction in the anticipated timeframe or at all;
- inability to obtain the financing contemplated to be obtained in connection with the Merger Transaction on the expected terms or timing;
- the ability of us, T-Mobile and the combined company to make payments on debt, repay existing or future indebtedness when due, comply with the covenants contained therein or retain sufficient business flexibility;
- adverse changes in the ratings of our or T-Mobile's debt securities or adverse conditions in the credit markets;
- negative effects of the announcement, pendency or consummation of the Merger Transaction on the market price of our common stock and on our or T-Mobile's operating results, including as a result of changes in key customer, supplier, employee or other business relationships;
- potential conflicts of interests between our directors and executive officers and our stockholders;
- significant costs related to the Merger Transaction, including financing costs, and unknown liabilities;
- failure to realize the expected benefits and synergies of the Merger Transaction in the expected timeframes or at all;
- costs or difficulties related to the integration of our and T-Mobile's networks and operations;
- the risk of litigation or regulatory actions related to the Merger Transaction, including the antitrust litigation brought by the Attorneys General of 14 states and the District of Columbia;
- the inability of us, T-Mobile or the combined company to retain and hire key personnel;

- the risk that certain contractual restrictions contained in the Business Combination Agreement during the pendency of the Merger Transaction could adversely affect our or T-Mobile's ability to pursue business opportunities or strategic transactions;

Business:

- our ability to obtain additional financing on terms acceptable to us, or at all, or to obtain T-Mobile's consent under the contractual restrictions contained in the Business Combination Agreement;
- our ability to continue to receive the expected benefits of our existing financings;
- failure to improve our ability to retain and attract subscribers and to manage credit risks associated with our subscribers;
- the effective implementation of our 5G network, including timing, scale, execution, technologies, costs, spectrum availability, and performance of our network;
- ability to continue to access spectrum and acquire additional spectrum, including certain low-band frequencies;
- failure to improve subscriber churn, bad debt expense, accelerated cash use, costs and write-offs, including with respect to changes in expected residual values related to any of our devices;
- the ability to generate sufficient cash flow to fully implement our 5G network and service plans, improve our operating margins, implement our business strategies, and provide competitive new technologies;
- our ability to deploy a nationwide 5G network on the scale and on the timeline necessary for us to compete effectively with our competitors, if the Merger Transaction is not consummated;
- our ability to have the scale necessary to successfully compete;
- our ability to maintain a sufficiently large subscriber base necessary to support the needs of a competitive nationwide wireless network and the associated high costs;
- the effects of vigorous competition on a highly penetrated market, including the impact of competition on the prices we are able to charge subscribers for services and devices we provide and on the geographic areas served by our network;
- the impact of installment sales and leasing of handsets;
- the overall demand for our service plans, including the impact of decisions of new or existing subscribers between our service offerings; and the impact of new, emerging, and competing technologies on our business;
- our ability to provide the desired mix of integrated services to our subscribers;
- changes in available technology and the effects of such changes, including product substitutions and deployment costs and performance;
- volatility in the trading price of our common stock, including as a result of the Merger Transaction, current economic conditions, and our ability to access capital;
- the impact of various parties not meeting our business requirements, including a significant adverse change in the ability or willingness of such parties to provide service and products, including distribution, or infrastructure equipment for our network;
- the costs and business risks associated with providing new services and entering new geographic markets;
- the effects of the Merger Transaction or any other future merger or acquisition involving us, as well as the effect of mergers, acquisitions, and consolidations, and new entrants in the communications industry, and unexpected announcements or developments from others in our industry;
- our ability to comply with restrictions imposed by the U.S. Government as a condition to our merger with SoftBank;
- the effects of any material impairment of our goodwill or other indefinite-lived intangible assets;
- the impacts of new accounting standards or changes to existing standards that the Financial Accounting Standards Board or other regulatory agencies issue, including the SEC;
- unexpected results of litigation filed against us or our suppliers or vendors;
- unexpected results of investigations conducted by us or third parties, including any governmental agencies;

- the costs or potential customer impact of compliance with regulatory mandates including any government regulation regarding "net neutrality" or data privacy;
- equipment failure, natural disasters, terrorist acts or breaches of network or information technology security;
- one or more of the markets in which we compete being impacted by changes in political, economic, or other factors such as monetary policy, legal and regulatory changes, or other external factors over which we have no control;
- the impact of being a "controlled company" exempt from many corporate governance requirements of the NYSE; and
- other risks referenced from time to time in this report and other filings of ours with the SEC, including Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2019.

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

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

We are primarily exposed to the market risk associated with unfavorable movements in interest rates, foreign currencies, and equity prices. The risk inherent in our market risk sensitive instruments and positions is the potential loss arising from adverse changes in those factors. There have been no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our Annual Report on Form 10-K for the year ended March 31, 2019.

Item 4. *Controls and Procedures*

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

In connection with the preparation of this Quarterly Report on Form 10-Q as of September 30, 2019, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that due to the material weakness described below, the Company's design and operation of the disclosure controls and procedures were ineffective as of September 30, 2019 in providing reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure and in providing reasonable assurance that the information is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms.

A material weakness in internal control over financial reporting was discovered related to an issue with the functionality that determined qualifying subscriber usage under the Lifeline program. The material weakness is the result of deficiencies in the operating effectiveness of the controls over testing changes to this functionality that determines qualifying subscriber usage and the validation of the ongoing qualifying subscriber usage under the Lifeline program. The Company provides service to eligible Lifeline subscribers under the Assurance Wireless brand for whom it seeks reimbursement from the Universal Service Fund. In 2016, the FCC enacted changes to the Lifeline program, which required Sprint to update how it determined qualifying subscriber usage. An inadvertent coding issue in the system used to identify qualifying subscriber usage occurred in July 2017 while the system was being updated to address the required changes. Sprint claimed monthly subsidies for serving Lifeline subscribers that may not have met Sprint's usage requirements under the Lifeline program. The estimated reimbursements to federal and state governments for subsidies claimed contrary to Sprint's usage policy reduced "Service revenue," increased "Selling, general and administrative expense" and increased our "Net loss attributable to Sprint Corporation" in the consolidated statements of comprehensive (loss) income for the three- and six-month periods ended September 30, 2019. While Sprint supports our Lifeline subscribers through our Assurance Wireless prepaid brand, beginning

in April 2017 we excluded the Lifeline subscribers from our reported prepaid subscriber base due to regulatory changes resulting in tighter program restrictions.

When the Company became aware of the issue, we immediately investigated and proactively raised the identified issue with the FCC and the appropriate state regulators. We corrected the functionality and assessed the impact of identified changes. Subsequent to the period covered by this Quarterly Report on Form 10-Q, management, with oversight of the Audit Committee, has been actively engaged in developing remediation plans to address the material weakness noted above. As part of the remediation plans, the Company is assessing the change management policies and controls and designing and implementing additional processes and controls for validating ongoing subscriber qualifications under the Lifeline program. Subsequent testing of the operational effectiveness of the modified systems and validation controls will be necessary to conclude that the material weakness has been fully remediated. We are committed to reimbursing federal and state governments for any subsidy payments that were collected incorrectly as a result of the system issue as well as successfully implementing the remediation plans.

Internal controls over our financial reporting continue to be updated as necessary to accommodate modifications to our business processes and accounting procedures. Other than the material weakness noted above, there have been no changes in our internal control over financial reporting that occurred during the three-month period ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Notwithstanding the material weakness described above, management has concluded that our consolidated financial statements included in this Quarterly Report on Form 10-Q for the three- and- six month periods ended September 30, 2019 are fairly stated in all material respects in accordance with generally accepted accounting principles in the United States of America for each of the periods presented and that these financial statements may be relied upon.

PART II — OTHER INFORMATION

Item 1. *Legal Proceedings*

On April 22, 2019, a purported stockholder of the Company filed a putative class action complaint in the Southern District of New York against the Company and two of our executive officers, captioned *Meneses v. Sprint Corporation*, et al. On June 5, 2019, a second purported stockholder of the Company filed a putative class action complaint in the Southern District of New York against the Company and two of our executive officers, captioned *Soloman v. Sprint Corporation*, et al. The complaints in the *Meneses* and *Solomon* actions allege that the Company and the two executive officers violated Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 by issuing untrue statements related to certain postpaid net subscriber additions. The complaints seek damages and reasonable attorneys fees. The Company believes the lawsuits are without merit. On June 24, 2019, the *Meneses* action was voluntarily dismissed.

Various other suits, inquiries, proceedings and claims, either asserted or unasserted, including purported class actions typical for a large business enterprise and intellectual property matters, are possible or pending against us or our subsidiaries. If our interpretation of certain laws or regulations, including those related to various federal or state matters such as sales, use or property taxes, or other charges were found to be mistaken, it could result in payments by us. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial position or results of operations. Except as otherwise noted, during the six-month period ended September 30, 2019, there were no material developments in the status of these legal proceedings.

Item 1A. *Risk Factors*

"Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended March 31, 2019 includes a discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our Annual Report on Form 10-K. Except as presented below, there have been no material changes from the risk factors described in our Annual Report on Form 10-K.

Failure to complete the Merger Transactions, or a delay in completing the Merger Transactions, could negatively impact our stock price and the future business, assets, liabilities, prospects, outlook, financial condition and results of operations of us or the combined company.

After November 1, 2019, Sprint and T-Mobile each have a right under the Business Combination Agreement to terminate that agreement at any time because the Merger Transactions were not completed as of that date. If the Merger Transactions are not completed or are substantially delayed, our common stock price and future business and financial results likely will be negatively affected, or our employees, suppliers, vendors, distributors, retailers, dealers or customers could lose focus on our business, cease doing business with us, or curtail their activities with us. If the Business Combination Agreement were terminated, it could have an adverse effect on our business, financial condition, operating results and stock price.

The success of our network improvements and 5G deployment will depend on the timing, extent and cost of implementation; availability of financial resources; access to additional spectrum, including low-band frequencies; the performance of third-parties; upgrade requirements; and the availability and reliability of the various technologies required to provide such modernization.

We must continually invest in our wireless network, including expanding our network capacity and coverage through macro sites and small cells, in order to improve our wireless services and remain competitive by providing 5G capabilities. The development and deployment of new technologies and services requires us to anticipate the changing demands of our customers and to respond accordingly, which we may not be able to do in a timely or efficient manner.

Improvements in our service depend on many factors, including our ability to predict and adapt to future changes in technologies, changes in consumer demands, changes in pricing and service offerings by our competitors and continued access to and deployment of adequate spectrum, including any leased spectrum. If we are unable to access or acquire additional spectrum to increase capacity or to deploy the services subscribers desire on a timely basis or at acceptable costs while maintaining network quality levels, our ability to attract and retain subscribers could be adversely affected, which would negatively impact our operating results. If the Merger Transaction is not completed, our ability to provide a nationwide 5G network capable of competing effectively with other competitors in the wireless industry will depend on our access to, and deployment of, adequate low-band spectrum that we do not currently have and that we may not be able to obtain in the future on a timely basis given the lack of low-band spectrum available for purchase, or at acceptable costs. Accordingly, we

likely will be unable to access sufficient low-band spectrum as a standalone company, which would limit the scope of our 5G services to certain geographic areas only and which likely would cause our 5G services to suffer from inconsistent network performance. Without access to additional low band spectrum or additional financial resources, Sprint will have limited ability to provide a 5G network outside of metro areas.

If we fail to provide a competitive network, which includes delivering a positive and consistent network experience nationwide, our ability to provide wireless services to our subscribers, to attract and retain subscribers, and to maintain and grow our subscriber revenues could be adversely affected. For instance, we will need to acquire additional spectrum to remain competitive and grow our subscriber base, meet increasing customer demands, and deploy a nationwide 5G network.

Using new and sophisticated technologies on a very large scale entails risks. For example, deployment of new technologies, such as 5G, from time to time has adversely affected, and in the future may adversely affect, the performance of existing services on our network and result in increased churn or failure to attract wireless subscribers. Should implementation of our network upgrades, including 5G, fail, be delayed or result in incurring costs in excess of expected amounts, our margins could be adversely affected and such effects could be material. Should the delivery of services expected to be deployed on our network be delayed due to technological constraints or changes, performance of third-party suppliers, regulatory restrictions, including zoning and leasing restrictions, or permit issues, subscriber dissatisfaction, or other reasons, the cost of providing such services could become higher than expected, ultimately increasing our cost to subscribers and resulting in decreases in net subscribers or our margins, or both, which would adversely affect our revenues, profitability, and cash flow from operations.

In addition, as a standalone company, we may lack the financial resources necessary to provide a robust, nationwide 5G network capable of competing effectively with other competitors in the wireless industry and other companies that have more recently begun providing wireless services, many of which have greater financial resources than we do. Accordingly, if the Merger Transaction is not completed, it is expected that we will not be able to deploy a nationwide 5G network on the same scale and on the same timeline as the combined company or on a scale and timeline that will allow us to compete effectively with our competitors, and therefore will continue to be limited in our ability to compete effectively in the 5G era. Further, it is expected that if the Merger Transaction is not completed, we will continue to lack the network, scale and financial resources of other competitors in, and other companies that have more recently begun providing, wireless services.

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

None

Item 3. *Defaults Upon Senior Securities*

None

Item 4. *Mine Safety Disclosures*

None

Item 5. *Other Information*

Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Securities Exchange Act of 1934. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, including, among other matters, transactions or dealings relating to the government of Iran. Disclosure is required even where the activities, transactions or dealings are conducted outside the U.S. by non-U.S. affiliates in compliance with applicable law, and whether or not the activities are sanctionable under U.S. law.

After the merger with SoftBank, SoftBank acquired control of Sprint. During the three-month period ended September 30, 2019, SoftBank, through one of its non-U.S. subsidiaries, provided roaming services in Iran through Telecommunications Services Company (MTN Irancell), which is or may be a government-controlled entity. During such period, SoftBank had no gross revenues from such services and no net profit was generated. This subsidiary also provided telecommunications services in the ordinary course of business to accounts affiliated with the Embassy of Iran in Japan. During the six-month period ended September 30, 2019, SoftBank estimates that gross revenues and net profit generated by such services were both under \$8,000. Sprint was not involved in, and did not receive any revenue from, any of these

activities. These activities have been conducted in accordance with applicable laws and regulations, and they are not sanctionable under U.S. or Japanese law. Accordingly, with respect to Telecommunications Services Company (MTN Irancell), the relevant SoftBank subsidiary intends to continue such activities. With respect to services provided to accounts affiliated with the Embassy of Iran in Japan, the relevant SoftBank subsidiary is obligated under contract to continue such services.

In addition, during the six-month period ended September 30, 2019, SoftBank, through one of its non-U.S. indirect subsidiaries, provided office supplies to the Embassy of Iran in Japan. SoftBank estimates that gross revenue and net profit generated by such services were under \$4,500 and \$900, respectively. Sprint was not involved in and did not receive any revenue from any of these activities. Accordingly, the relevant SoftBank subsidiary intends to continue such activities.

Item 6. Exhibits

Exhibit No.	Exhibit Description	Form	Incorporated by Reference			Filed/Furnished Herewith
			SEC File No.	Exhibit	Filing Date	
(2) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession						
2.1 **	Business Combination Agreement, dated as of April 29, 2018, by and among T-Mobile US, Inc., Huron Merger Sub LLC, Superior Merger Sub Corp., Sprint Corporation, Starburst I, Inc., Galaxy Investment Holdings, Inc., and for the limited purposes set forth therein, Deutsche Telekom AG, Deutsche Telekom Holding B.V. and SoftBank Group. Corp.	8-K	001-04721	2.1	4/30/2018	
2.2 ***	Amendment No. 1, dated as of July 26, 2019, to the Business Combination Agreement, dated as of April 29, 2018, by and among T-Mobile US, Inc., Huron Merger Sub LLC, Superior Merger Sub Corporation, Sprint Corporation, Starburst I, Inc., Galaxy Investment Holdings, Inc., and for the limited purposes set forth therein, Deutsche Telekom AG, Deutsche Telekom Holding B.V., and SoftBank Group Corp.	8-K	001-04721	2.2	7/26/2019	
2.3 ***	Asset Purchase Agreement, dated as of July 26, 2019, by and among T-Mobile US, Inc., Sprint Corporation, and DISH Network Corporation.	8-K	001-04721	2.1	7/26/2019	
(3) Articles of Incorporation and Bylaws						
3.1	Amended and Restated Certificate of Incorporation	8-K	001-04721	3.1	7/11/2013	
3.2	Amended and Restated Bylaws	8-K	001-04721	3.2	8/7/2013	
(31) and (32) Officer Certifications						
31.1	Certification of Chief Executive Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)					*
31.2	Certification of Chief Financial Officer Pursuant to Securities Exchange Act of 1934 Rule 13a-14(a)					*
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002					*
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes Oxley Act of 2002					*
(101) Formatted in XBRL (Extensible Business Reporting Language)						
101.INS	XBRL Instance Document - the instance document does not appear in the interactive data file because its XBRL tags are embedded within the Inline XBRL document.					
101.SCH	XBRL Taxonomy Extension Schema Document					*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibits 101)					*
* Filed or furnished, as required.						
** Filing excludes certain schedules and exhibits pursuant to Item 601(b)(2) of Regulation S-K, which the registrant agrees to furnish supplementally to the SEC upon request by the SEC; provided, however, that the registrant may request confidential treatment pursuant to Rule 24b-2 of the Exchange Act, for any schedules or exhibits so furnished.						
*** Filing excludes certain schedules pursuant to Item 601(a)(5) of Regulation S-K, which the registrant agrees to furnish supplementally to the SEC upon request by the SEC.						

SIGNATURE

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

SPRINT CORPORATION
(Registrant)

By: /s/ PAUL W. SCHIEBER, JR.

Paul W. Schieber, Jr.
Vice President and Controller
(Principal Accounting Officer)

Date: November 12, 2019

CERTIFICATION

I, Michel Combes, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprint Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Michel Combes

Michel Combes

Chief Executive Officer

CERTIFICATION

I, Andrew Davies, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Sprint Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 12, 2019

/s/ Andrew Davies

Andrew Davies

Chief Financial Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Sprint Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission (the “Report”), I, Michel Combes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ Michel Combes

Michel Combes

Chief Executive Officer

**Certification Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report of Sprint Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission (the “Report”), I, Andrew Davies, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 12, 2019

/s/ Andrew Davies

Andrew Davies

Chief Financial Officer