

SPRINT Corp
Form 10-Q
February 06, 2018
Table of Contents

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 December 31, 2017

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 46-1170005
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6200 Sprint Parkway, Overland Park, Kansas 66251
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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 JANUARY 31, 2018:

Sprint Corporation Common Stock 4,003,046,276

Table of Contents

SPRINT CORPORATION
TABLE OF CONTENTS

	Page Reference
Item PART I — FINANCIAL INFORMATION	
1. <u>Financial Statements</u>	<u>1</u>
<u>Consolidated Balance Sheets</u>	<u>1</u>
<u>Consolidated Statements of Comprehensive Income (Loss)</u>	<u>2</u>
<u>Consolidated Statements of Cash Flows</u>	<u>3</u>
<u>Consolidated Statement of Changes in Equity</u>	<u>4</u>
<u>Notes to the Consolidated Financial Statements</u>	<u>5</u>
2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>62</u>
4. <u>Controls and Procedures</u>	<u>63</u>
 PART II — OTHER INFORMATION	
1. <u>Legal Proceedings</u>	<u>64</u>
1A. <u>Risk Factors</u>	<u>64</u>
2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>64</u>
3. <u>Defaults Upon Senior Securities</u>	<u>64</u>
4. <u>Mine Safety Disclosures</u>	<u>64</u>
5. <u>Other Information</u>	<u>65</u>
6. <u>Exhibits</u>	<u>66</u>
<u>Signature</u>	<u>68</u>

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SPRINT CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	March 31, 2017
	(in millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,440	\$ 2,870
Short-term investments	173	5,444
Accounts and notes receivable, net of allowance for doubtful accounts and deferred interest of \$344 and \$354, respectively	3,917	4,138
Device and accessory inventory	1,009	1,064
Prepaid expenses and other current assets	626	601
Total current assets	10,165	14,117
Property, plant and equipment, net	19,712	19,209
Intangible assets		
Goodwill	6,586	6,579
FCC licenses and other	41,222	40,585
Definite-lived intangible assets, net	2,667	3,320
Other assets	1,067	1,313
Total assets	\$ 81,419	\$ 85,123
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 3,176	\$ 3,281
Accrued expenses and other current liabilities	3,859	4,141
Current portion of long-term debt, financing and capital lease obligations	4,036	5,036
Total current liabilities	11,071	12,458
Long-term debt, financing and capital lease obligations	32,825	35,878
Deferred tax liabilities	7,709	14,416
Other liabilities	3,509	3,563
Total liabilities	55,114	66,315
Commitments and contingencies		
Stockholders' equity:		
Common stock, voting, par value \$0.01 per share, 9.0 billion authorized, 4.002 billion and 3.989 billion issued, respectively	40	40
Paid-in capital	27,825	27,756
Accumulated deficit	(1,264)	(8,584)
Accumulated other comprehensive loss	(366)	(404)
Total stockholders' equity	26,235	18,808
Noncontrolling interests	70	—
Total equity	26,305	18,808
Total liabilities and equity	\$ 81,419	\$ 85,123
See Notes to the Consolidated Financial Statements		

Table of Contents
SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Three Months Ended December 31, 2017 2016		Nine Months Ended December 31, 2017 2016	
	(in millions, except per share amounts)			
Net operating revenues:				
Service	\$5,930	\$6,323	\$17,968	\$19,252
Equipment	2,309	2,226	6,355	5,556
	8,239	8,549	24,323	24,808
Net operating expenses:				
Cost of services (exclusive of depreciation and amortization included below)	1,733	1,925	5,140	6,125
Cost of products (exclusive of depreciation and amortization included below)	1,673	1,985	4,622	5,097
Selling, general and administrative	2,108	2,080	6,059	5,992
Severance and exit costs	13	19	13	30
Depreciation	1,977	1,837	5,693	5,227
Amortization	196	255	628	813
Other, net	(188)	137	(323)	230
	7,512	8,238	21,832	23,514
Operating income	727	311	2,491	1,294
Other expense:				
Interest expense	(581)	(619)	(1,789)	(1,864)
Other expense, net	(42)	(60)	(50)	(67)
	(623)	(679)	(1,839)	(1,931)
Income (loss) before income taxes	104	(368)	652	(637)
Income tax benefit (expense)	7,052	(111)	6,662	(286)
Net income (loss)	7,156	(479)	7,314	(923)
Less: Net loss attributable to noncontrolling interests	6	—	6	—
Net income (loss) attributable to Sprint Corporation	\$7,162	\$(479)	\$7,320	\$(923)
Basic net income (loss) per common share	\$1.79	\$(0.12)	\$1.83	\$(0.23)
Diluted net income (loss) per common share	\$1.76	\$(0.12)	\$1.79	\$(0.23)
Basic weighted average common shares outstanding	4,001	3,983	3,998	3,979
Diluted weighted average common shares outstanding	4,061	3,983	4,080	3,979
Other comprehensive income (loss), net of tax:				
Net unrealized holding gains (losses) on securities and other	\$7	\$(5)	\$25	\$—
Net unrealized holding gains on derivatives	19	—	12	—
Net unrecognized net periodic pension and other postretirement benefits	—	—	1	2
Other comprehensive income (loss)	26	(5)	38	2
Comprehensive income (loss)	\$7,182	\$(484)	\$7,352	\$(921)
See Notes to the Consolidated Financial Statements				

Table of ContentsSPRINT CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended December 31, 2017 2016 (in millions)	
Cash flows from operating activities:		
Net income (loss)	\$7,314	\$(923)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	6,321	6,040
Provision for losses on accounts receivable	312	406
Share-based and long-term incentive compensation expense	137	57
Deferred income tax (benefit) expense	(6,707)	276
Gains from asset dispositions and exchanges	(479)	(354)
Call premiums paid on debt redemptions	(129)	—
Loss on early extinguishment of debt	65	—
Amortization of long-term debt premiums, net	(125)	(234)
Loss on disposal of property, plant and equipment	533	368
Contract terminations	(5)	96
Other changes in assets and liabilities:		
Accounts and notes receivable	(74)	(542)
Deferred purchase price from sale of receivables	—	(220)
Inventories and other current assets	(3,216)	(2,254)
Accounts payable and other current liabilities	(104)	(97)
Non-current assets and liabilities, net	260	(313)
Other, net	302	594
Net cash provided by operating activities	4,405	2,900
Cash flows from investing activities:		
Capital expenditures - network and other	(2,499)	(1,421)
Capital expenditures - leased devices	(1,787)	(1,530)
Expenditures relating to FCC licenses	(92)	(46)
Proceeds from sales and maturities of short-term investments	7,113	2,649
Purchases of short-term investments	(1,842)	(4,998)
Proceeds from sales of assets and FCC licenses	367	126
Other, net	16	26
Net cash provided by (used in) investing activities	1,276	(5,194)
Cash flows from financing activities:		
Proceeds from debt and financings	3,073	6,830
Repayments of debt, financing and capital lease obligations	(7,159)	(3,266)
Debt financing costs	(19)	(272)
Other, net	(6)	68
Net cash (used in) provided by financing activities	(4,111)	3,360

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Net increase in cash and cash equivalents	1,570	1,066
Cash and cash equivalents, beginning of period	2,870	2,641
Cash and cash equivalents, end of period	\$4,440	\$3,707
See Notes to the Consolidated Financial Statements		

3

Table of Contents

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

	Common Stock Shares	Paid-in Capital Amount	Accumulated Deficit	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity	
Balance, March 31, 2017	3,989	\$ 40	\$ 27,756	\$ (8,584)	\$ (404)	\$ —	\$ 18,808
Net income (loss)			7,320		(6)		7,314
Other comprehensive income, net of tax				38			38
Issuance of common stock, net	13	12					12
Share-based compensation expense		137					137
Capital contribution by SoftBank		5					5
Other, net		(57)					(57)
(Decrease) increase attributable to noncontrolling interests		(28)			76		48
Balance, December 31, 2017	4,002	\$ 40	\$ 27,825	\$ (1,264)	\$ (366)	\$ 70	\$ 26,305

See Notes to the Consolidated Financial Statements

Table of ContentsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
INDEX

	Page Reference
1. <u>Basis of Presentation</u>	<u>6</u>
2. <u>New Accounting Pronouncements</u>	<u>6</u>
3. <u>Installment Receivables</u>	<u>8</u>
4. <u>Financial Instruments</u>	<u>9</u>
5. <u>Property, Plant and Equipment</u>	<u>11</u>
6. <u>Intangible Assets</u>	<u>12</u>
7. <u>Accounts Payable</u>	<u>13</u>
8. <u>Long-Term Debt, Financing and Capital Lease Obligations</u>	<u>14</u>
9. <u>Severance and Exit Costs</u>	<u>20</u>
10. <u>Income Taxes</u>	<u>20</u>
11. <u>Commitments and Contingencies</u>	<u>23</u>
12. <u>Per Share Data</u>	<u>25</u>
13. <u>Segments</u>	<u>25</u>
14. <u>Related-Party Transactions</u>	<u>29</u>
15. <u>Guarantor Financial Information</u>	<u>31</u>

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. All normal recurring adjustments considered necessary for a fair presentation have been included. Certain disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended March 31, 2017. 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 income (loss)" and "Total equity". All intercompany transactions and balances have been eliminated in consolidation.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued new authoritative literature, Revenue from Contracts with Customers, and has subsequently modified several areas of the standard in order to provide additional clarity and improvements. The new standard will supersede much of the existing authoritative literature for revenue recognition. The standard and related amendments will be effective for the Company for its fiscal year beginning April 1, 2018, including interim periods within that fiscal year.

Two adoption methods are available for implementation of the standard update related to the recognition of revenue from contracts with customers. Under the full retrospective method, the guidance is applied retrospectively to contracts for each reporting period presented, subject to allowable practical expedients. Under the modified retrospective method, the guidance is applied only to the most current period presented, recognizing the cumulative effect of the change as an adjustment to the beginning balance of retained earnings, and also requires additional disclosures comparing the results to the previous guidance. We will adopt the standard using the modified retrospective method.

We currently anticipate the standard to have a material impact to our consolidated financial statements upon adoption. The ultimate impact on revenue resulting from the application of the new standard will be subject to assessments that are dependent on many variables, including, but not limited to, the terms and mix of the contractual arrangements we have with customers.

We expect the timing of recognition for our sales commission expenses will be materially impacted, as a substantial portion of these costs (which are currently expensed) will be capitalized and expensed over time. We expect to amortize costs related to new service contracts over the expected customer relationship period while costs associated with contract renewals are expected to be amortized over the anticipated length of the service contract. In addition, the deferred contract cost asset will be assessed for impairment on a periodic basis.

For bundled arrangements that include both lease and service elements, we expect the allocation of the customer consideration and the pattern of revenue recognition to be relatively consistent with our current practice.

We are still in the process of evaluating these impacts, and our initial assessments may change due to changes in the terms and mix of the contractual arrangements we have with customers. New products or offerings, or changes to current offerings, may yield significantly different impacts than currently expected.

We are in the process of implementing significant new revenue accounting systems, processes and internal controls over revenue recognition as a result of adopting the new standard.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In July 2015, the FASB issued authoritative guidance regarding Inventory, which simplifies the subsequent measurement of certain inventories by replacing today's lower of cost or market test with a lower of cost and net realizable value test. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standard is effective for the Company's fiscal year beginning April 1, 2017, including interim periods within this fiscal year, and the adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued authoritative guidance regarding Financial Instruments, which amended guidance on the classification and measurement of financial instruments. Under the new guidance, entities will be required to measure equity investments that are not consolidated or accounted for under the equity method at fair value with any changes in fair value recorded in net income, unless the entity has elected the new practicability exception. For financial liabilities measured using the fair value option, entities will be required to separately present in other comprehensive income the portion of the changes in fair value attributable to instrument-specific credit risk. Additionally, the guidance amends certain disclosure requirements associated with the fair value of financial instruments. The standard will be effective for the Company's fiscal year beginning April 1, 2018, including interim reporting periods within that fiscal year. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In February 2016, the FASB issued authoritative guidance regarding Leases. The new standard will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Company for its fiscal year beginning April 1, 2019, including interim periods within that fiscal year, with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. The Company is currently evaluating the guidance and assessing its overall impact. However, we expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued authoritative guidance regarding Financial Instruments - Credit Losses, which 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. 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 2016, the FASB issued authoritative guidance regarding Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. It provides guidance on eight specific cash flow issues. The standard will be effective for the Company for its fiscal year beginning April 1, 2018, including interim periods within that fiscal year, with early adoption permitted and retrospective application required. The standard will impact the presentation of cash flows related to beneficial interests in securitization transactions, which is the deferred purchase price, resulting in a material reclassification of cash inflows from operating activities to investing activities for prior periods in our consolidated statements of cash flows. The standard will also impact the presentation of cash flows related to separately identifiable cash flows and application of the predominance principal related to direct channel leased

devices and will result in a material reclassification of cash outflows from operating activities to investing activities for all periods presented in our consolidated statements of cash flows. In addition, the standard will impact the presentation of cash flows related to debt prepayment or debt extinguishment costs and will result in a reclassification of cash outflows from operating activities to financing activities in the nine-month period ended December 31, 2017 in our consolidated statements of cash flows. There were no debt prepayment or debt extinguishment costs in the nine-month period ended December 31, 2016. While the Company does expect the impact of this guidance to be material to our cash flow presentation, we continue to evaluate the guidance and quantify the specific impacts.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In October 2016, the FASB issued authoritative guidance regarding Income Taxes, which amended guidance for the income tax consequences of intra-entity transfers of assets other than inventory. Under the new guidance, entities will be required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, thereby eliminating the recognition exception within current guidance. The standard will be effective for the Company's fiscal year beginning April 1, 2018, including interim reporting periods within that fiscal year. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In November 2016, the FASB issued authoritative guidance regarding Statement of Cash Flows: Restricted Cash, requiring that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard will be effective for the Company's fiscal year beginning April 1, 2018, including interim reporting periods within that fiscal year, with early adoption permitted and retrospective application required. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued authoritative guidance amending Business Combinations: Clarifying the Definition of a Business, to clarify the definition of a business with the objective of providing a more robust framework to assist management when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The standard will be effective for the Company for its fiscal year beginning April 1, 2018, including interim periods within that fiscal year, with early application permitted. The amendments are to be applied prospectively to business combinations that occur after the effective date.

In January 2017, the FASB issued authoritative guidance regarding Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the goodwill impairment test by eliminating the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (Step 2 of the test), but rather to record an impairment charge based on the excess of the carrying value over its fair value. The standard will be effective for the Company's annual goodwill impairment test in the fiscal year beginning April 1, 2020, with early adoption permitted. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2017, the FASB issued authoritative guidance regarding Derivatives and Hedging, which provided targeted improvements and simplifications to accounting for hedging activities and applies to entities that elect to apply hedge accounting in accordance with current U.S. GAAP. The amendments will be effective for the Company's fiscal year beginning April 1, 2019, and for interim periods within that fiscal year, with early adoption permitted. The Company does 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. From October 2015 to February 2017, installment receivables sold to unaffiliated third parties (the Purchasers) were treated as a sale of financial assets and we derecognized these receivables, as well as the related allowances. As a result of our Accounts Receivable Facility (Receivables Facility) being amended in February 2017, all proceeds received from the Purchasers in exchange for our installment receivables are now recorded as borrowings (see Note 8. Long-Term Debt, Financing and Capital Lease Obligations).

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the installment receivables:

	December 31, 2017	March 31, 2017
	(in millions)	
Installment receivables, gross	\$1,773	\$ 2,270
Deferred interest	(133)	(207)
Installment receivables, net of deferred interest	1,640	2,063
Allowance for credit losses	(257)	(299)
Installment receivables, net	\$1,383	\$ 1,764

Classified on the consolidated balance sheets as:

Accounts and notes receivable, net	\$1,168	\$ 1,195
Other assets	215	569
Installment receivables, net	\$1,383	\$ 1,764

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

	December 31, 2017			March 31, 2017		
	Prime (in millions)	Subprime (in millions)	Total (in millions)	Prime (in millions)	Subprime (in millions)	Total (in millions)
Unbilled	\$1,170	\$ 455	\$1,625	\$1,501	\$ 619	\$2,120
Billed - current	75	32	107	74	36	110
Billed - past due	21	20	41	20	20	40
Installment receivables, gross	\$1,266	\$ 507	\$1,773	\$1,595	\$ 675	\$2,270

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

	Nine Months Ended December 2017	Twelve Months Ended March 31, 2017
Deferred interest and allowance for credit losses, beginning of period	\$506	\$ —
Bad debt expense	135	61
Write-offs, net of recoveries	(177)	(28)
Change in deferred interest on short-term and long-term installment receivables	(74)	8
Recognition of deferred interest and allowance for credit losses	—	465
Deferred interest and allowance for credit losses, end of period	\$390	\$ 506

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 fair value primarily using quoted prices in active markets. As of December 31, 2017, short-term investments consisted of \$173 million of commercial paper. As of March 31, 2017, short-term investments totaled \$5.4 billion and consisted of approximately \$3.0 billion of time deposits and \$2.4 billion of commercial paper. The fair value of marketable equity securities totaling \$60

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

million and \$46 million as of December 31, 2017 and March 31, 2017, respectively, are measured on a recurring basis using quoted prices in active markets.

Except for our financing transaction for the Handset Sale-Leaseback (Tranche 2) with Mobile Leasing Solutions, LLC (MLS), which was terminated in October 2017 (see Note 8. Long-Term Debt, Financing and Capital Lease Obligations), current and long-term debt and our other financings are carried at amortized cost. The Company elected to measure the financing obligation with MLS at fair value as a means to better reflect the economic substance of the arrangement and it was the only eligible financial instrument for which we had elected the fair value option.

The fair value of the financing obligation, which was determined at the outset of the arrangement using a discounted cash flow model, was derived by unobservable inputs such as customer churn rates, customer upgrade probabilities, and the likelihood that Sprint will elect the exchange option versus the termination option upon a customer upgrade. Any gains or losses resulting from changes in the fair value of the financing obligation were included in "Other income (expense), net" in the consolidated statements of comprehensive income (loss). During the three and nine-month periods ended December 31, 2017, there was no material change in the fair value of the financing obligation. During the nine-month period ended December 31, 2017, we made principal repayments and non-cash adjustments totaling \$385 million to MLS, resulting in our principal balance being fully paid. In addition to the financing obligation with MLS, the remaining debt for which estimated fair value is determined based on unobservable inputs primarily represents borrowings under our secured equipment credit facilities, network equipment sale-leaseback, and sales of receivables under our Receivables Facility (see Note 8. Long-Term Debt, Financing and Capital Lease Obligations). 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, sold wireless service, installment billing and future receivables, and borrowings under our network equipment sale-leaseback and Tranche 2 transactions, 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 December 31, 2017	Estimated Fair Value Using Quoted prices in active markets	Observable	Unobservable	Total estimated fair value
	(in millions)				
Current and long-term debt and financing obligations	\$36,690	\$30,281	\$ 2,970	\$ 4,954	\$ 38,205
	(in millions)				
Current and long-term debt and financing obligations	\$40,581	\$33,196	\$ 4,352	\$ 5,468	\$ 43,016

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 5. Property, Plant and Equipment

Property, plant and equipment consists primarily of network equipment and other long-lived assets used to provide service to our subscribers. Non-cash accruals included in property, plant and equipment (excluding leased devices) totaled \$428 million and \$325 million as of December 31, 2017 and 2016, respectively.

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

	December 31, 2017	March 31, 2017
	(in millions)	
Land	\$254	\$260
Network equipment, site costs and related software	22,649	21,693
Buildings and improvements	809	818
Non-network internal use software, office equipment, leased devices and other	10,626	8,625
Construction in progress	2,101	2,316
Less: accumulated depreciation	(16,727)	(14,503)
Property, plant and equipment, net	\$19,712	\$19,209

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 turn in the device, continue leasing the device, or purchase the device. As of December 31, 2017, substantially all of our device leases were classified as operating leases. Lease revenue associated with devices subject to operating leases, which is included in equipment revenue, was \$1.0 billion, \$2.9 billion, \$887 million and \$2.5 billion for the three and nine-month periods ended December 31, 2017 and 2016, respectively.

At lease inception, the devices leased through Sprint's direct channels are reclassified from inventory to property, plant and equipment. For those devices leased through indirect channels, Sprint purchases the device to be leased from the retailer at lease inception and reports these purchases 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:

	December 31, 2017	March 31, 2017
	(in millions)	
Leased devices	\$9,098	\$7,276
Less: accumulated depreciation	(3,415)	(3,114)
Leased devices, net	\$5,683	\$4,162

During the nine-month periods ended December 31, 2017 and 2016, there were non-cash transfers to leased devices of approximately \$3.7 billion and \$2.3 billion, respectively, along with a corresponding decrease in "Device and accessory inventory" for devices leased through our direct channel. Non-cash accruals included in leased devices totaled \$306 million and \$166 million as of December 31, 2017 and 2016, respectively, for devices purchased from indirect dealers that were leased to our subscribers. Depreciation expense incurred on all leased devices was \$990 million and \$2.7 billion for the three and nine-month periods ended December 31, 2017, respectively, and \$837 million and \$2.2 billion for the same periods in 2016, respectively.

During the three and nine-month periods ended December 31, 2017 and 2016, we recorded \$123 million, \$527 million, \$137 million and \$368 million, respectively, of loss on disposal of property, plant and equipment, net of

recoveries, which is included in "Other, net" within Operating income in our consolidated statements of comprehensive income (loss). Net losses that resulted from the write-off of leased devices are primarily associated with lease cancellations prior to the scheduled customer lease terms where customers did not return the devices to us were \$123 million, \$347 million, \$109 million, and \$340 million for the three and nine-month periods ended December 31, 2017 and 2016, respectively. In addition, during the nine-month period ended December 31, 2017, losses totaling \$180 million were related to \$181 million of cell site construction costs that are no longer recoverable as a result of changes in our network plans during the three-month period

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ended June 30, 2017 and \$5 million of hurricane-related charges during the three-month period ended September 30, 2017, offset by a \$6 million gain.

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 December 31, 2017, 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.

During the quarter 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 entity named PRWireless HoldCo, LLC. The companies contributed employees, subscribers, network assets and spectrum to the transaction. Sprint and PRWireless PR, Inc. have an approximate 68% and a 32% preferred economic interest, as well as a 55% and 45% common voting interest in the new entity, respectively. Sprint's ownership represents a controlling financial interest and as a result fully consolidates the entity and presents a noncontrolling interest in its consolidated financial statements. The consideration transferred by Sprint has been preliminarily allocated to assets acquired and liabilities assumed from PRWireless PR, Inc. based on their estimated fair values at the time of the transaction. The preliminary purchase accounting adjustments represent management's current best estimate of fair value but could change as additional information is obtained and evaluated. Beginning total assets and liabilities of the new entity were approximately \$390 million and \$240 million, respectively. Of these amounts, approximately \$270 million and \$220 million represent the fair value of the PRWireless PR, Inc. asset and liability contribution, respectively, which have increased the corresponding financial statement line items in the Sprint consolidated balance sheet at December 31, 2017. The acquired assets primarily consist of approximately \$150 million of FCC licenses, \$35 million of other intangible assets and \$85 million of current and fixed assets. The acquired liabilities consist of approximately \$170 million of long-term debt and \$50 million of other current liabilities.

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

	March 31, 2017	Net Additions	December 31, 2017
	(in millions)		
FCC licenses	\$36,550	\$ 637	(1) \$ 37,187
Trademarks	4,035	—	4,035
Goodwill	6,579	7	(2) 6,586
	\$47,164	\$ 644	\$ 47,808

(1) During the nine-month period ended December 31, 2017, net additions within FCC licenses include a \$479 million increase from spectrum license exchanges described below, and approximately \$150 million of spectrum licenses as a result of the transaction with PRWireless PR, Inc. described above.

(2) During the nine-month period ended December 31, 2017, approximately \$7 million was added to goodwill as a result of the transaction with PRWireless PR, Inc. and the purchase accounting adjustments on its contributions

described above.

Spectrum License Exchanges

In the first quarter of fiscal year 2017, we exchanged certain spectrum licenses with other carriers in non-cash transactions. As a result, we recorded a non-cash gain of \$479 million, which represented the difference between the fair value and the net book value of the spectrum transferred to the other carriers. The gain was recorded in "Other, net" within Operating income in the consolidated statements of comprehensive income (loss) for the nine-month period ended December 31, 2017.

12

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 stock price at December 31, 2017 of \$5.89 was below the net book value per share price of \$6.56. Subsequent to the balance sheet date, the stock price has decreased further to \$5.36 at February 2, 2018. The quoted market price of our stock is not the sole consideration of fair value. Other considerations include, but are not limited to, expectations of future results and an estimated control premium.

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 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, sustained declines in the Company's stock price and related market capitalization could impact the underlying key assumptions and our estimated fair values, potentially leading to a future material impairment of goodwill or other indefinite-lived intangible assets.

Intangible Assets Subject to Amortization

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

		December 31, 2017			March 31, 2017		
	Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
(in millions)							
Customer relationships	8 years	\$6,561	\$ (5,289)	) \$ 1,272	\$6,923	\$ (5,053)	) \$ 1,870
Other intangible assets:							
Favorable spectrum leases	23 years	861	(163)	) 698	869	(138)	) 731
Favorable tower leases	7 years	487	(322)	) 165	589	(386)	) 203
Trademarks	34 years	520	(70)	) 450	520	(58)	) 462
Other	10 years	127	(45)	) 82	91	(37)	) 54
Total other intangible assets		1,995	(600)	) 1,395	2,069	(619)	) 1,450
Total definite-lived intangible assets		\$8,556	\$ (5,889)	) \$ 2,667	\$8,992	\$ (5,672)	) \$ 3,320

Note 7. Accounts Payable

Accounts payable at December 31, 2017 and March 31, 2017 include liabilities in the amounts of \$103 million and \$69 million, respectively, for payments issued in excess of associated bank balances but not yet presented for collection.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Interest Rates	Maturities	December 31, 2017	March 31, 2017
(in millions)				
Notes				
Senior notes				
Sprint Corporation	7.13-7.88%	2021-2025	\$ 10,500	\$ 10,500
Sprint Communications, Inc.	6.00-11.50%	2020-2022	4,780	6,080
Sprint Capital Corporation	6.88-8.75%	2019-2032	6,204	6,204
Senior secured notes				
Sprint Spectrum Co LLC, Sprint Spectrum Co II LLC, Sprint Spectrum Co III LLC	3.36%	2021	3,281	3,500
Sprint Communications, Inc.	9.25%	2022	200	200
Guaranteed notes				
Sprint Communications, Inc.	7.00-9.00%	2018-2020	2,800	4,000
Exchangeable notes				
Clearwire Communications LLC	8.25%	2017	—	629
Credit facilities				
Secured revolving bank credit facility	3.88%	2021	—	—
Secured term loan	4.13%	2024	3,970	4,000
PRWireless term loan	6.94%	2020	183	—
Export Development Canada (EDC)	4.07%	2019	300	300
Secured equipment credit facilities	3.02-3.72%	2020-2021	555	431
Accounts receivable facility	2.44-2.97%	2019	2,966	1,964
Financing obligations, capital lease and other obligations	2.35-12.00%	2018-2026	1,146	3,016
Net premiums and debt financing costs			(24)	90
			36,861	40,914
Less current portion			(4,036)	(5,036)
Long-term debt, financing and capital lease obligations			\$32,825	\$35,878

As of December 31, 2017, Sprint Corporation, the parent corporation, had \$10.5 billion in aggregate principal amount of senior notes outstanding. In addition, as of December 31, 2017, the outstanding principal amount of the senior notes issued by Sprint Communications and Sprint Capital Corporation, the senior secured notes issued by Sprint Communications, the guaranteed notes issued by Sprint Communications, Sprint Communications' secured term loan and secured revolving bank credit facility, the EDC agreement, the secured equipment credit facilities, the Receivables Facility, and certain other obligations collectively totaled \$22.0 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, is generally not restricted.

Cash interest payments, net of amounts capitalized of \$42 million and \$32 million during the nine-month periods ended December 31, 2017 and 2016, respectively, totaled \$1.9 billion during each of the nine-month periods ended

December 31, 2017 and 2016.

Notes

As of December 31, 2017, 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 transaction and senior secured notes issued by Sprint Communications. Cash interest on all of the notes is payable semi-annually in arrears with the exception of the

14

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

spectrum financing senior secured notes, which is payable quarterly. As of December 31, 2017, \$27.6 billion aggregate principal amount of the notes was redeemable at the Company's discretion at the then-applicable redemption prices plus accrued interest.

As of December 31, 2017, \$21.4 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.

On December 1, 2017 the Clearwire Communications LLC exchangeable notes were retired pursuant to the terms of the indenture, which provided that the notes could be tendered at the holder's option or called at our option on or after that date, in each case for 100% of the par value plus accrued interest.

During the three-month period ended June 30, 2017, pursuant to a cash tender offer, Sprint Communications retired \$388 million principal amount of its outstanding 8.375% Notes due 2017 and \$1.2 billion principal amount of its outstanding 9.000% Guaranteed Notes due 2018. We incurred costs of \$129 million, which consisted of call redemption premiums and tender expenses, and removed unamortized premiums of \$64 million associated with these retirements resulting in a loss on early extinguishment of debt of \$65 million, which is included in "Other income (expense), net" in our consolidated statements of comprehensive income (loss). In addition, during the three-month period ended September 30, 2017, Sprint Communications retired the remaining \$912 million principal amount of its outstanding 8.375% Notes due August 2017.

Spectrum Financing

In October 2016, Sprint 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 bearing interest at 3.36% per annum under a \$7.0 billion program that permits Sprint to raise up to an additional \$3.5 billion in senior secured notes, subject to certain conditions. The senior secured 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 nine-month period ended December 31, 2017, we made scheduled principal repayments of \$219 million, resulting in a total principal amount of \$3.3 billion outstanding as of December 31, 2017, of which \$875 million was classified as "Current portion of long-term debt, financing and capital lease obligations" in the consolidated balance sheets.

Sprint Communications simultaneously entered into a long-term lease with the Spectrum Financing SPEs for the ongoing use of the Spectrum Portfolio. 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 certain subsidiaries of Sprint Communications, are sufficient to service the senior secured notes and the lease also constitutes collateral for the senior secured notes. As 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 SPE, to be satisfied out of the Spectrum Financing SPE's assets prior to any assets of the Spectrum Financing SPE becoming available to Sprint. Accordingly, the assets of the Spectrum Financing SPE 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.

Credit Facilities

Unsecured Credit Facility Commitment

During the three-month period ended September 30, 2017, Sprint Communications entered into a commitment letter with a group of banks to provide an unsecured credit facility in an aggregate principal amount up to \$3.2 billion. Draws on the unsecured credit facility would bear interest at a rate equal to either the London Interbank Offered Rate (LIBOR) plus a percentage that varies depending on the days elapsed since the effective date of the facility (1.25% to 4.25% per annum), or base rate, as defined in the commitment letter, plus a percentage that varies depending on the days elapsed since the effective date of the facility (0.25% to 3.25% per annum). Commitments will be reduced by an amount equal to the proceeds from the sales of certain assets and will terminate upon certain debt issuances or sales of equity securities. Amounts borrowed and

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

repaid cannot be redrawn and the unsecured credit facility, if executed, will terminate in March 2019. As of December 31, 2017, the unsecured credit facility had not been executed and thus no amounts have been drawn.

Secured Term Loan and Revolving Bank Credit Facility

On February 3, 2017, we entered into a credit agreement for \$6.0 billion, consisting of a \$4.0 billion, seven-year secured term loan that matures in February 2024 and a \$2.0 billion secured revolving bank credit facility that expires in February 2021. As of December 31, 2017, approximately \$151 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 11. Commitments and Contingencies). As a result of the outstanding letters of credit, which directly reduce the availability of borrowings, the Company had approximately \$1.8 billion of borrowing capacity available under the secured revolving bank credit facility as of December 31, 2017. 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 6.0 to 1.0 through the quarter ending December 31, 2017. After December 31, 2017, the Leverage Ratio declines on a scheduled basis until the ratio becomes fixed at 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 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.

In consideration of the seven-year secured 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 income (loss)" in the consolidated statements of comprehensive income (loss) and the ineffective portion, if any, is recorded in current period earnings in the consolidated statements of comprehensive income (loss) as interest expense. The fair value of the interest rate swap was approximately \$10 million as of December 31, 2017, which was recorded as an asset in the consolidated balance sheets.

PRWireless Term Loan

During the quarter 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 entity. Prior to the formation of the new entity, PRWireless PR, Inc. had incurred \$178 million principal amount of 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. Any amounts repaid early may not be drawn again. From the effective date of the transaction through December 31, 2017, PRWireless PR, LLC borrowed an additional \$5 million under the secured term loan resulting in \$183 million total principal amount outstanding with an additional \$20 million remaining available as of December 31, 2017. Sprint has provided an unsecured guarantee of repayment of the secured term loan obligations. The secured portion of the facility is limited to assets of the new entity as the borrower.

EDC Agreement

As of December 31, 2017, the EDC agreement provided for security and covenant terms similar to our secured term loan and revolving bank credit facility. However, under the terms of the EDC agreement, repayments of outstanding amounts cannot be redrawn. As of December 31, 2017, the total principal amount of our borrowings under the EDC facility was \$300 million.

Secured Equipment Credit Facilities

Finnvera plc (Finnvera)

The Finnvera secured equipment credit facility provided for the ability to borrow up to \$800 million to finance network equipment-related purchases from Nokia Solutions and Networks US LLC, USA. The facility's availability for borrowing expired in October 2017. Such borrowings were contingent upon the amount and timing of

network-related purchases made by Sprint. During the nine-month period ended December 31, 2017, we drew \$160 million and made principal repayments totaling \$98 million on the facility, resulting in a total principal amount of \$202 million outstanding as of December 31, 2017.

K-sure

The K-sure secured equipment credit facility provides for the ability to borrow up to \$750 million to finance network equipment-related purchases from Samsung Telecommunications America, LLC. The facility can be divided in up to

16

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

three consecutive tranches of varying size. In September 2017, we amended the secured equipment credit facility to extend the borrowing availability through December 2018. Such borrowings are contingent upon the amount and timing of network-related purchases made by Sprint. During the nine-month period ended December 31, 2017, we made principal repayments totaling \$65 million on the facility, resulting in a total principal amount of \$194 million outstanding as of December 31, 2017.

Delcredere | Ducroire (D/D)

The D/D secured equipment credit facility provided for the ability to borrow up to \$250 million 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 nine-month period ended December 31, 2017, we drew \$150 million and made principal repayments totaling \$23 million on the facility, resulting in a total principal amount of \$159 million outstanding as of December 31, 2017.

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. 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 the Purchasers. The maximum funding limit under the Receivables Facility is \$4.3 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 December 31, 2017, represents approximately 50% of the total amount of the eligible receivables sold to the Purchasers. As of December 31, 2017, the total amount of borrowings under our Receivables Facility was \$3.0 billion and the total amount available to be drawn was \$781 million. In February 2017, the Receivables Facility was amended and Sprint gained 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 and all cash inflows and outflows under the Receivables Facility are reported as financing activities in the consolidated statements of cash flows. In October 2017, the Receivables Facility was amended to, among other things, extend the maturity date to November 2019 and to reallocate the Purchasers' commitments between wireless service, installment and future lease receivables through May 2018 to 26%, 28% and 46%, respectively. After May 2018, the allocation of the Purchasers' commitments between wireless service, installment and future lease receivables will be 26%, 18% and 56%, respectively. During the nine-month period ended December 31, 2017, we drew \$2.7 billion and repaid \$1.7 billion to the Purchasers.

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 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. The fees associated with these sales were recognized in "Selling,

general and administrative" in the consolidated statements of comprehensive income (loss) 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 income (loss).

During the nine-month period ended December 31, 2016, we remitted \$185 million of funds to the Purchasers because the amount of cash proceeds received by us under the facility exceeded the maximum funding limit, which increased the total amount of the DPP due to Sprint. We also elected to receive \$625 million of cash, which decreased the total amount of the DPP due to Sprint. In addition, during the nine-month period ended December 31, 2016, sales of new receivables exceeded cash collections on previously sold receivables such that the DPP increased by \$660 million.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 December 31, 2017, wireless service and installment receivables contributed to the SPEs and included in "Accounts and notes receivable, net" in the consolidated balance sheets were \$3.0 billion and the long-term portion of installment receivables included in "Other assets" in the consolidated balance sheets was \$208 million. As of December 31, 2017, the net book value of devices contributed to the SPEs was approximately \$5.6 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

Network Equipment Sale-Leaseback

In April 2016, Sprint sold and leased back certain network equipment to unrelated bankruptcy-remote special purpose entities (collectively, Network LeaseCo). The network equipment acquired by Network LeaseCo, which we consolidate, was used as collateral to raise approximately \$2.2 billion in borrowings from external investors, including SoftBank Group Corp. (SoftBank). Principal and interest payments on the borrowings from the external investors were repaid in staggered, unequal payments through January 2018. During the nine-month period ended December 31, 2017, we made principal repayments totaling \$1.4 billion, resulting in a total principal amount of \$454 million outstanding as of December 31, 2017, which was fully repaid in January 2018.

Network LeaseCo is a variable interest entity for which Sprint is the primary beneficiary. As a result, Sprint is required to consolidate Network LeaseCo and our consolidated financial statements include Network LeaseCo's debt and the related financing cash inflows. The network assets included in the transaction, which had a net book value of approximately \$3.0 billion and consisted primarily of equipment located at cell towers, remain on Sprint's consolidated financial statements and continue to be depreciated over their respective estimated useful lives. As of December 31, 2017, these network assets had a net book value of approximately \$1.8 billion.

The proceeds received were reflected as cash provided by financing activities in the consolidated statements of cash flows and payments made to Network LeaseCo are reflected as principal repayments and interest expense over the respective terms. Sprint has the option to purchase the equipment at the end of the leaseback term for a nominal

amount. All intercompany transactions between Network LeaseCo and Sprint are eliminated in our consolidated financial statements.

Handset Sale-Leasebacks

Transaction Structure

Sprint sold certain iPhone® devices being leased by our customers to MLS, a company formed by a group of equity investors, including SoftBank, and then subsequently leased the devices back. Under the agreements, Sprint generally

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

maintains the customer leases, continues to collect and record lease revenue from the customer and remits monthly rental payments to MLS during the leaseback periods.

Under the agreements, Sprint contributed the devices and the associated customer leases to wholly-owned consolidated bankruptcy-remote special purpose entities of Sprint (SPE Lessees). The SPE Lessees then sold the devices and transferred certain specified customer lease-end rights and obligations, such as the right to receive the proceeds from customers who elect to purchase the device at the end of the customer lease term, to MLS in exchange for a combination of cash and DPP. Settlement for the DPP occurs after repayment of MLS's senior loan obligations, senior subordinated loan obligations, and a return to MLS's equity holders and can be reduced to the extent that MLS experiences a loss on the device (either not returned or sold at an amount less than the expected residual value of the device), but only to the extent of the device's DPP balance. In the event that MLS sells the devices returned from our customers at a price greater than the expected device residual value, Sprint has the potential to share some of the excess proceeds.

The SPE Lessees retain all rights to the underlying customer leases, such as the right to receive the rental payments during the device leaseback period, other than the aforementioned certain specified customer lease-end rights. Each SPE Lessee is a separate legal entity with its own separate creditors who will be entitled, prior to and upon the liquidation of the SPE Lessee, to be satisfied out of the SPE Lessee's assets prior to any assets in the SPE Lessee becoming available to Sprint. Accordingly, the assets of the SPE Lessee are not available to pay creditors of Sprint or any of its affiliates. The SPE Lessees are obligated to pay the full monthly rental payments under each device lease to MLS regardless of whether our customers make lease payments on the devices leased to them or whether the customer lease is canceled. Sprint has guaranteed to MLS (subject to a cap of 20% of the aggregate cash purchase price) the performance of the agreements and undertakings of the SPE Lessees under the transaction documents.

Handset Sale-Leasebacks Tranche 2 (Tranche 2)

In May 2016, Sprint entered into Tranche 2. We transferred devices with a net book value of approximately \$1.3 billion to MLS in exchange for cash proceeds totaling \$1.1 billion and a DPP of \$186 million. The proceeds were accounted for as a financing. Accordingly, the devices remained in "Property, plant and equipment, net" in the consolidated balance sheets and we continued to depreciate the assets to their estimated residual values over the respective customer lease terms. During the nine-month period ended December 31, 2017, we made principal repayments and non-cash adjustments totaling \$385 million to MLS. In October 2017, Sprint terminated Tranche 2 pursuant to its terms and repaid all outstanding amounts.

The proceeds received were reflected as cash provided by financing activities in the consolidated statements of cash flows and payments made to MLS were reflected as principal repayments and interest expense. We had elected to account for the financing obligation at fair value. Accordingly, changes in the fair value of the financing obligation were recognized in "Other income (expense), net" in the consolidated statements of comprehensive income (loss) over the course of the arrangement.

Handset Sale-Leasebacks Tranche 1 (Tranche 1)

In December 2015, Sprint entered into Tranche 1. We recorded the sale, removed the devices from our balance sheet, and classified the leasebacks as operating leases. The cash proceeds received in the transaction were reflected as cash provided by investing activities in the consolidated statements of cash flows and payments made to MLS under the leaseback were reflected as "Cost of products" in the consolidated statements of comprehensive income (loss). Rent expense related to MLS totaled \$117 million and \$494 million during the three and nine-month periods ended December 31, 2016 and is reflected in cash flows from operations. In December 2016, Sprint terminated Tranche 1 by repurchasing the devices and related customer lease-end rights and obligations from MLS. Additionally, the leaseback was canceled and there are no further rental payments owed to MLS related to Tranche 1.

Tower Financing

During 2008, we sold and subsequently leased back approximately 3,000 cell sites, of which approximately 2,000 remain as of December 31, 2017. Terms extend through 2021, with renewal options for an additional 20 years. These cell sites continue to be reported as part of our "Property, plant and equipment, net" in our consolidated balance sheets due to our continued involvement with the property sold and the transaction is accounted for as a financing. The financing obligation as of December 31, 2017 is \$160 million.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Capital 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 \$145 million as of December 31, 2017. The remainder of our capital lease and other obligations of \$334 million as of December 31, 2017 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 December 31, 2017, 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. Severance and Exit Costs

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

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:

	March 31, 2017	Net (Benefit) Expense	Cash Payments and Other	December 31, 2017
	(in millions)			
Lease exit costs	\$249	\$ (12) ⁽¹⁾	\$ (68)	\$ 169
Severance costs	12	22 ⁽²⁾	(17)	17
Access exit costs	40	3 ⁽³⁾	(21)	22
	\$301	\$ 13	\$ (106)	\$ 208

For the three and nine-month periods ended December 31, 2017, we recognized benefits of \$3 million and \$12 (1) million (Wireless only), respectively, resulting from the reversal of certain lease exit cost reserves associated with the Clearwire WiMAX network which was shutdown on March 31, 2016.

(2) For the three and nine-month periods ended December 31, 2017, we recognized costs of \$17 million (\$16 million Wireless, \$1 million Wireline) and \$22 million (\$19 million Wireless, \$3 million Wireline), respectively.

(3) For the three and nine-month periods ended December 31, 2017, we recognized a benefit of \$1 million (\$9 million benefit Wireless, \$8 million costs Wireline) and costs of \$3 million (\$8 million benefit Wireless, \$11 million costs Wireline), respectively. The Wireless benefits resulted from the reduction of certain access exit cost reserves that are no longer required related to previous network initiatives.

We continually refine our network strategy and evaluate other potential network initiatives to improve the overall performance of our network. 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 10. Income Taxes

Sprint Corporation is the parent of an affiliated group of corporations which join in the filing of a U.S. federal consolidated income tax return. Additionally, we file income tax returns in each state jurisdiction which imposes an income tax. In certain state jurisdictions, Sprint and its subsidiaries file combined tax returns with certain other SoftBank affiliated entities. State tax expense or benefit has been determined utilizing the separate return approach as if Sprint and its subsidiaries file on a stand-alone basis. We also file income tax returns in a number of foreign jurisdictions; however, our foreign income tax activity is immaterial.

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to: (1) reducing the U.S. federal corporate tax rate from 35% to 21%; (2) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017; (3) bonus depreciation that will allow for full expensing of qualified property; (4) creating a new limitation on deductible interest expense; (5) eliminating the corporate alternative minimum tax; and (6) new tax rules related to foreign operations.

Section 15 of the Internal Revenue Code stipulates that our fiscal year ending March 31, 2018 will have a blended federal statutory tax rate of 31.5%, which is based on the applicable tax rates before and after the effectiveness of the Tax Act and the number of days in the year. The differences that caused our effective income tax rates to differ from the 31.5% and 35% U.S. federal statutory rate for income taxes for the nine-month periods ended December 31, 2017 and 2016, respectively, were as follows:

	Nine Months Ended	
	December 31,	
	2017	2016
	(in millions)	
Income tax (expense) benefit at the federal statutory rate	\$(205)	\$223
Effect of:		
State income taxes, net of federal income tax effect	(57)	8
State law changes, net of federal income tax effect	(28)	3
Increase deferred tax liability on FCC licenses	—	(46)
Increase deferred tax liability for business activity changes	(69)	—
Credit for increasing research activities	11	—
Tax benefit from organizational restructuring	—	42
Change in federal and state valuation allowance	(64)	(522)
Increase in liability for unrecognized tax benefits	(20)	—
Tax benefit from the Tax Act	7,090	—
Other, net	4	6
Income tax benefit (expense)	\$6,662	\$(286)
Effective income tax rate	(1,021.8)%	(44.9)%

We recognized, as a provisional estimate, a \$7.1 billion non-cash tax benefit through income from continuing operations for the re-measurement of deferred tax assets and liabilities due to changes in tax laws included in the Tax Act. This re-measurement of deferred taxes had no impact on cash flows.

The re-measurement was driven by two provisions in the Tax Act. First, as a result of the corporate tax rate reduction from 35% to 21%, we recognized a \$5.0 billion non-cash tax benefit through income from continuing operations for the re-measurement of our deferred tax assets and liabilities. Secondly, the Tax Act included a provision whereby net operating losses generated in tax years beginning after December 31, 2017 may be carried forward indefinitely. The realization of deferred tax assets, including net operating loss carryforwards, is dependent on the generation of future taxable income sufficient to realize the tax deductions, carryforwards and credits. The provision in the Tax Act, modifying the carryforward period of net operating losses, changed our assessment as to the ability to recognize deferred tax assets on certain deductible temporary differences projected to be realized in tax years with an indefinite-lived carryforward period. In assessing the ability to realize these deferred tax assets, we considered taxable temporary differences from indefinite-lived assets, such as FCC licenses, to be an available source of future taxable

income. This source of income was not previously considered because it could not be scheduled to reverse in the same period as the definite-lived deductible temporary differences. As a result of this change in assessment, we recognized a \$2.1 billion non-cash tax benefit through income from continuing operations to reduce our valuation allowance. We believe it is more likely than not that our remaining deferred tax assets, net of the valuation allowance, will be realized based on current income tax laws, including those modified by the Tax Act, and expectations of future taxable income stemming from the reversal of existing deferred tax liabilities.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The sources of the differences that gave rise to the deferred tax assets and liabilities as of December 31, 2017 and March 31, 2017, along with the income tax effect of each, were as follows:

	December 31, 2017	March 31, 2017
	(in millions)	
Deferred tax assets		
Net operating loss carryforwards	\$4,169	\$6,812
Tax credit carryforwards	365	340
Capital loss carryforwards	—	1
Property, plant and equipment	1,997	2,192
Debt obligations	83	205
Deferred rent	237	402
Pension and other postretirement benefits	211	332
Accruals and other liabilities	907	1,454
	7,969	11,738
Valuation allowance	(5,212)	(10,477)
	2,757	1,261
Deferred tax liabilities		
FCC licenses	8,793	12,876
Trademarks	1,122	1,712
Intangibles	340	771
Other	211	318
	10,466	15,677

Long-term deferred tax liability \$7,709 \$14,416

On December 22, 2017, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118) which addresses income tax accounting implications of the Tax Act. The purpose of SAB 118 was to address any uncertainty or diversity of view in applying ASC Topic 740, Income Taxes in the reporting period in which the Tax Act was enacted. SAB 118 addresses situations where the accounting is incomplete for certain income tax effects of the Tax Act upon issuance of a company's financial statements for the reporting period which include the enactment date. SAB 118 allows for a provisional amount to be recorded if it is a reasonable estimate of the impact of the Tax Act. Additionally, SAB 118 allows for a measurement period to finalize the impacts of the Tax Act, not to extend beyond one year from the date of enactment.

Estimates were used in determining the balance of deferred tax assets and liabilities subject to changes in tax laws included in the Tax Act. In addition, estimates were used in determining the timing of reversals of deferred tax assets and liabilities in assessing the ability to realize certain deferred tax assets, which impacted the valuation allowance adjustment we recorded as part of the effects of the Tax Act. Additional information and analysis is required to accurately determine the deferred tax assets and liabilities effected by the Tax Act as well as determine the reversal pattern of such deferred tax assets and liabilities in assessing the ability to realize deferred tax assets.

In accordance with SAB 118, we recorded, as a provisional estimate, a \$7.1 billion non-cash tax benefit through income from continuing operations in the period ended December 31, 2017. This amount is a reasonable estimate of the tax effects of the Tax Act on our financial statements. We will continue to analyze the effects of the Tax Act on

the financial statements and operations and record any additional impacts as they are identified during the measurement period provided for in SAB 118.

Income tax benefit of \$6.7 billion for the nine-month period ended December 31, 2017 was primarily attributable to the impact of the Tax Act as previously discussed, partially offset by taxable temporary differences from the tax amortization of FCC licenses and tax expense on pre-tax gains from spectrum license exchanges during the period.

We also increased our deferred state income tax liability by \$69 million for changes in business activities causing us to become subject to income tax in additional tax jurisdictions. This resulted in a change in the measurement of the carrying value of our deferred tax liability on temporary differences, primarily FCC licenses. Income tax expense of \$286 million for the nine-month period ended December 31, 2016 was primarily attributable to taxable temporary differences from the tax amortization

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of FCC licenses and tax expense on pre-tax gains from spectrum license exchanges during the period, partially offset by tax benefits from the reversal of certain state income tax valuation allowance on deferred tax assets. As a result of organizational restructuring, which drove a sustained increase in the profitability of specific legal entities, we revised our estimate regarding the realizability of the involved entities' deferred state tax assets and recorded a state tax benefit of \$42 million. Additionally, in conjunction with the Spectrum Financing and resulting change in state taxability footprint, we recognized tax expense of \$46 million to increase the deferred tax liability for the temporary differences between the carrying amounts of our FCC licenses for financial statement purposes and their tax bases. FCC licenses are amortized over 15 years for income tax purposes but, because these licenses have an indefinite life, they are not amortized for financial statement reporting purposes. Prior to the Tax Act, these temporary differences could not be scheduled to reverse during the loss carryforward period against our deferred tax assets. As a result, a valuation allowance is recorded against our loss carryforward and other excess deferred tax assets resulting in a net deferred tax expense.

As of December 31, 2017 and March 31, 2017, we maintained unrecognized tax benefits of \$191 million and \$190 million, respectively. Cash paid for income taxes, net was \$55 million and \$34 million for the nine-month periods ended December 31, 2017 and 2016, respectively.

Note 11. Commitments and Contingencies

Litigation, Claims and Assessments

In March 2009, a stockholder brought suit, *Bennett v. Sprint Nextel Corp.*, in the U.S. District Court for the District of Kansas, alleging that Sprint Communications and three of its former officers violated Section 10(b) of the Exchange Act and Rule 10b-5 by failing adequately to disclose certain alleged operational difficulties subsequent to the Sprint-Nextel merger, and by purportedly issuing false and misleading statements regarding the write-down of goodwill. The district court granted final approval of a settlement in August 2015, which did not have a material impact to our financial statements. Five stockholder derivative suits related to this 2009 stockholder suit were filed against Sprint Communications and certain of its present and/or former officers and directors. The first, *Murphy v. Forsee*, was filed in state court in Kansas on April 8, 2009, was removed to federal court, and was stayed by the court pending resolution of the motion to dismiss the *Bennett* case; the second, *Randolph v. Forsee*, was filed on July 15, 2010 in state court in Kansas, was removed to federal court, and was remanded back to state court; the third, *Ross-Williams v. Bennett, et al.*, was filed in state court in Kansas on February 1, 2011; the fourth, *Price v. Forsee, et al.*, was filed in state court in Kansas on April 15, 2011; and the fifth, *Hartleib v. Forsee, et al.*, was filed in federal court in Kansas on July 14, 2011. These cases were essentially stayed while the *Bennett* case was pending, and we have reached an agreement in principle to settle the matters, by agreeing to some governance provisions and by paying plaintiffs' attorneys fees in an immaterial amount. The court approved the settlement but reduced the plaintiffs' attorneys fees; the attorneys fees issue is on appeal.

On April 19, 2012, the New York Attorney General filed a complaint alleging that Sprint Communications has fraudulently failed to collect and pay more than \$100 million in New York sales taxes on receipts from its sale of wireless telephone services since July 2005. The complaint also seeks recovery of triple damages under the State False Claims Act, as well as penalties and interest. Sprint Communications moved to dismiss the complaint on June 14, 2012. On July 1, 2013, the court entered an order denying the motion to dismiss in large part, although it did dismiss certain counts or parts of certain counts. Sprint Communications appealed that order and the intermediate appellate court affirmed the order of the trial court. On October 20, 2015, the Court of Appeals of New York affirmed the decision of the appellate court that the tax statute requires us to collect and remit the disputed taxes. Our petition for certiorari to the U.S. Supreme Court on grounds of federal preemption was denied. We have paid the principal amount

of tax at issue, under protest, while the suit is pending. The parties are now engaged in discovery in the trial court. We will continue to defend this matter vigorously and we do not expect the resolution of this matter to have a material adverse effect on our financial position or results of operations.

Eight related stockholder derivative suits have been filed against Sprint Communications and certain of its current and former officers and directors. Each suit alleges generally that the individual defendants breached their fiduciary duties to Sprint Communications and its stockholders by allegedly permitting, and failing to disclose, the actions alleged in the suit filed by the New York Attorney General. One suit, filed by the Louisiana Municipal Police Employees Retirement System, was dismissed by a federal court. Two suits were filed in state court in Johnson County, Kansas and one of those suits was dismissed as premature; and five suits are pending in federal court in Kansas. The remaining Kansas suits have been stayed

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Communications is also a defendant in a complaint filed by several stockholders of Clearwire Corporation (Clearwire) asserting claims for breach of fiduciary duty by Sprint Communications, and related claims and otherwise challenging the Clearwire acquisition. ACP Master, LTD, et al. v. Sprint Nextel Corp., et al., was filed April 26, 2013, in Chancery Court in Delaware. Plaintiffs in the ACP Master, LTD suit have also filed suit requesting an appraisal of the fair value of their Clearwire stock. Trial of those cases took place in October and November 2016. On July 21, 2017, the Delaware Chancery Court ruled in Sprint's favor in both cases. It found no breach of fiduciary duty, and determined the value of Clearwire shares under the Delaware appraisal statute to be \$2.13 per share plus statutory interest. The plaintiffs have filed an appeal.

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

In October 2013, the FCC Enforcement Bureau began to issue notices of apparent liability (NALs) to other Lifeline providers, imposing fines for intracarrier duplicate accounts identified by the government during its audit function. Those audits also identified a small percentage of potentially duplicative intracarrier accounts related to our Assurance Wireless® business. No NAL has yet been issued with respect to Sprint and we do not know if one will be issued. Further, we are not able to reasonably estimate the amount of any claim for penalties that might be asserted. However, based on the information currently available, if a claim is asserted by the FCC, Sprint does not believe that any amount ultimately paid would be material to the Company's results of operations or financial position.

Various other suits, inquiries, proceedings and claims, either asserted or unasserted, including purported class actions typical for a large business enterprise and intellectual property matters, are possible or pending against us or our subsidiaries. As of December 31, 2017, we have accrued \$114 million associated with a state tax matter. If our interpretation of certain laws or regulations, including those related to various federal or state matters such as sales, use or property taxes, or other charges were found to be mistaken, it could result in payments by us. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial position or results of operations.

During the quarter ended December 31, 2017, Sprint settled several related patent infringement lawsuits and received payments of approximately \$350 million, excluding legal fees incurred.

Spectrum Reconfiguration Obligations

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

The minimum cash obligation is \$2.8 billion under the Report and Order. We are, however, obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed \$2.8 billion. As required under the

terms of the Report and Order, a letter of credit has been secured to provide assurance that funds will be available to pay the relocation costs of the incumbent users of the 800 MHz spectrum. The letter of credit was initially \$2.5 billion, but has been reduced during the course of the proceeding to \$115 million as of December 31, 2017. Since the inception of the program, we have incurred payments of approximately \$3.5 billion directly attributable to our performance under the Report and Order, including approximately \$8 million during the nine-month period ended December 31, 2017. 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

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

Completion of the 800 MHz band reconfiguration was initially required by June 26, 2008 and public safety reconfiguration is nearly complete across the country with the exception of the States of Arizona, California, Texas and New Mexico. The FCC continues to grant the remaining 800 MHz public safety licensees additional time to complete their band reconfigurations which, in turn, delays our access to our 800 MHz replacement channels in these areas. In the areas where band reconfiguration is complete, Sprint has received its replacement spectrum in the 800 MHz band and Sprint is deploying 3G CDMA and 4G LTE on this spectrum in combination with its spectrum in the 1.9 GHz and 2.5 GHz bands.

Note 12. Per Share Data

Basic net income (loss) per common share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per common share adjusts basic net income (loss) per common share, computed using the treasury stock method, for the effects of potentially dilutive common shares, if the effect is not antidilutive. As of the three-month period ended December 31, 2017, the computation of diluted net income (loss) per common share includes the effect of dilutive securities consisting of approximately 47 million options and restricted stock units, in addition to 13 million shares attributable to warrants, of which 9 million relate to the warrant held by SoftBank. As of the nine-month period ended December 31, 2017, the computation of diluted net income (loss) per common share includes the effect of dilutive securities consisting of approximately 61 million options and restricted stock units, in addition to 21 million shares attributable to warrants, of which 17 million relate to the warrant held by SoftBank. As of both the three and nine-month periods ended December 31, 2017, outstanding options to purchase shares totaling 6 million were not included in the computation of diluted net income (loss) per common share because to do so would have been antidilutive. Outstanding options and restricted stock units (exclusive of participating securities) that had no effect on our computation of dilutive weighted average number of shares outstanding as their effect would have been antidilutive were approximately 118 million shares as of the three and nine-month periods ended December 31, 2016, in addition to 62 million total shares issuable under warrants, of which 55 million relate to shares issuable under the warrant held by SoftBank. The warrant was issued to SoftBank at the close of the merger with SoftBank and is exercisable at \$5.25 per share at the option of SoftBank, in whole or in part, at any time on or prior to July 10, 2018.

Note 13. Segments

Sprint operates two reportable segments: Wireless and Wireline.

Wireless primarily includes retail, wholesale, and affiliate revenue from a wide array of wireless voice and data transmission services and equipment revenue from the sale of wireless devices (handsets and tablets) and accessories in the U.S., Puerto Rico and the U.S. Virgin Islands.

Wireline primarily includes revenue from domestic and international wireline voice and data communication services provided to other communications companies and targeted business 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. Over the past several years, there has been an industry-wide trend of lower rates due to increased competition from other wireline and wireless communications companies, as well as cable and Internet service providers.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Segment financial information is as follows:

Statement of Operations Information	Wireless including hurricane and other	Wireless hurricane and other	Wireless excluding hurricane and other	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)					
Three Months Ended December 31, 2017						
Net operating revenues ⁽²⁾	\$7,928	\$ 21	\$ 7,949	\$ 307	\$ 4	\$ 8,260
Inter-segment revenues ⁽¹⁾	—	—	—	86	(86)	—
Total segment operating expenses ⁽²⁾	(5,286)	96	(5,190)	(423)	72	(5,541)
Segment earnings	\$2,642	\$ 117	\$ 2,759	\$ (30)	\$ (10)	2,719
Less:						
Depreciation						(1,977)
Amortization						(196)
Hurricane-related charges ⁽²⁾						(66)
Other, net ⁽³⁾						247
Operating income						727
Interest expense						(581)
Other expense, net						(42)
Income before income taxes						\$ 104

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			

Three Months Ended December 31, 2016				
Net operating revenues	\$8,172	\$ 372	\$ 5	\$ 8,549
Inter-segment revenues ⁽¹⁾	—	125	(125)	—
Total segment operating expenses	(5,775)	(449)	125	(6,099)
Segment earnings	\$2,397	\$ 48	\$ 5	2,450
Less:				
Depreciation				(1,837)
Amortization				(255)
Other, net ⁽³⁾				(47)
Operating income				311
Interest expense				(619)
Other expense, net				(60)
Loss before income taxes				\$ (368)

Statement of Operations Information	Wireless including hurricane and other	Wireless hurricane and other	Wireless excluding hurricane and other	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)					

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Nine Months Ended December 31, 2017

Net operating revenues ⁽²⁾	\$23,347	\$ 33	\$23,380	\$ 963	\$ 13	\$ 24,356
Inter-segment revenues ⁽¹⁾	—	—	—	272	(272)	—
Total segment operating expenses ⁽²⁾	(15,109)	118	(14,991)	(1,305)	241	(16,055)
Segment earnings	\$8,238	\$ 151	\$8,389	\$ (70)	\$ (18)	8,301
Less:						
Depreciation						(5,693)
Amortization						(628)
Hurricane-related charges ⁽²⁾						(100)
Other, net ⁽³⁾						611
Operating income						2,491
Interest expense						(1,789)
Other expense, net						(50)
Income before income taxes						\$ 652

26

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations	Consolidated
	(in millions)			
Nine Months Ended December 31, 2016				
Net operating revenues	\$23,620	\$ 1,177	\$ 11	\$ 24,808
Inter-segment revenues ⁽¹⁾	—	386	(386)	—
Total segment operating expenses	(16,460)	(1,473)	379	(17,554)
Segment earnings	\$7,160	\$90	\$ 4	7,254
Less:				
Depreciation				(5,227)
Amortization				(813)
Other, net ⁽³⁾				80
Operating income				1,294
Interest expense				(1,864)
Other expense, net				(67)
Loss before income taxes				\$ (637)
Other Information	Wireless	Wireline	Corporate and Other	Consolidated
	(in millions)			
Capital expenditures for the nine months ended December 31, 2017	\$3,828	\$ 133	\$ 325	\$ 4,286
Capital expenditures for the nine months ended December 31, 2016	\$2,654	\$74	\$ 223	\$ 2,951

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

The three and nine-month periods ended December 31, 2017, includes \$66 million and \$100 million, respectively, of hurricane-related charges which are classified in our consolidated statements of comprehensive income (loss) as follows: \$21 million and \$33 million, respectively, as contra-revenue in net operating revenues, \$30 million and \$45 million, respectively, as cost of services, \$15 million and \$17 million, respectively, as selling, general and administrative expenses and \$5 million in the nine-month period only as other, net, all within the Wireless segment. In addition, the three and nine-month periods ended December 31, 2017, includes a \$51 million charge related to a regulatory fee matter, which is classified as cost of services in our consolidated statements of comprehensive income (loss).

(3) Other, net for the three and nine-month periods ended December 31, 2017 consists of \$13 million of severance and exit costs in both periods and net reductions of \$260 million and \$315 million, respectively, primarily associated with legal settlements or favorable developments in pending legal proceedings. The nine-month period ended December 31, 2017 consists of a \$175 million net loss on disposal of property, plant and equipment, which consisted of a \$181 million loss related to cell site construction costs that are no longer recoverable as a result of changes in our network plans, offset by a \$6 million gain. In addition, the nine-month period ended December 31, 2017 includes a \$479 million non-cash gain related to spectrum license exchanges with other carriers and a \$5 million reversal of previously accrued contract termination costs primarily related to the termination of our relationship with General Wireless Operations Inc. (Radio Shack). Losses totaling \$123 million and \$347 million

relating to the write-off of leased devices associated with lease cancellations were excluded from Other, net and included within Wireless segment earnings for the three and nine-month periods ended December 31, 2017, respectively. Other, net for the three and nine-month periods ended December 31, 2016 consists of \$19 million and \$30 million expense, respectively, of severance and exit costs as well as \$28 million loss on disposal of property, plant and equipment related to cell site construction costs that are no longer recoverable as a result of changes in our network plans. In addition, the nine-month period ended December 31, 2016 includes a \$354 million non-cash gain related to spectrum license exchanges with other carriers, a \$103 million charge related to a state tax matter and \$113 million of contract termination costs, primarily related to the termination of our pre-existing wholesale arrangement with nTelos as a result of the Shentel transaction. Losses totaling approximately \$109 million and \$340 million relating to the write-off of leased devices associated with lease cancellations were excluded from Other, net and included within Wireless segment earnings for the three and nine-month periods ended December 31, 2016, respectively.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations ⁽¹⁾	Consolidated
	(in millions)			
Three Months Ended December 31, 2017				
Wireless services ⁽²⁾	\$5,311	\$ —	\$ —	\$ 5,311
Wireless equipment	2,309	—	—	2,309
Voice	—	94	(32)	62
Data	—	29	(20)	9
Internet	—	254	(36)	218
Other	329	16	6	351
Total net operating revenues	\$7,949	\$ 393	\$ (82)	\$ 8,260

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations ⁽¹⁾	Consolidated
	(in millions)			
Three Months Ended December 31, 2016				
Wireless services ⁽³⁾	\$5,671	\$ —	\$ —	\$ 5,671
Wireless equipment	2,226	—	—	2,226
Voice	—	153	(61)	92
Data	—	41	(23)	18
Internet	—	281	(38)	243
Other ⁽³⁾	275	22	2	299
Total net operating revenues	\$8,172	\$ 497	\$ (120)	\$ 8,549

Operating Revenues by Service and Products	Wireless	Wireline	Corporate, Other and Eliminations ⁽¹⁾	Consolidated
	(in millions)			
Nine Months Ended December 31, 2017				
Wireless services ⁽²⁾	\$16,141	\$ —	\$ —	\$ 16,141
Wireless equipment	6,355	—	—	6,355
Voice	—	327	(114)	213
Data	—	96	(59)	37
Internet	—	765	(100)	665
Other	884	47	14	945
Total net operating revenues	\$23,380	\$ 1,235	\$ (259)	\$ 24,356

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

Nine Months Ended December 31, 2016

Wireless services ⁽³⁾	\$ 17,280	\$ —	\$ —	\$ 17,280
Wireless equipment	5,556	—	—	5,556
Voice	—	506	(196	) 310
Data	—	127	(67	) 60
Internet	—	871	(119	) 752
Other ⁽³⁾	784	59	7	850
Total net operating revenues	\$23,620	\$ 1,563	\$ (375	) \$ 24,808

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

Wireless services related to the Wireless segment in the three and nine-month periods ended December 31, 2017 (2) excludes \$21 million and \$33 million, respectively, of hurricane-related contra-revenue charges reflected in net operating revenues in our consolidated statements of comprehensive income (loss).

Sprint is no longer reporting Lifeline subscribers due to regulatory changes resulting in tighter program restrictions.

We have excluded them from our customer base for all periods presented, including our Assurance Wireless prepaid brand and subscribers through our wholesale Lifeline mobile virtual network operators (MVNO). The

(3) above tables reflect the reclassification of the related Assurance Wireless prepaid revenue within the Wireless segment from Wireless services to Other of \$92 million and \$275 million for the three and nine months ended December 31, 2016, respectively. Revenue associated with subscribers through our wholesale Lifeline MVNOs continues to remain in Other following this change.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 14. Related-Party Transactions

Sprint has entered into various arrangements with SoftBank, its controlled affiliates or with third parties to which SoftBank or its controlled affiliates are also parties, including 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 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 provides, among other things, that Brightstar may purchase inventory from the original equipment manufacturers (OEMs) to sell directly to our indirect dealers. As compensation for these services, we remit per unit fees to Brightstar for each device sold to dealers or retailers in our indirect channels. During the three and nine-month periods ended December 31, 2017 and 2016, we incurred fees under these arrangements totaling \$25 million and \$71 million, and \$15 million and \$43 million, respectively. 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 quarter 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 will now be 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 will receive a fixed fee from Brightstar for each device activated in our direct channels. For the three and nine-month periods ended December 31, 2017, Sprint earned fees under these arrangements of approximately \$71 million and \$100 million, respectively, which are recognized as other revenue within "Service revenues" in the consolidated statements of comprehensive income (loss).

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

Consolidated balance sheets:	December 31,				
	2017	2017			
	(in millions)				
Accounts receivable	\$ 253	\$ 367			
Accounts payable	\$ 119	\$ 160			
			Three		
			Months	Nine Months	
Consolidated statements of comprehensive income (loss):	Ended	Ended			
	December	December 31,			
	31,	2017	2016	2017	2016
	(in millions)				
Service revenues	\$71	\$—	\$100	\$—	
Equipment revenues	\$639	\$480	\$1,432	\$1,107	
Cost of products	\$657	\$403	\$1,465	\$1,021	

Selling, general and administrative \$13 \$9 \$39 \$26

In addition to the amounts associated with the supply chain and inventory management arrangements discussed above, Sprint earned fees from a Brightstar subsidiary for billing and collecting payments from subscribers under certain insurance programs of approximately \$10 million and \$27 million, and \$23 million and \$77 million in the three and nine-month periods ended December 31, 2017 and 2016, respectively, which are recognized as "Service revenues" in the consolidated statements of comprehensive income (loss).

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

SoftBank

In November 2015 and April 2016, Sprint entered into Handset Sale-Leaseback Tranche 1 and Tranche 2, respectively, with MLS, a company formed by a group of equity investors, including SoftBank, to sell and leaseback certain devices, which are currently being leased by our customers, for total cash proceeds of approximately \$2.2 billion. SoftBank's initial equity investment in MLS totaled \$79 million. Brightstar provided reverse logistics and remarketing services to MLS with respect to the devices.

In December 2016, Tranche 1 was terminated and the associated devices were repurchased by Sprint from MLS. With the cash proceeds, MLS repurchased the equity units from its investors including SoftBank. In October 2017, Sprint terminated Tranche 2 pursuant to its terms and repaid all outstanding amounts.

In April 2016, Sprint sold and leased back certain network equipment to Network LeaseCo. The network equipment acquired by Network LeaseCo, which is consolidated by us, was used as collateral to raise approximately \$2.2 billion in borrowings from external investors, including \$250 million from SoftBank. Principal and interest payments on the borrowings from the external investors were repaid in staggered, unequal payments through January 2018. During the nine-month period ended December 31, 2017, we made principal repayments totaling \$1.4 billion, resulting in a total principal amount of \$454 million outstanding as of December 31, 2017, which was fully repaid in January 2018.

All other transactions under agreements with SoftBank or its controlled affiliates, in the aggregate, were immaterial through the period ended December 31, 2017.

Table of Contents

Index for Notes to the Consolidated Financial Statements

SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 15. 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, which are fully and unconditionally guaranteed by Sprint Communications.

During the nine-month periods ended December 31, 2017 and 2016, there were non-cash equity contributions from the Subsidiary Guarantor to the Non-Guarantor Subsidiaries as a result of organizational restructuring for tax purposes of \$4.7 billion and \$563 million, respectively. We also replaced \$22.9 billion of short-term payables with intercompany notes issued by the Subsidiary Guarantor to the Non-Guarantor Subsidiaries during the nine-month period ended December 31, 2017. 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 April 2016, Sprint entered into the Tranche 2 transaction to sell and leaseback certain leased devices and a separate network equipment sale-leaseback transaction to sell and leaseback certain network equipment. 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 each of the Receivables Facility, Tranche 2, and the spectrum financing transaction, Sprint formed certain wholly-owned bankruptcy-remote subsidiaries that are included in the non-guarantor subsidiaries' condensed consolidated financial information. In addition, the bankruptcy-remote special purpose entities formed in connection with the network equipment sale-leaseback transaction, but which are not Sprint subsidiaries, 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 Capital Lease Obligations). We have accounted for investments in subsidiaries using the equity method. Presented below is the condensed consolidating financial information.

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING BALANCE SHEET

December 31, 2017

	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
--	---------------	-------------------------	-------------------------------	--------------	--------------

(in millions)

ASSETS

Current assets:

Cash and cash equivalents	\$—	\$ 3,948	\$ 492	\$—	\$ 4,440
Short-term investments	—	173	—	—	173
Accounts and notes receivable, net	196	445	3,917	(641)	) 3,917
Current portion of notes receivable from consolidated affiliate	—	424	—	(424)) —
Device and accessory inventory	—	—	1,009	—	1,009
Prepaid expenses and other current assets	1	8	617	—	626
Total current assets	197	4,998	6,035	(1,065)	) 10,165
Investments in subsidiaries	26,233	36,237	—	(62,470)) —
Property, plant and equipment, net	—	—	19,712	—	19,712
Due from consolidated affiliates	1	—	13,776	(13,777)) —
Notes receivable from consolidated affiliate	10,407	22,491	—	(32,898)) —
Intangible assets					
Goodwill	—	—	6,586	—	6,586
FCC licenses and other	—	—	41,222	—	41,222
Definite-lived intangible assets, net	—	—	2,667	—	2,667
Other assets	—	196	871	—	1,067
Total assets	\$36,838	\$ 63,922	\$ 90,869	\$(110,210)	) \$ 81,419

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$—	\$ —	\$ 3,176	\$—	\$ 3,176
Accrued expenses and other current liabilities	196	383	3,921	(641)	) 3,859
Current portion of long-term debt, financing and capital lease obligations	—	1,895	2,141	—	4,036
Current portion of notes payable to consolidated affiliate	—	—	424	(424)) —
Total current liabilities	196	2,278	9,662	(1,065)	) 11,071
Long-term debt, financing and capital lease obligations	10,407	10,407	12,011	—	32,825
Notes payable to consolidated affiliate	—	10,407	22,491	(32,898)) —
Deferred tax liabilities	—	—	7,709	—	7,709
Other liabilities	—	820	2,689	—	3,509
Due to consolidated affiliates	—	13,777	—	(13,777)) —
Total liabilities	10,603	37,689	54,562	(47,740)	) 55,114
Commitments and contingencies					
Total stockholders' equity	26,235	26,233	36,237	(62,470)) 26,235

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Noncontrolling interests	—	—	70	—	70
Total equity	26,235	26,233	36,307	(62,470)	26,305
Total liabilities and equity	\$36,838	\$ 63,922	\$ 90,869	\$(110,210)	\$ 81,419

32

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING BALANCE SHEET

	March 31, 2017				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
ASSETS					
Current assets:					
Cash and cash equivalents	\$—	\$ 2,461	\$ 409	\$—	\$ 2,870
Short-term investments	—	5,444	—	—	5,444
Accounts and notes receivable, net	86	1	4,137	(86)	4,138
Device and accessory inventory	—	—	1,064	—	1,064
Prepaid expenses and other current assets	—	11	590	—	601
Total current assets	86	7,917	6,200	(86)	14,117
Investments in subsidiaries	18,800	23,854	—	(42,654)	—
Property, plant and equipment, net	—	—	19,209	—	19,209
Due from consolidated affiliates	25	13,032	—	(13,057)	—
Notes receivable from consolidated affiliate	10,394	575	—	(10,969)	—
Intangible assets					
Goodwill	—	—	6,579	—	6,579
FCC licenses and other	—	—	40,585	—	40,585
Definite-lived intangible assets, net	—	—	3,320	—	3,320
Other assets	—	134	1,179	—	1,313
Total assets	\$29,305	\$ 45,512	\$ 77,072	\$ (66,766)	\$ 85,123
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	\$—	\$—	\$ 3,281	\$—	\$ 3,281
Accrued expenses and other current liabilities	103	478	3,646	(86)	4,141
Current portion of long-term debt, financing and capital lease obligations	—	1,356	3,680	—	5,036
Total current liabilities	103	1,834	10,607	(86)	12,458
Long-term debt, financing and capital lease obligations	10,394	13,647	11,837	—	35,878
Notes payable to consolidated affiliate	—	10,394	575	(10,969)	—
Deferred tax liabilities	—	—	14,416	—	14,416
Other liabilities	—	837	2,726	—	3,563
Due to consolidated affiliates	—	—	13,057	(13,057)	—
Total liabilities	10,497	26,712	53,218	(24,112)	66,315
Commitments and contingencies					
Total stockholders' equity	18,808	18,800	23,854	(42,654)	18,808
Total liabilities and stockholders' equity	\$29,305	\$ 45,512	\$ 77,072	\$ (66,766)	\$ 85,123

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three Months Ended December 31, 2017

	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	\$—	\$—	\$ 8,239	\$—	\$ 8,239
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	1,733	—	1,733
Cost of products (exclusive of depreciation and amortization included below)	—	—	1,673	—	1,673
Selling, general and administrative	—	—	2,108	—	2,108
Severance and exit costs	—	—	13	—	13
Depreciation	—	—	1,977	—	1,977
Amortization	—	—	196	—	196
Other, net	—	—	(188	) —	(188)
	—	—	7,512	—	7,512
Operating income	—	—	727	—	727
Other income (expense):					
Interest income	198	458	1	(643	) 14
Interest expense	(198	) (382	) (644	) 643	(581)
Earnings (losses) of subsidiaries	7,162	7,088	—	(14,250) —
Other expense, net	—	(2	) (54	) —	(56)
	7,162	7,162	(697	) (14,250	) (623)
Income (loss) before income taxes	7,162	7,162	30	(14,250	) 104
Income tax benefit	—	—	7,052	—	7,052
Net income (loss)	7,162	7,162	7,082	(14,250	) 7,156
Less: Net loss attributable to noncontrolling interests	—	—	6	—	6
Net income (loss) attributable to Sprint Corporation	7,162	7,162	7,088	(14,250	) 7,162
Other comprehensive income (loss)	26	26	6	(32	) 26
Comprehensive income (loss)	\$7,188	\$ 7,188	\$ 7,088	\$ (14,282	) \$ 7,182

Table of ContentsIndex for Notes to the Consolidated Financial StatementsSPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME

Three Months Ended December 31, 2016

	Parent/ Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Elimination	Consolidated
	(in millions)				
Net operating revenues	\$—	\$ —	\$ 8,549	\$ —	\$ 8,549
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	1,925	—	1,925
Cost of products (exclusive of depreciation and amortization included below)	—	—	1,985	—	1,985
Selling, general and administrative	—	—	2,080	—	2,080
Severance and exit costs	—	—	19	—	19
Depreciation	—	—	1,837	—	1,837
Amortization	—	—	255	—	255
Other, net	—	—	137	—	137
	—	—	8,238	—	8,238
Operating income	—	—	311	—	311
Other (expense) income:					
Interest income	198	43	4	(233)	12
Interest expense	(198)	(409)	(245)	233	(619)
(Losses) earnings of subsidiaries	(479)	(38)	—	517	—
Other (expense) income, net	—	(75)	3	—	(72)
	(479)	(479)	(238)	517	(679)
(Loss) income before income taxes	(479)	(479)	73	517	(368)
Income tax expense	—	—	(111)	—	(111)
Net (loss) income	(479)	(479)	(38)	517	(479)
Other comprehensive (loss) income	(5)	(5)	(4)	9	(5)
Comprehensive (loss) income	\$(484)	\$(484)	\$(42)	\$ 526	\$(484)

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Nine Months Ended December 31, 2017

	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	\$—	\$—	\$ 24,323	\$—	\$ 24,323
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	5,140	—	5,140
Cost of products (exclusive of depreciation and amortization included below)	—	—	4,622	—	4,622
Selling, general and administrative	—	—	6,059	—	6,059
Severance and exit costs	—	—	13	—	13
Depreciation	—	—	5,693	—	5,693
Amortization	—	—	628	—	628
Other, net	—	(55)	(268)	—	(323)
	—	(55)	21,887	—	21,832
Operating income	—	55	2,436	—	2,491
Other income (expense):					
Interest income	593	783	10	(1,320)	66
Interest expense	(593)	(1,171)	(1,345)	1,320	(1,789)
Earnings (losses) of subsidiaries	7,320	7,722	—	(15,042)	—
Other expense, net	—	(69)	(47)	—	(116)
	7,320	7,265	(1,382)	(15,042)	(1,839)
Income (loss) before income taxes	7,320	7,320	1,054	(15,042)	652
Income tax benefit	—	—	6,662	—	6,662
Net income (loss)	7,320	7,320	7,716	(15,042)	7,314
Less: Net loss attributable to noncontrolling interests	—	—	6	—	6
Net income (loss) attributable to Sprint Corporation	7,320	7,320	7,722	(15,042)	7,320
Other comprehensive income (loss)	38	38	18	(56)	38
Comprehensive income (loss)	\$ 7,358	\$ 7,358	\$ 7,734	\$ (15,098)	\$ 7,352

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF COMPREHENSIVE (LOSS) INCOME

	Nine Months Ended December 31, 2016				
	Parent/Issuer	Subsidiary Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)				
Net operating revenues	\$—	\$ —	\$ 24,808	\$ —	\$ 24,808
Net operating expenses:					
Cost of services (exclusive of depreciation and amortization included below)	—	—	6,125	—	6,125
Cost of products (exclusive of depreciation and amortization included below)	—	—	5,097	—	5,097
Selling, general and administrative	—	—	5,992	—	5,992
Severance and exit costs	—	—	30	—	30
Depreciation	—	—	5,227	—	5,227
Amortization	—	—	813	—	813
Other, net	—	—	230	—	230
	—	—	23,514	—	23,514
Operating income	—	—	1,294	—	1,294
Other (expense) income:					
Interest income	593	105	13	(674)	) 37
Interest expense	(593)	) (1,271)	) (674)	) 674	(1,864)
(Losses) earnings of subsidiaries	(923)	) 320	—	603	—
Other expense, net	—	(77)	) (27)	) —	(104)
	(923)	) (923)	) (688)	) 603	(1,931)
(Loss) income before income taxes	(923)	) (923)	) 606	603	(637)
Income tax expense	—	—	(286)	) —	(286)
Net (loss) income	(923)	) (923)	) 320	603	(923)
Other comprehensive income (loss)	2	2	3	(5)	) 2
Comprehensive (loss) income	\$(921)	) \$(921)	) \$ 323	\$ 598	) \$(921)

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine Months Ended December 31, 2017

	Subsidiary Parent/Issuer Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)			
Cash flows from operating activities:				
Net cash (used in) provided by operating activities	\$—(1,143)	\$ 5,548	\$ —	\$ 4,405
Cash flows from investing activities:				
Capital expenditures - network and other	—	(2,499)	—	(2,499)
Capital expenditures - leased devices	—	(1,787)	—	(1,787)
Expenditures relating to FCC licenses	—	(92)	—	(92)
Proceeds from sales and maturities of short-term investments	—7,113	—	—	7,113
Purchases of short-term investments	—(1,842)	—	—	(1,842)
Change in amounts due from/due to consolidated affiliates	—	689	(689)	—
Proceeds from sales of assets and FCC licenses	—	367	—	367
Proceeds from intercompany note advance to consolidated affiliate	—575	—	(575)	—
Other, net	—	16	—	16
Net cash provided by (used in) investing activities	—5,846	(3,306)	(1,264)	1,276
Cash flows from financing activities:				
Proceeds from debt and financings	—	3,073	—	3,073
Repayments of debt, financing and capital lease obligations	—(2,530)	(4,629)	—	(7,159)
Debt financing costs	—(9)	(10)	—	(19)
Change in amounts due from/due to consolidated affiliates	—(689)	—	689	—
Repayments of intercompany note advance from parent	—	(575)	575	—
Other, net	—12	(18)	—	(6)
Net cash used in financing activities	—(3,216)	(2,159)	1,264	(4,111)
Net increase in cash and cash equivalents	—1,487	83	—	1,570
Cash and cash equivalents, beginning of period	—2,461	409	—	2,870
Cash and cash equivalents, end of period	\$—3,948	\$ 492	\$ —	\$ 4,440

Table of ContentsIndex for Notes to the Consolidated Financial Statements

SPRINT CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine Months Ended December 31, 2016

	Subsidiary Parent/Issuer Guarantor	Non-Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)			
Cash flows from operating activities:				
Net cash (used in) provided by operating activities	\$—	\$(1,168)	\$ 4,186	\$ (118) \$ 2,900
Cash flows from investing activities:				
Capital expenditures - network and other	—	(1,421)	—	(1,421)
Capital expenditures - leased devices	—	(1,530)	—	(1,530)
Expenditures relating to FCC licenses	—	(46)	—	(46)
Proceeds from sales and maturities of short-term investments	—2,614	35	—	2,649
Purchases of short-term investments	—(4,943)	(55)	—	(4,998)
Change in amounts due from/due to consolidated affiliates	—6,865	—	(6,865)	—
Proceeds from sales of assets and FCC licenses	—	126	—	126
Intercompany note advance to consolidated affiliate	—(392)	—	392	—
Proceeds from intercompany note advance to consolidated affiliate	—62	—	(62)	—
Other, net	—	26	—	26
Net cash provided by (used in) investing activities	—4,206	(2,865)	(6,535)	(5,194)
Cash flows from financing activities:				
Proceeds from debt and financings	—	6,830	—	6,830
Repayments of debt, financing and capital lease obligations	—(2,000)	(1,266)	—	(3,266)
Debt financing costs	—(110)	(162)	—	(272)
Intercompany dividends paid to consolidated affiliate	—	(118)	118	—
Change in amounts due from/due to consolidated affiliates	—	(6,865)	6,865	—
Intercompany note advance from consolidated affiliate	—	392	(392)	—
Repayments of intercompany note advance from consolidated affiliate	—	(62)	62	—
Other, net	—35	33	—	68
Net cash (used in) provided by financing activities	—(2,075)	(1,218)	6,653	3,360
Net increase in cash and cash equivalents	—963	103	—	1,066
Cash and cash equivalents, beginning of period	—2,154	487	—	2,641
Cash and cash equivalents, end of period	\$—\$ 3,117	\$ 590	\$ —	\$ 3,707

Table of Contents

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). 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.

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.

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 leasing and installment billing programs do not require a service contract. These programs offer devices tied to service plans at lower monthly rates when compared to subsidy plans, but require the subscriber to pay full or near full price for the device over the lease term or installment period. Our leasing program allows the subscriber to either turn in the device, continue leasing the device or purchase the device at the end of the lease term. 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 service contract and allows for a subscriber to purchase a device at a discount for a new line of service. The majority of Sprint's current handset activations occur on our leasing program.

Prepaid

Our prepaid portfolio currently includes multiple brands, each designed to appeal to specific subscriber uses and demographics. Sprint Forward (formerly Sprint Prepaid) primarily serves as a complementary offer to our Sprint Postpaid offer for those subscribers who want plans that are affordable, simple and flexible without a long-term commitment. 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. While Sprint will continue to support our Lifeline subscribers through our Assurance Wireless prepaid brand, we have excluded these subscribers from our reported prepaid customer base for all periods presented due to

regulatory changes resulting in tighter program restrictions. (See "Subscriber Results" for more information.)

40

Table of Contents

Wholesale

We have focused our wholesale business on enabling our diverse network of customers to successfully grow their business by providing them with an array of network, product, and device solutions. This allows our customers to customize this full suite of value-added solutions to meet the growing demands of their businesses. As part of these growing demands, some of our wholesale mobile virtual network operators (MVNO) are also selling prepaid services under the Lifeline program. While Sprint will continue to support our Lifeline subscribers through our wholesale MVNOs, we have excluded these subscribers from our reported wholesale customer base for all periods presented due to regulatory changes resulting in tighter program restrictions. (See "Subscriber Results" for more information.)

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 broad suite of wireline voice and data communication services to other communications companies and targeted business subscribers. In addition, our Wireline segment provides voice, 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:

• Unlock the value of our substantial spectrum holdings by densifying and optimizing our network to provide customers with the best experience;

• Achieve our cost reduction goals by significantly transforming our business;

• Deliver an attractive value proposition and substantially enhance our distribution through use of innovative models;

• Create an alternative financial structure that leverages our assets to fuel our growth and maximize stockholder value;

• Attract and retain world-class talent and establish strategic partnerships to create an optimal, engaged, and winning team; and

• Deliver an exceptional wireless experience so customers stay longer, buy more, and tell their friends.

To provide a network that delivers the consistent reliability, capacity and speed that customers demand, we expect to continue to optimize our 3G data network and invest in LTE deployment across all of our spectrum bands. We also expect to deploy new technologies that will help strengthen our competitive position, including the expected use of High Performance User Equipment, the Sprint Magic Box that is an LTE booster, Voice over LTE, more extensive use of Wi-Fi and the use of small cells to further densify our network.

To achieve a more competitive cost position, we have established an Office of Cost Management with responsibility for identifying, operationalizing, and monitoring sustained improvements in operating costs and efficiencies. Also, we have deployed cost management and planning tools across the entire organization to more effectively monitor expenditures.

We are focused on attracting and retaining subscribers by improving our sales and marketing initiatives. We have demonstrated our value proposition through our evolving price plans, promotions, and payment programs and have deployed local marketing and civic engagement initiatives in key markets.

Our current strategy also includes transactions that continue to leverage our assets such as the Accounts Receivable Facility (Receivables Facility) and the spectrum financing transaction. Each of these transactions is described in more detail in "Liquidity and Capital Resources."

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.

To deliver a simplified and improved customer experience, we are focusing on key subscriber touch points, pursuing process improvements and deploying platforms to simplify and enhance the interactions between us and our

Table of Contents

customers. In addition, we have established a customer experience team to support our focus on net promoter score as an important key measure of customer satisfaction.

Network

We continue to increase coverage and capacity by densifying and optimizing our existing network. 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 carrier aggregation, which allows us to move more data at faster speeds over the same spectrum. Additionally, our introduction of tri-band devices, which support each of our spectrum bands, 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.

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.

Overall, our densification and optimization efforts 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. While circumstances may change in the future, we believe that our substantial spectrum holdings are sufficient to allow us to continue to provide consistent network reliability, capacity, and speed, as well as to provide current and future customers a highly competitive wireless experience. As a result of changes to our network plans during our fourth quarter of fiscal year 2017, we expect to incur charges of approximately \$200 million primarily associated with cell site construction costs that are no longer recoverable. As we continue to refine our network strategy and evaluate other potential network initiatives, we may incur future material charges associated with lease and access exit costs, loss from asset dispositions or accelerated depreciation, among others.

PRWireless HoldCo, LLC Transaction

During the quarter 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 entity. The companies contributed employees, subscribers, network assets and spectrum to the transaction. We expect the new entity to create a stronger competitor in Puerto Rico and the U.S. Virgin Islands offering postpaid, prepaid, Lifeline and business services with increased scale, expanded distribution, improved network capacity, faster speed, and a deeper spectrum position. Sprint and PRWireless PR, Inc. have an approximate 68% and a 32% preferred economic interest, as well as a 55% and 45% common voting interest in the new entity, respectively.

RESULTS OF OPERATIONS**Consolidated Results of Operations**

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

	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2016	
	2017	2016	2017	2016
	(in millions)			
Wireless segment earnings	\$2,759	\$2,397	\$8,389	\$7,160
Wireline segment earnings	(30)	48	(70)	90
Corporate, other and eliminations	(10)	5	(18)	4
Consolidated segment earnings	2,719	2,450	8,301	7,254
Depreciation	(1,977)	(1,837)	(5,693)	(5,227)
Amortization	(196)	(255)	(628)	(813)
Other, net	181	(47)	511	80
Operating income	727	311	2,491	1,294
Interest expense	(581)	(619)	(1,789)	(1,864)
Other expense, net	(42)	(60)	(50)	(67)

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Income tax benefit (expense)	7,052	(111)	6,662	(286)
Net income (loss)	\$7,156	\$(479)	\$7,314	\$(923)

42

Table of Contents

Depreciation Expense

Depreciation expense increased \$140 million, or 8%, and \$466 million, or 9%, in the three and nine-month periods ended December 31, 2017, respectively, compared to the same periods in 2016, primarily due to increased depreciation on leased devices as a result of the continued growth of the device leasing program. Depreciation expense incurred on all leased devices was \$990 million and \$2.7 billion for the three and nine-month periods ended December 31, 2017, respectively, and \$837 million and \$2.2 billion for the same periods in 2016, respectively.

Amortization Expense

Amortization expense decreased \$59 million, or 23%, and \$185 million, or 23%, in the three and nine-month periods ended December 31, 2017, respectively, compared to the same periods in 2016, 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 nine-month periods ended December 31, 2017 and 2016.

	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2016	
	2017	2016	2017	2016
	(in millions)			
Severance and exit costs	\$(13)	\$(19)	\$(13)	\$(30)
Litigation and other contingencies	260	—	315	(103)
Loss on disposal of property, plant and equipment, net	—	(28)	(175)	(28)
Contract terminations	—	—	5	(113)
Gains from asset dispositions and exchanges	—	—	479	354
Hurricane-related charges	(66)	—	(100)	—
Total	\$181	\$(47)	\$511	\$80

Other, net represented a benefit of \$181 million and \$511 million in the three and nine-month periods ended December 31, 2017, respectively. During the three and nine-month periods ended December 31, 2017, we recognized severance and exit costs of \$13 million primarily associated with reductions in work force. We incurred hurricane-related charges of \$66 million and \$100 million during the three and nine-month periods ended December 31, 2017, respectively, which were recorded as contra-revenue, cost of services, selling, general and administrative expenses, and loss on disposal of property, plant and equipment in the consolidated statements of comprehensive income (loss). We had a net benefit in litigation and other contingencies of \$260 million and \$315 million during the three and nine-month periods ended December 31, 2017, respectively, associated with legal settlements for patent infringement lawsuits as well as other contingencies associated with a regulatory fee matter. During the nine-month period ended December 31, 2017, we recorded a \$479 million non-cash gain as a result of spectrum license exchanges with other carriers and a \$5 million benefit in contract terminations. Additionally, we recognized a \$175 million net loss on disposal of property, plant and equipment, which consisted of a \$181 million loss related to cell site construction costs that are no longer recoverable as a result of changes in our network plans, offset by a \$6 million gain.

Other, net represented an expense of \$47 million and a benefit of \$80 million in the three and nine-month periods ended December 31, 2016, respectively. During the three and nine-month periods ended December 31, 2016, we recognized severance and exit costs of \$19 million and \$30 million, respectively, and we recorded a \$28 million loss on disposal of property, plant and equipment related to cell site construction costs that are no longer recoverable as a result of changes in our network plans. During the nine-month period ended December 31, 2016, we recognized a \$103 million charge associated with a state tax matter and a \$354 million non-cash gain as a result of spectrum license exchanges with other carriers. Additionally, we recorded a \$113 million of contract terminations that was primarily related to the termination of our pre-existing wholesale arrangement with NTELOS Holdings Corporation (nTelos) as

a result of the transaction with Shentel.

Interest Expense

Interest expense decreased \$38 million, or 6%, and \$75 million, or 4%, in the three and nine-month periods ended December 31, 2017, respectively, compared to the same periods in 2016. The effective interest rate, which includes capitalized interest, on the weighted average long-term debt balance of \$37.2 billion and \$38.6 billion was 6.4% and 6.3% for

43

Table of Contents

the three and nine-month periods ended December 31, 2017, respectively. The effective interest rate, which includes capitalized interest, on the weighted average long-term debt balance of \$38.4 billion and \$37.1 billion was 6.6% and 6.8% for the three and nine-month periods ended December 31, 2016, respectively. See “Liquidity and Capital Resources” for more information on the Company's financing activities.

Other expense, net

Other expense, net was \$42 million and \$50 million in the three and nine-month periods ended December 31, 2017, respectively. The expense was primarily due to \$64 million and \$70 million of equity in losses of unconsolidated investments, net during the three and nine-month periods ended December 31, 2017, respectively, which includes a \$50 million impairment to an equity method investment. In addition, during the nine-month period ended December 31, 2017, \$65 million of loss on early extinguishment of debt related to the retirement of portions of the Sprint Communications 8.375% Notes due 2017 and 9.000% Guaranteed Notes due 2018 was offset by \$66 million of interest income.

Other expense, net was \$60 million and \$67 million in the three and nine-month periods ended December 31, 2016, respectively. The expense was primarily due to recognizing the remaining debt finance costs of \$74 million associated with the terminated unsecured financing facility in the three-month period ended December 31, 2016.

Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the Tax Act). The Tax Act included changes in tax laws that had a material impact on our financial statements. The impact was driven by the re-measurement of deferred tax assets and liabilities. The re-measurement included the impact of the corporate tax rate reduction from 35% to 21% and the evaluation of our ability to realize deferred tax assets. Due to complexities involved in accounting for the enactment of the Tax Act, the SEC issued Staff Accounting Bulletin No. 118 (SAB 118), which addresses the accounting implications. SAB 118 allows us to record a provisional estimate of the impacts of the Tax Act in our earnings in the period ended December 31, 2017. Based on currently available information, we recorded, as a provisional estimate, a \$7.1 billion non-cash tax benefit through income for continuing operations to re-measure the carrying values of our deferred tax assets and liabilities. The re-measurement of deferred taxes had no impact on cash flows (See Note 10. Income Taxes).

We expect adjustments to income tax expense in the quarter ending March 31, 2018, which may potentially be material. Income tax expense will be impacted primarily by the change in estimates of temporary differences during the quarter and the related future reversal patterns used in determining the measurement of our deferred tax assets. We do not expect these adjustments to impact cash flows.

Income tax benefit of \$7.1 billion for the three-month period ended December 31, 2017 was primarily attributable to the impact of the Tax Act as discussed above. Income tax benefit of \$6.7 billion for the nine-month period ended December 31, 2017 was primarily attributable to the impact of the Tax Act, partially offset by taxable temporary differences from the tax amortization of FCC licenses and tax expense on pre-tax gains from spectrum license exchanges during the period. We also increased our deferred state income tax liability by \$69 million for changes in business activities causing us to become subject to income tax in additional tax jurisdictions. This resulted in a change in the measurement of the carrying value of our deferred tax liability on temporary differences, primarily FCC licenses.

Income tax expense of \$111 million and \$286 million for the three and nine-month periods ended December 31, 2016, respectively, represented consolidated effective tax rates of approximately (30)% and (45)%, respectively. Income tax expense for both periods was primarily attributable to taxable temporary differences from the tax amortization of FCC licenses and tax expense to increase our deferred tax liability on FCC licenses temporary differences. Income tax expense for the nine-month period ended December 31, 2016 included tax expense on pre-tax gains from spectrum license exchanges during the period, partially offset by tax benefits from the reversal of certain state income tax valuation allowance on deferred tax assets.

Segment Earnings - Wireless

Wireless segment earnings are a function of wireless service revenue, the sale of wireless devices (handsets and tablets), broadband devices, connected devices and accessories, leasing wireless devices, commissions on the device insurance program, commissions on our device accessory program, in addition to costs to acquire subscribers and

network and interconnection costs to serve those subscribers, as well as other Wireless segment operating expenses. The costs to acquire our subscribers include the cost at which we sell our devices, as well as the marketing and sales costs incurred to attract those subscribers. Network costs primarily represent switch and cell site costs, backhaul costs, and interconnection costs, which generally consist of per-minute usage fees and roaming fees paid to other carriers. The remaining costs

Table of Contents

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 nine-month periods ended December 31, 2017 and 2016. 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. Almost all markets in which we operate have high rates of penetration for wireless services.

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 get annual upgrades for all smartphones. With Sprint Flex, customers can lease any phone and have the option to upgrade or purchase later. This program allows customers to enjoy their phone before deciding what option (upgrade, continue leasing, return, or buy) works best for their lifestyle.

Under the leasing program, qualified subscribers can lease a device for a contractual period of time. At the end of the lease term, the subscriber has the option to turn in their device, continue leasing their device, or purchase the device. As of December 31, 2017, substantially all of our device leases were classified as operating leases. As a result, at lease inception, the devices are reclassified from inventory to property, plant and equipment when leased through Sprint's direct channels. For leases in the indirect channel, we purchase the devices at lease inception from the dealer, which is then capitalized to property, plant and equipment. While a majority of the revenue associated with installment sales is recognized at the time of sale along with the related cost of products, 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. During the three and nine-month periods ended December 31, 2017 and 2016, we leased devices through our Sprint direct channels with costs totaling approximately \$1.8 billion, \$3.7 billion, \$1.1 billion and \$2.3 billion, respectively. These devices were reclassified from inventory to property, plant and equipment and, as such, the cost of the device was not recorded as cost of products compared to when purchased under the installment billing or the traditional subsidy program, which resulted in a significant positive impact to Wireless segment earnings. Depreciation expense incurred on all leased devices for the three and nine-month periods ended December 31, 2017 and 2016, was \$990 million, \$2.7 billion, \$837 million and \$2.2 billion, respectively. 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. However, prior to its termination, the benefit to Wireless segment earnings was partially offset by the Handset Sale-Leaseback Tranche 1 (Tranche 1) transaction that was consummated in November 2015 whereby we sold and subsequently leased back certain devices leased to our customers. As a result, the cost to us of the devices sold to Mobile Leasing Solutions, LLC (MLS) under Tranche 1 was no longer recorded as depreciation expense, but rather was recognized as rent expense within "Cost of products" in the consolidated statements of comprehensive income (loss) during the leaseback periods until Tranche 1 was terminated in conjunction with the repurchase of devices in December 2016.

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. As compared to our traditional subsidy program, this results in better alignment of the equipment 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 and the time value of money element related to the imputed interest on the installment receivable.

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 a traditional subsidy program. The Receivables Facility and the handset sale-leaseback transactions discussed in "Liquidity and Capital Resources" were designed to mitigate the significant use of cash from purchasing devices from original equipment manufacturers (OEMs) to fulfill

our installment billing and leasing 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 near full retail price of the device, purchases the device under our installment billing program, or leases their

45

Table of Contents

device through our leasing program. We expect our postpaid ARPU to continue to decline primarily as a result of dilution from promotional activities and lower service fees associated with our price plans offered in conjunction with device financing options. However, we expect higher equipment revenue associated with the leasing and installment billing programs to partially offset these declines. 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 with the magnitude of the impact being dependent upon subscriber adoption rates.

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 handset subscribers starting with the quarter ended September 30, 2015; however, there can be no assurance that this trend will continue. We have taken initiatives to provide the best value in wireless service while continuing to enhance our network performance, coverage and capacity in order to attract and retain valuable handset subscribers. In addition, we are evaluating our cost model to operationalize a more effective cost structure.

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

	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2016	
	2017	2016	2017	2016
Wireless Segment Earnings	(in millions)			
Postpaid	\$4,314	\$4,686	\$13,151	\$14,184
Prepaid ⁽¹⁾	997	985	2,990	3,096
Retail service revenues	5,311	5,671	16,141	17,280
Wholesale, affiliate and other ⁽¹⁾	329	275	884	784
Total service revenues	5,640	5,946	17,025	18,064
Equipment revenues	2,309	2,226	6,355	5,556
Total net operating revenues	7,949	8,172	23,380	23,620
Cost of services (exclusive of depreciation and amortization)	(1,385)	(1,649)	(4,204)	(5,226)
Cost of products (exclusive of depreciation and amortization)	(1,673)	(1,985)	(4,622)	(5,097)
Selling, general and administrative expense	(2,009)	(2,032)	(5,818)	(5,797)
Loss on disposal of property, plant and equipment	(123)	(109)	(347)	(340)
Total net operating expenses	(5,190)	(5,775)	(14,991)	(16,460)
Wireless segment earnings	\$2,759	\$2,397	\$8,389	\$7,160

Sprint is no longer reporting Lifeline subscribers due to regulatory changes resulting in tighter program restrictions. We have excluded them from our customer base for all periods presented, including our Assurance Wireless prepaid brand and subscribers through our wholesale Lifeline mobile virtual network operators (MVNO). The (1) above table reflects the reclassification of the related Assurance Wireless prepaid revenue from Prepaid service revenue to Wholesale, affiliate and other revenue of \$92 million and \$275 million for the three and nine-month periods ended December 31, 2016, respectively. Revenue associated with subscribers through our wholesale Lifeline MVNOs continues to remain in Wholesale, affiliate and other revenue following this change.

Service Revenue

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

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

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

Retail comprises those subscribers to whom Sprint directly provides wireless services, whether those services are provided on a postpaid or a prepaid basis. We also categorize our retail subscribers as prime and subprime based 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

46

Table of Contents

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.

Effective January 1, 2017, we entered into a new Master Services Agreement with a vendor to provide post-sale device support services (including device insurance) to subscribers. Under the new agreement, the vendor bears the risk of loss with regards to claims and related costs, which Sprint no longer incurs. Sprint remits premiums to the vendor who pays Sprint a monthly recurring commission per subscriber for the duration of the agreement.

Additionally, under the terms of the new agreement, the vendor is the primary obligor in the agreement with the subscriber and, as such, revenue is accounted for and presented on a net basis, whereas historically the amounts were presented on a gross basis. The change is expected to result in reductions in service revenue by approximately \$500 million in fiscal year 2017. Because the vendor, not Sprint, is fulfilling the services, we expect the reductions in service revenue to be more than offset by greater reductions in cost of services expense.

Retail service revenue decreased \$360 million, or 6%, and \$1.1 billion, or 7%, for the three and nine-month periods ended December 31, 2017, respectively, compared to the same periods in 2016. The decrease was primarily due to a lower insurance revenues due to changes in our device insurance program and lower average revenue per postpaid subscriber driven by an increase in subscribers on lower price plans, combined with a decrease in average prepaid subscribers and competitive pressures. The decrease was partially offset by an increase in average postpaid subscribers.

Wholesale, affiliate and other revenues increased \$54 million, or 20%, and \$100 million, or 13%, for the three and nine-month periods ended December 31, 2017, respectively, compared to the same periods in 2016, primarily due to fees earned under the accessories arrangement with Brightstar, which commenced during the quarter ending September 30, 2017, combined with an increase in imputed interest recognized associated with installment billing on devices. These increases were partially offset by reduced revenue associated with postpaid and prepaid resellers due to competitive pressures. Approximately 83% 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, 2016 may be found in the tables on the following pages.

	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2016	
	2017	2016	2017	2016
	(subscribers in thousands)			
Average postpaid subscribers	31,728	31,431	31,606	31,153
Average prepaid subscribers	8,840	9,662	8,756	10,311
Average retail subscribers	40,568	41,093	40,362	41,464

The table below summarizes ARPU. Additional information about ARPU for each quarter since the quarter ended June 30, 2016 may be found in the tables on the following pages.

	Three Months Ended December 31, 2017		Nine Months Ended December 31, 2016	
	2017	2016	2017	2016
ARPU ⁽¹⁾ :				
Postpaid	\$45.13	\$49.70	\$46.14	\$50.59
Prepaid	\$37.46	\$33.97	\$37.84	\$33.35
Average retail	\$43.46	\$46.00	\$44.34	\$46.30

(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 nine-month periods ended December 31, 2017 decreased compared to the same periods in 2016 primarily due to lower service fees resulting from promotional activities, subscriber migrations to service plans associated with device financing options, and lower device insurance program revenues as a result of entering into a Master Services Agreement with a vendor to provide post-sale device support services to subscribers. We expect postpaid

Table of Contents

ARPU to continue to decline during fiscal year 2017 primarily as a result of dilution from promotional activities and lower service fees associated with our price plans offered in conjunction with device financing options. However, as a result of our leasing and installment billing programs, we expect increasing equipment revenues to partially offset these declines. Prepaid ARPU increased for the three and nine-month periods ended December 31, 2017 compared to the same periods in 2016 primarily due to the removal of approximately 1.2 million low-engagement prepaid customers from our base as a result of aligning our churn and retention rules across all our prepaid brands, excluding Assurance Wireless, in the three-month period ending December 31, 2016. (See "Subscriber Results" below for more information.)

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, 2016.

	June 30, 2016	Sept 30, 2016	Dec 31, 2016	March 31, 2017	June 30, 2017	Sept 30, 2017	Dec 31, 2017
Net additions (losses) (in thousands) ⁽¹⁾							
Postpaid	180	344	405	(118)	(39)	168	256
Prepaid ⁽²⁾	(306)	(449)	(460)	195	35	95	63
Wholesale and affiliates ⁽²⁾	728	704	619	291	65	115	66
Total Wireless	602	599	564	368	61	378	385
End of period subscribers (in thousands) ⁽¹⁾							
Postpaid ⁽³⁾⁽⁴⁾⁽⁵⁾	30,945	31,289	31,694	31,576	31,518	31,686	31,942
Prepaid ⁽²⁾⁽³⁾⁽⁶⁾⁽⁷⁾⁽⁸⁾	10,636	10,187	8,493	8,688	8,719	8,765	8,997
Wholesale and affiliates ⁽²⁾⁽³⁾⁽⁴⁾⁽⁶⁾⁽⁹⁾	11,782	12,486	13,084	13,375	13,461	13,576	13,642
Total Wireless	53,363						