SPRINT NEXTEL CORP
Form 10-Q
May 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-04721

SPRINT NEXTEL CORPORATION
(Exact name of registrant as specified in its charter)

Kansas	**48-0457967**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2001 Edmund Halley Drive, Reston, Virginia	**20191**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(703) 433-4000

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

COMMON SHARES OUTSTANDING AT APRIL 30, 2007:

VOTING COMMON STOCK	
Series 1	2,813,799,177
Series 2	79,831,333

SPRINT NEXTEL CORPORATION

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PART I FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SPRINT NEXTEL CORPORATION

CONSOLIDATED BALANCE SHEETS

	March 31, 2007	December 31, 2006
	(unaudited)	
	(in millions, except share data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 2,346	$ 2,046
Marketable securities	8	15
Accounts receivable, net of allowance for doubtful accounts of $421 and $421	4,258	4,595
Inventories	884	1,176
Deferred tax assets	602	923
Prepaid expenses and other current assets	849	1,549
Total current assets	8,947	10,304
Investments	261	253
Property, plant and equipment, net of accumulated depreciation of $17,835 and $16,569	26,071	25,868
Intangible assets		
Goodwill	30,556	30,904
FCC licenses and other	20,384	19,935
Customer relationships, net	6,348	7,256
Other definite lived intangible assets, net	1,916	1,962
Other assets	606	679
	$ 95,089	$ 97,161
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 3,307	$ 3,394
Accrued expenses and other liabilities	4,606	5,261
Current portion of long-term debt and capital lease obligations	419	1,143
Total current liabilities	8,332	9,798
Long-term debt and capital lease obligations	21,752	21,011
Deferred tax liabilities	9,160	10,095

Pension and other postretirement benefit obligations	244	244
Other liabilities	3,129	2,882
Total liabilities	42,617	44,030
Commitments and contingencies		
Shareholders equity		
Common shares		
Voting, par value $2.00 per share, 6.500 billion shares authorized, 2.951 billion shares issued and 2.891 billion shares outstanding and 2.951 billion shares issued and 2.897 billion shares outstanding	5,902	5,902
Paid-in capital	46,501	46,664
Retained earnings	1,288	1,638
Treasury shares, at cost	(1,073)	(925)
Accumulated other comprehensive loss	(146)	(148)
Total shareholders equity	52,472	53,131
	$ 95,089	$ 97,161

See accompanying Notes to Consolidated Financial Statements (Unaudited)

SPRINT NEXTEL CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Quarter Ended March 31, 2007	2006
	(unaudited) *(in millions, except per share amounts)*	
Net operating revenues	$ 10,096	$ 10,074
Operating expenses		
Costs of services and products (exclusive of depreciation included below)	4,350	4,074
Selling, general and administrative	3,303	3,132
Severance, lease exit costs and asset impairments	174	38
Depreciation	1,355	1,408
Amortization	913	938
	10,095	9,590
Operating income	1	484
Other income (expense)		
Interest expense	(367)	(394)
Interest income	31	84
Equity in (losses) earnings of unconsolidated investees, net	(2)	20
Other, net	(2)	56
(Loss) income from continuing operations before income taxes	(339)	250
Income tax benefit (expense)	128	(86)
(Loss) income from continuing operations	(211)	164
Discontinued operations, net		255
Net (loss) income	(211)	419
Preferred shares dividends		(2)
(Loss) income available to common shareholders	$ (211)	$ 417
Basic and diluted (loss) earnings per common share		
Continuing operations	$ (0.07)	$ 0.05
Discontinued operations		0.09
Total	$ (0.07)	$ 0.14
Basic weighted average common shares outstanding	2,899	2,966
Diluted weighted average common shares outstanding	2,899	2,994

See accompanying Notes to Consolidated Financial Statements (Unaudited)

SPRINT NEXTEL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Quarter Ended March 31, 2007	2006
	(unaudited) *(in millions)*	
Cash flows from operating activities		
Net (loss) income	$ (211)	$ 419
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Income from discontinued operations		(255)
Provision for losses on accounts receivable	197	110
Depreciation and amortization	2,268	2,346
Deferred income taxes	(185)	129
Share-based compensation expense	73	105
Other, net	(36)	(91)
Changes in assets and liabilities, net of effects of acquisitions:		
Accounts receivable	119	273
Inventories and other current assets	114	(69)
Accounts payable and other current liabilities	242	(688)
Non-current assets and liabilities, net	(117)	(12)
Net cash provided by continuing operations	2,464	2,267
Net cash provided by discontinued operations		698
Net cash provided by operating activities	2,464	2,965
Cash flows from investing activities		
Capital expenditures	(1,813)	(1,728)
Expenditures relating to FCC licenses and other intangible assets	(109)	(136)
Cash collateral for securities loan agreements	866	
Acquisitions, net of cash acquired		(3,399)
Proceeds from sales of assets and investments	27	123
Purchases of marketable securities		(464)
Proceeds from maturities and sales of marketable securities	7	1,294
Other, net		51
Net cash used in investing activities	(1,022)	(4,259)
Cash flows from financing activities		
Borrowings under credit facility	750	
Purchase and retirements of debt	(608)	(868)
Proceeds from issuance of commercial paper	2,591	
Maturities of commercial paper	(2,706)	
Payments of securities loan agreements	(866)	

Purchase of common shares	(300)	
Retirement of redeemable preferred shares		(247)
Proceeds from issuance of common shares	69	185
Dividends paid	(72)	(76)
Net cash used in financing activities	(1,142)	(1,006)
Net increase (decrease) in cash and cash equivalents	300	(2,300)
Cash and cash equivalents, beginning of period	2,046	8,903
Cash and cash equivalents, end of period	$ 2,346	$ 6,603

See accompanying Notes to Consolidated Financial Statements (Unaudited)

SPRINT NEXTEL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)
(in millions)

	Common Shares		Paid-in	Retained	Treasury Shares		Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Shares	Amount	Loss	Total
Balance, December 31, 2006	2,951	$ 5,902	$ 46,664	$ 1,638	54	$ (925)	$ (148)	$ 53,131
Net loss				(211)				(211)
Other comprehensive income, net							2	2
Total comprehensive loss								(209)
Adoption of FIN 48[1]				4				4
Issuance of common shares, net			(20)	(71)	(9)	152		61
Purchase of treasury shares					15	(300)		(300)
Common shares dividends				(72)				(72)
Share-based compensation expense			70					70
Investment dilution due to affiliate equity issuances, net[2]			(213)					(213)
Balance, March 31, 2007	2,951	$ 5,902	$ 46,501	$ 1,288	60	$ (1,073)	$ (146)	$ 52,472

(1) See note 9 for details regarding the adoption of FIN 48.

(2) See note 3 for additional details.

See accompanying Notes to Consolidated Financial Statements (Unaudited).

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

Our unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission, or SEC, and reflect all adjustments that are necessary for a fair presentation of the results for interim periods. All adjustments made were of a normal recurring nature, except as described in the notes below. Certain information and footnote disclosures normally included in annual consolidated financial statements prepared according to accounting principles generally accepted in the United States have been omitted. As a result, you should read these consolidated financial statements along with the consolidated financial statements and notes contained in our annual report on Form 10-K for the year ended December 31, 2006. Operating results for the interim period should not be viewed as representative of results that may be expected for the year ending December 31, 2007.

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making those estimates, actual results could differ from those estimates. Areas in which significant estimates have been made include, but are not limited to, the allowance for doubtful accounts receivable, inventory obsolescence, tax valuation allowances, useful lives for property, plant and equipment and definite lived intangible assets, intangible asset impairment analyses and the evaluation of uncertain tax positions.

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

Supplemental Cash Flow Information from Continuing Operations

	Quarter Ended March 31, 2007	Quarter Ended March 31, 2006
	(in millions)	
Interest paid, net of capitalized interest	$ 413	$ 429
Interest received	31	79
Income taxes paid	10	74

Earnings (Loss) per Common Share

Basic earnings (loss) per common share is calculated by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per common share adjusts basic earnings (loss) per common share for the effects of potentially dilutive common shares. Potentially dilutive common shares include the dilutive effects of shares issuable under our equity plans computed using the treasury stock method, and the dilutive effects of shares issuable upon the conversion of our convertible senior notes computed using the if-converted method.

Shares issuable under our equity plans were antidilutive in the first quarter 2007 because we incurred a net loss from continuing operations. Dilutive shares issuable under our equity plans, used in calculating earnings per common share, were 28 million shares for the first quarter 2006. All 11 million shares issuable upon the assumed conversion of our convertible senior notes could potentially dilute earnings per share in the future; however, they were excluded from the calculation of diluted earnings per common share for the first quarter 2006 due to their antidilutive effects. Additionally, about 64 million average shares issuable under the equity plans that could also potentially dilute earnings per share in the future were excluded from the calculation of diluted earnings per common share for the first quarter 2006 as the exercise prices exceeded the average market price during this period.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Dividends

On February 27, 2007, our board of directors declared a dividend of $0.025 per share on our common shares, payable to shareholders of record at the close of business on March 9, 2007. The dividend was paid on March 30, 2007.

Share Repurchase Program

On July 25, 2006, our board of directors authorized the purchase of up to $6.0 billion of our Series 1 common stock through open market purchases. This authorization will expire upon the earlier of the full repurchase of the authorized shares or during the first quarter 2008. The number of shares purchased and the timing of any purchases will vary throughout the purchase period. In the first quarter 2007, we repurchased about 15 million shares of our Series 1 common stock for $300 million at an average price of $19.61. As of March 31, 2007, we had repurchased a total of 113 million shares of our Series 1 common stock for $1.9 billion at an average price of $17.14 per share.

Significant New Accounting Pronouncements

In June 2006, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 06-3, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation).* EITF Issue No. 06-3 requires that companies disclose their accounting policy regarding the gross or net presentation of certain taxes. Taxes within the scope of EITF Issue No. 06-3 are any taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer and may include, but are not limited to, sales, use, value added and some excise taxes. We adopted EITF Issue No. 06-3 on January 1, 2007. The adoption did not impact our consolidated financial statements. We account for transaction taxes such as sales, excise and usage taxes on a net basis. Universal service fee revenues are recorded gross and represent about 2% of net operating revenues for the periods presented.

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 157, *Fair Value Measurements.* This statement defines fair value and establishes a framework for measuring fair value. Additionally, this statement expands disclosure requirements for fair value with a particular focus on measurement inputs. SFAS No. 157 is effective for our quarterly reporting period ending March 31, 2008. We are in the process of evaluating the impact of this statement on our consolidated financial statements.

In September 2006, the EITF reached a consensus on Issue No. 06-1, *Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider.* EITF Issue No. 06-1 provides guidance regarding whether the consideration given by a service provider to a manufacturer or reseller of specialized equipment should be characterized as a reduction of revenue or an expense. This issue is effective for our quarterly reporting period ending March 31, 2008. Entities are required to recognize the effects of applying this issue as a change in accounting principle through retrospective application to all prior periods unless it is impracticable to do so. We are in the process of evaluating the impact of this issue on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115.* This statement allows entities to measure assets and liabilities at fair value and report any unrecognized gains or losses in earnings subsequent to adoption. The statement serves to minimize the fluctuations in earnings that occur when assets and liabilities are measured differently without imposing hedge accounting requirements. This statement is effective for our quarterly reporting period ending March 31, 2008 and must be applied in conjunction with SFAS No. 157. We are in the process of evaluating the impact of this statement on our consolidated financial statements.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 2. Discontinued Operations

On May 17, 2006, we completed the spin-off of our local communications business, which is now known as Embarq Corporation. Embarq offers regulated local communications services as an incumbent local exchange carrier. Embarq provides a suite of communications services, consisting of local and long distance voice and data services, including high-speed Internet access. As required by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, and as permitted by SFAS No. 95, *Statement of Cash Flows*, the results of operations and cash flows from operating activities of this business for 2006 are presented as discontinued operations.

In the spin-off, we distributed pro rata to our shareholders one share of Embarq common stock for every 20 shares held of our voting and non-voting common stock, or about 149 million shares of Embarq common stock. Cash was paid for fractional shares. The distribution of Embarq common stock is considered a tax free transaction for us and for our shareholders, except cash payments made in lieu of fractional shares, which are generally taxable.

In connection with the spin-off, Embarq transferred to our parent company $2.1 billion in cash and about $4.5 billion of Embarq senior notes in partial consideration for, and as a condition to, our transfer to Embarq of the local communications business. Embarq also retained about $665 million in debt obligations of its subsidiaries. Our parent company transferred the cash and senior notes to our finance subsidiary, Sprint Capital Corporation, in satisfaction of indebtedness owed by our parent company to Sprint Capital. On May 19, 2006, Sprint Capital sold the Embarq senior notes to the public, and received about $4.4 billion in net proceeds.

Also, in connection with the spin-off, we entered into a separation and distribution agreement and related agreements with Embarq, which provide that generally each party will be responsible for its respective assets, liabilities and businesses following the spin-off and that we and Embarq will provide each other with certain transition services relating to our respective businesses for specified periods at cost-based prices. The transition services primarily include billing, field support, information technology and real estate services. We also entered into agreements pursuant to which we and Embarq will provide each other with specified services at commercial rates. Further, the agreements provide for a settlement process surrounding the transfer of certain assets and liabilities. It is possible that adjustments will occur in future periods as these matters are settled.

At the time of the spin-off, all outstanding options to purchase our common stock held by employees of Embarq were cancelled and replaced with options to purchase Embarq common stock. Outstanding options to purchase our common stock held by our directors and employees who remained with us were adjusted by multiplying the number of shares subject to the options by 1.0955 and dividing the exercise price by the same number in order to account for the impact of the spin-off on the value of our shares at the time the spin-off was completed.

Generally, restricted stock units awarded pursuant to our equity incentive plans and held by our employees at the time of the spin-off (including those held by those of our employees who became employees of Embarq) were treated in a manner similar to the treatment of outstanding shares of our common stock in the spin-off. Holders of these restricted stock units received one Embarq restricted stock unit for every 20 restricted stock units held. Outstanding deferred shares granted under the Nextel Incentive Equity Plan, which represent the right to receive shares of our common stock, were adjusted by multiplying the number of deferred shares by 1.0955. Cash was paid to the holders of deferred shares in lieu of fractional shares.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The results of operations of the local communications business were as follows:

	Quarter Ended March 31, 2006 *(in millions)*
Net operating revenue	$ 1,561
Income before income taxes	417
Income tax expense	162
Income from discontinued operations	255

Note 3. Business Combinations

We have accounted for our acquisitions in the Wireless segment under the purchase method as required by SFAS No. 141, *Business Combinations.* SFAS No. 141 requires that the total purchase price of each of the acquired entities be allocated to the assets acquired and liabilities assumed based on their fair values at the respective acquisition dates. The allocation process requires an analysis of intangible assets, such as Federal Communications Commission, or FCC, licenses, customer relationships, trade names, rights under affiliation agreements, acquired contractual rights and assumed contractual commitments and legal contingencies to identify and record all assets acquired and liabilities assumed at their fair value. In valuing acquired assets and assumed liabilities, fair values are based on, but are not limited to: quoted market prices, where available; our intent with respect to whether the assets purchased are to be held, sold or abandoned; expected future cash flows; current replacement cost for similar capacity for certain property, plant and equipment; market rate assumptions for contractual obligations; and appropriate discount rates and growth rates. The results of operations for all acquired companies are included in our consolidated financial statements either from the date of acquisition or from the start of the month closest to the acquisition date.

We have relied in part on commercial affiliation arrangements between us and third party affiliates, each referred to as a PCS Affiliate, to offer Sprint-branded digital wireless service in and around certain smaller U.S. metropolitan areas. Until our acquisition of Nextel Partners, Inc., we relied on commercial arrangements between us and Nextel Partners to offer Nextel branded digital wireless service in and around certain smaller U.S. metropolitan areas. During 2006, we acquired several PCS Affiliates, including Enterprise Communications Partnership, Alamosa Holdings, Inc. and UbiquiTel Inc., as well as Velocita Wireless Holdings Corporation and the remaining 72% of Nextel Partners that we did not previously own for $10.5 billion in cash in the aggregate. We paid a premium (i.e., goodwill) over the fair value of the net tangible and identified intangible assets of these entities because we believed the acquisition of the PCS Affiliates and Nextel Partners would give us more control of the distribution of services under the Sprint® and Nextel® brands, and would provide us with strategic and financial benefits associated with a larger customer base and expanded network coverage. We acquired Velocita Wireless, primarily to increase our licenses to use spectrum in the 900 megahertz, or MHz, spectrum band.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes to the initial purchase price allocations for these acquisitions have occurred based on further analysis and valuations of certain assets and liabilities, and are summarized in the table below along with the respective total fair value amounts.

	Preliminary Purchase Price Allocation As of December 31, 2006	Adjustments	As of March 31, 2007
		(in millions)	
Goodwill	$ 9,788	$ (372)	$ 9,416
FCC licenses	1,031	281	1,312
Reacquired rights	849	9	858
Customer relationships	2,349	(51)	2,298
Property, plant and equipment	1,564	(55)	1,509
Other assets	1,683	(25)	1,658
Long-term debt	(2,818)		(2,818)
Other liabilities	(1,002)		(1,002)
Net assets acquired	$ 13,444	$ (213)	$ 13,231

During the quarter ended March 31, 2007, a net decrease was made to goodwill in the amount of $372 million, primarily due to adjustments to the fair value of assets and liabilities, including FCC licenses, reacquired rights, customer relationships and property, plant and equipment, as well as an adjustment to the net assets of Nextel Partners relating to the dilution of our ownership interest in Nextel Partners prior to our acquisition. We are in the process of completing our valuation of certain of the assets and liabilities, as well as internal studies of certain assets, property, plant and equipment, intangible assets, certain liabilities and commercial contracts, which, when finalized, may result in additional adjustments to the purchase price allocation for the acquired assets and assumed liabilities of UbiquiTel and Nextel Partners. There will be no further purchase accounting adjustments related to the Enterprise Communications, Alamosa Holdings and Velocita Wireless acquisitions, except when required by certain accounting rules. See note 5 for information regarding the useful lives of acquired definite lived intangible assets as well as other information regarding intangible assets.

Note 4. Share-Based Compensation

Share-Based Payment Plans

As of March 31, 2007, we sponsored three equity incentive plans, as well as our Employees Stock Purchase Plan, or ESPP. Under the 1997 Long-Term Stock Incentive Program, or the 1997 Program, until April 15, 2007, the date that the 1997 Program expired, we had the authority to grant equity-based awards for up to about 219 million common shares, of which about 123 million common shares were available as of March 31, 2007. On January 1, 2007, the number of shares available under the 1997 Program increased by about 43 million shares. As of March 31, 2007, under the Nextel Incentive Equity Plan, we had the authority to grant equity-based awards for about 109 million common shares, of which about 52 million common shares were available. As of March 31, 2007, options to buy about 32 million common shares were outstanding under the Management Incentive Stock Option Plan, or MISOP, and the ESPP authorized about 22 million shares for future purchases. Currently, we use treasury shares to satisfy share-based awards or new shares if no treasury shares are available.

Refer to note 4 of the Notes to Consolidated Financial Statements in our annual report on Form 10-K for the year ended December 31, 2006 for additional information regarding these plans.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On May 8, 2007, our shareholders approved the 2007 Omnibus Incentive Plan, or the 2007 Plan. Under the 2007 Plan, we may grant stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units and other equity-based and cash awards to our employees, outside directors and certain other service providers for up to about 200 million shares. The Human Capital and Compensation Committee, or HC & CC, of our board of directors or one or more executive officers should the HC & CC so authorize, as provided in the 2007 Plan, will determine the terms of each equity-based award. No new grants could be made under the 1997 Program after April 15, 2007 and no additional grants will be made under the Nextel Incentive Equity Plan.

Statement of Financial Accounting Standards No. 123R

Effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment*, which supersedes SFAS No. 123, *Accounting for Stock-Based Compensation.* The adoption of SFAS No. 123R did not have a material effect on our consolidated financial statements as we adopted SFAS No. 123 in 2003.

Share-based compensation cost charged against net income (loss) for our share-based award plans was $73 million for the first quarter 2007 and $121 million for the first quarter 2006. Share-based compensation cost charged against income (loss) from continuing operations for our share-based award plans was $73 million for the first quarter 2007 and $105 million for the first quarter 2006.

The total income tax benefit recognized in the consolidated financial statements for share-based award compensation was $28 million for the first quarter 2007 and $45 million for the first quarter 2006. The income tax benefit recognized in the consolidated financial statements related to continuing operations was $28 million for the first quarter 2007 and $38 million for the first quarter 2006.

As of March 31, 2007, there was $431 million of total unrecognized compensation cost related to our share-based award plans that is expected to be recognized over a weighted average period of 2.14 years. Cash received from exercise under all share-based payment arrangements was $69 million for the first quarter 2007 and $185 million for the first quarter 2006. The actual tax benefit realized for the tax deductions from exercise of the share-based payment arrangements totaled $2 million for the first quarter 2007 and $4 million for the first quarter 2006.

Under our share-based payment plans, we had options, restricted stock units and nonvested shares outstanding as of March 31, 2007. Awards with graded vesting are recognized using the straight-line method. Forfeitures were estimated for share-based awards using a 4% weighted average annual rate.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Options

The fair value of each option award is estimated on the grant date using the Black-Scholes option valuation model and the assumptions noted in the following table. The risk-free rate used in 2006 and 2007 is based on the zero-coupon U.S. Treasury bond, with a term equal to the expected term of the options. The expected volatility used in 2006 and 2007 is the implied volatility from traded options on our common shares over a period that approximates the expected term of the options. The expected dividend yield used in 2006 and 2007 is estimated based on our historical dividend yields and other factors. The expected term of options granted in 2006 and 2007 is estimated using the average of the vesting date and the contractual term. Options outstanding as of March 31, 2007 include options granted under the 1997 Program, the MISOP and the Nextel Incentive Equity Plan, as discussed above.

	Quarter Ended March 31, 2007	Quarter Ended March 31, 2006[(1)]
Weighted average grant date fair value	$ 6.28	$ 6.97
Risk free interest rate	4.46%	4.53%-4.79%
Expected volatility[(2)]	26.6%	22.5%-25.9%
Weighted average expected volatility[(2)]	26.6%	25.9%
Expected dividend yield	0.53%	0.47%-0.49%
Weighted average expected dividend yield	0.53%	0.48%
Expected term (years)	6	6
Options granted (millions)	13.3	14.3

(1) *Values, other than the risk free interest rate and the expected term, have been adjusted for the spin-off of Embarq based on the 1.0955 conversion rate.*

(2) *Based on the implied volatility of exchange traded options, consistent with the guidance in SEC Staff Accounting Bulletin, or SAB, No. 107, Share-Based Payment.*

A summary of the status of the options under our option plans as of March 31, 2007, and changes during the quarter then ended, is presented below:

	Shares Under Option	Weighted Average per Share Exercise Price	Weighted Average Remaining	Aggregate Intrinsic Value

				Contractual Term		
	(in millions)			***(in years)***		***(in millions)***
Outstanding January 1, 2007	171	$	23.33			
Granted[1]	13		18.78			
Exercised[2]	(6)		10.84			
Forfeited/expired	(5)		29.64			
Outstanding March 31, 2007	173	$	23.27	5.27	$	321
Vested or expected to vest at March 31, 2007	171	$	23.31	5.22	$	321
Exercisable at March 31, 2007	137	$	24.33	4.39	$	298

(1) Options vest ratably over three years.

(2) The total intrinsic value of options exercised during the first quarter 2007 was $50 million and during the first quarter 2006 was $138 million.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restricted Stock Units

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

	Restricted Stock Units		Weighted Average Grant Date Fair Value of Restricted Stock Units	
	Future Performance and Service Required[(1)]	Future Service Required	Future Performance and Service Required[(1)]	Future Service Required
	(in thousands)			
Outstanding January 1, 2007		8,761	$	$ 19.14
Granted	6,115	403	18.78	17.80
Vested		(3,268)		18.22
Forfeited		(190)		24.15
Outstanding March 31, 2007	6,115	5,706	$ 18.78	$ 20.95

(1) We evaluate performance conditions for certain restricted stock units at the end of the performance period. The 2007 awards are performance-based and will be adjusted at the end of the three year performance and vesting periods, based on our achievement of defined financial and operating objectives.

The total fair value of restricted stock units vested was $59 million during the first quarter 2007 and $36 million during the first quarter 2006. The weighted-average grant date fair value of restricted stock units granted during the first quarter 2007 was $18.72 per unit, compared with $23.14 per unit for the same prior year period.

Most restricted stock units outstanding as of March 31, 2007 are entitled to dividend equivalents paid in cash, but performance-based restricted stock units are not entitled to dividend equivalent payments until the applicable performance period has been completed. Dividend equivalents paid on restricted stock units are charged to retained earnings when paid.

Nonvested Shares

Nonvested shares outstanding as of March 31, 2007 consist of restricted shares granted under the 1997 Program and deferred shares granted under the Nextel Incentive Equity Plan, as discussed above. The fair value of each nonvested share award is calculated using the share price at the date of grant. All nonvested shares outstanding as of March 31, 2007 will be vested in full by the end of 2008. The total fair value of shares vested was about $738,000 during the first quarter 2007 and $16 million during the first quarter 2006.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 5. Intangible Assets

Indefinite Lived Intangibles

	December 31, 2006	Adjustments[1]	Effect from Adoption of FIN 48[2]	Additions	March 31, 2007
			(in millions)		
Goodwill	$ 30,904	$ (372)	$ 24	$	$ 30,556
FCC licenses	19,519	281		168	19,968
Trademarks	416				416
	$ 50,839	$ (91)	$ 24	$ 168	$ 50,940

(1) *See note 3 for additional information.*

(2) *See note 9 for details of the adoption of FIN 48.*

We have identified FCC licenses and our Sprint and Boost Mobile trademarks as indefinite lived intangible assets, in addition to our goodwill, after considering the expected use of the assets, the regulatory and economic environment within which they are being used, and the effects of obsolescence on their use. The Sprint and Boost Mobile trademarks are highly respected brands with positive connotations. We have no legal, regulatory or contractual limitations associated with our trademarks. We cultivate and protect the use of our brands.

We hold several kinds of FCC licenses to deploy our wireless services: 1.9 gigahertz, or GHz, personal communications services, or PCS, licenses utilized in our code division multiple access, or CDMA, network, 800 MHz and 900 MHz licenses utilized in our integrated Digital Enhanced Network, or iDEN, and 2.5 GHz licenses that we use for first generation wireless Internet access services, as well as backhaul for the CDMA network. We also hold 2.5 GHz, 1.9 GHz and other FCC licenses that we currently do not utilize in our networks or operations. As long as we act within the requirements and constraints of the regulatory authorities, the renewal and extension of our licenses is reasonably certain at minimal cost. FCC licenses authorize wireless carriers to use radio frequency spectrum. That spectrum is a renewable, reusable resource that does not deplete or exhaust over time. We are not aware of any technology being developed that would render spectrum obsolete. Currently, there are no changes in the competitive or legislative environments that would put in question the future need for spectrum licenses.

During the fourth quarter 2006, we performed our annual goodwill and other indefinite lived intangible asset impairment analyses. The result of these analyses was that our indefinite lived intangible assets were not impaired. As permitted by FASB guidance, our goodwill analysis included an estimate of a control premium with respect to the minority interest traded value of our common shares and an estimate of the value of our wireline business, as well as other assumptions. As of March 31, 2007, we have not identified any indicators of impairment with respect to our goodwill or other indefinite lived intangible assets. However, if our share price were to experience a sustained, significant decline as compared to the share price as of March 31, 2007, or if any other indicator of impairment exists, such as a significant decline in expected cash flows, we may be required to perform the second step of the goodwill impairment test, which could cause us to recognize a non-cash impairment charge that could be material to our consolidated financial statements.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Definite Lived Intangibles

		March 31, 2007			December 31, 2006		
	Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
				(in millions)			
Customer relationships	3 to 5 years	$ 12,173	$ (5,825)	$ 6,348	$ 12,224	$ (4,968)	$ 7,256
Trademarks	10 years	900	(147)	753	900	(125)	775
Reacquired rights	9 to 14 years	1,212	(112)	1,100	1,203	(82)	1,121
Other	1 to 14 years	80	(17)	63	79	(13)	66
		$ 14,365	$ (6,101)	$ 8,264	$ 14,406	$ (5,188)	$ 9,218

	Remaining 2007	2008	2009	2010	2011
			(in millions)		
Estimated amortization expense	$ 2,382	$ 2,404	$ 1,528	$ 712	$ 232

Definite lived intangible assets consist primarily of customer relationships that are amortized over three to five years using the sum of the years digits method, which we believe best reflects the estimated pattern in which the economic benefits will be consumed. Other definite lived intangible assets primarily include certain rights under affiliation agreements that we reacquired in connection with the acquisitions of the PCS Affiliates and Nextel Partners, which are being amortized over the remaining terms of those affiliation agreements on a straight-line basis, and the Nextel and Direct Connect trade names, which are being amortized over ten years from the date of the Sprint-Nextel merger on a straight-line basis. We recorded aggregate amortization expense of $913 million for the first quarter 2007 and $938 million for the first quarter 2006.

We continually assess whether any indicators of impairment exist that would trigger a test of any of these definite life intangible assets, including, but not limited to, a significant decrease in the market price of or the cash flows expected to be derived from the asset, or a significant change in the extent or manner in which the asset is used. In addition, if we ever were required to determine the implied fair value of our goodwill as part of a second step goodwill impairment test, it would result in our evaluating the recorded value of our definite lived intangible assets for impairment. We also evaluate the remaining useful lives of our definite lived intangible assets each reporting period to determine whether events and circumstances warrant a revision to the remaining periods of amortization, which would be addressed prospectively.

Spectrum Reconfiguration Obligations

On February 7, 2005, Nextel accepted the terms and conditions of the Report and Order of the FCC, which implemented a spectrum reconfiguration plan designed to eliminate interference with public safety operators in the 800 MHz band. Under the terms of the Report and Order, Nextel surrendered certain spectrum rights and received certain other spectrum rights, and undertook to pay the costs incurred by Nextel and third parties in connection with the reconfiguration plan, which is required to be completed within a 36-month period, subject to certain exceptions particularly with respect to markets that border Mexico and Canada. We assumed these obligations when we merged with Nextel in August 2005. If, as a result of events within our control, we fail to complete the reconfiguration plan within the 36-month period, the FCC could take actions against us to enforce the Report and Order. These actions could have adverse operating or financial impacts on us, some of which could be material. We believe that, based on our experiences to date, we will not complete this reconfiguration process within the applicable FCC designated time period due primarily to circumstances largely outside of our control. We do not believe at this time that the impact from this delay will be material to our results of operations or financial condition, although there can be no assurances. Recognizing the current limitations in the reconfiguration process, we and the public safety community jointly filed a letter

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

with the FCC on February 15, 2007, requesting that the FCC direct the independent Transition Administrator, or TA, through working closely with the affected parties, to develop a schedule and benchmarks for completing the second phase of the 800 MHz reconfiguration. The FCC has not yet taken action with regard to this request.

Based on the FCC s determination of the values of the spectrum rights received and surrendered by Nextel, the minimum obligation to be incurred under the Report and Order is $2.8 billion. The Report and Order provides that qualifying costs we incur as part of the reconfiguration plan, including costs to reconfigure our own infrastructure and spectrum positions, can be used to offset the minimum obligation of $2.8 billion; however, we are obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed that amount. In addition, a financial reconciliation is required to be completed at the end of the reconfiguration implementation, at which time we will be required to make a payment to the U.S. Treasury to the extent that the value of the spectrum rights received exceeds the total of (i) the value of the spectrum rights that are surrendered and (ii) the qualifying costs referred to above. As a result of the uncertainty with regard to the calculation of the credit for our internal network costs, as well as the significant number of variables outside of our control, particularly with regard to the 800 MHz reconfiguration licensee costs, we do not believe that we can reasonably estimate what amount, if any, will be paid to the U.S. Treasury. From the inception of the program through March 31, 2007, we estimate that we have incurred $790 million of costs directly attributable to the reconfiguration program. This amount does not include any indirect network costs that we have preliminarily allocated to the reconfiguration program.

As of March 31, 2007, we had a remaining liability of $122 million associated with the estimated portion of the reconfiguration costs that represents our best estimate of amounts to be paid under the Report and Order that would not benefit our infrastructure or spectrum positions. All other costs incurred pursuant to the Report and Order that relate to the spectrum and infrastructure, when expended, are accounted for either as property, plant and equipment or as additions to the FCC licenses intangible asset, consistent with our accounting policies. The following table represents expenditures incurred directly attributable to our performance under the Report and Order from the inception of the program:

	Through December 31, 2006	2007 Expenditures	Through March 31, 2007
		(in millions)	
FCC licenses	$ 428	$ 44	$ 472
Property, plant and equipment	138	9	147
Costs not benefiting our infrastructure or spectrum positions	155	16	171
Total	$ 721	$ 69	$ 790

In addition, not included in the table above are estimated reconfiguration costs incurred to date that are included in property, plant and equipment on our consolidated balance sheet, which are based on allocations between reconfiguration activities and our normal network growth. These estimated allocations may vary depending on key assumptions, including subscribers, call volumes and other factors over the life of the reconfiguration program. As a result, the amount allocated to reconfiguration activity is subject to change based on additional assessments made over the course of the reconfiguration program. Since we, the TA and the FCC have not yet reached an agreement on our methodology for calculating the amount to be submitted for credit, we cannot provide assurance that we will be granted full credit for certain of these allocated network costs.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 6. Severance, Lease Exit Costs and Asset Impairments

In the first quarter 2007, total severance, lease exit costs and asset impairment costs, which have been expensed in the consolidated statement of operations, aggregated $174 million compared to $38 million for the first quarter 2006. We wrote off $8 million of assets primarily related to the closing of retail stores due to integration activities in the first quarter 2007 and $18 million of assets primarily related to software asset impairments and abandonment in our Wireless segment in the first quarter 2006.

In 2007, we continue to transition to unified customer care, financial systems, device activation, billing and service and technology platforms as a further step to completing our integration initiatives associated with the Sprint-Nextel merger and the PCS Affiliate and Nextel Partners acquisitions. The resulting efficiencies, along with other business simplification, process improvement initiatives and workforce reductions, are expected to enable us to reduce our cost structure. In the first quarter 2007, we reduced our full-time headcount by using a combination of involuntary and voluntary separation plans and, in connection with this reduction, and expected future reductions, we recorded $145 million related to severance liability with a corresponding charge to severance expense. As of March 31, 2007, we have completed the majority of our planned headcount reductions, the remainder of which are expected to occur by year-end.

The following table provides an analysis of our severance and lease exit costs liability, exclusive of exit costs associated with business combinations.

	December 31, 2006 Liability Balance	2007 Activity Expense	2007 Activity Cash Payments	March 31, 2007 Liability Balance
	(in millions)			
Lease terminations	$ 80	$ 21	$ (8)	$ 93
Severance	34	145	(25)	154
Total costs	$ 114	$ 166	$ (33)	$ 247

Exit Costs Associated with Business Combinations

We continue to finalize our plans for rationalizing certain redundant assets and activities, such as facilities, software and infrastructure assets related to certain 2006 business combinations, and to integrate the combined companies. We expect to execute these plans over the next several quarters. These plans affect many areas of our company, including sales and marketing, network, information technology, customer care and general and administrative functions. In addition, we expect that the finalization of our integration plans may result in the need to adjust the useful lives of certain definite lived intangibles, network assets and/or other property, plant and equipment. See note 3 for more information regarding business combinations.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with activities related to business combinations, we recorded certain costs associated with dispositions and integration activities in accordance with the requirements of EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination.* The exit costs are primarily related to termination fees associated with leases and contractual arrangements, as well as severance and related costs associated with work force reductions. For the first quarter 2007, we recorded a reduction of $14 million to these exit costs. These reductions have resulted in adjustments to accrued liabilities, which consequently have resulted in an adjustment to goodwill related to the 2006 acquisitions. The activity is presented in the table below:

	December 31, 2006 Liability Balance	2007 Activity Purchase Price Adjustments	2007 Activity Cash Payments	March 31, 2007 Liability Balance
		(in millions)		
Lease terminations	$ 77	$ (15)	$ (9)	$ 53
Severance	28	1	(16)	13
Other	3			3
Total costs	$ 108	$ (14)	$ (25)	$ 69

Note 7. Long-Term Debt and Capital Lease Obligations

	December 31, 2006	Borrowings	Retirements and Repayments of Principal and Other	March 31, 2007
		(in millions)		
Senior notes due 2007 to 2032				
1.50% to 11.00%, including fair value hedge adjustments of $(25) and $(20), deferred premiums of $390 and $339 and unamortized discounts of $35 and $34	$ 21,534	$	$ (615)	$ 20,919
Credit facilities				
Export Development Canada, 5.68%		750		750
Commercial paper 5.31% to 5.62%	514	2,591	(2,706)	399

Capital lease obligations and other								
4.11% to 11.174%		106				(3)		103
		22,154	$	3,341	$	(3,324)		22,171
Less current portion		(1,143)						(419)
Long-term debt and capital lease obligations	$	21,011					$	21,752

As of March 31, 2007, Sprint Nextel Corporation, our parent corporation, had about $3.3 billion of debt outstanding, including commercial paper. In addition, as of March 31, 2007, about $18.6 billion of our long-term debt had been issued by wholly-owned subsidiaries and is fully and unconditionally guaranteed by Sprint Nextel. The indentures and financing arrangements of certain of our subsidiaries contain provisions that limit cash dividend payments on subsidiary common stock held by our parent corporation. The transfer of cash in the form of advances from the subsidiaries to our parent corporation is generally not restricted.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We are currently in compliance with all restrictive and financial covenants associated with the borrowings discussed above. There is no provision under any of our indebtedness that requires repayment in the event of a downgrade by any rating agency.

Our interest rate swap activity generated a net liability of $20 million as of March 31, 2007 compared to a net liability of $25 million as of December 31, 2006, resulting from changes in the fair value of the interest rate swaps with an offset recorded to the underlying long-term debt.

Senior Notes

We paid a total of $604 million in cash for early redemptions of senior notes in the first quarter 2007, as we redeemed in their entirety $150 million of IWO Holdings, Inc. s Senior Secured Floating Rate Notes due 2012 in January 2007 for $153 million in cash and $420 million of UbiquiTel Operating Company s 9.875% Senior Notes due 2011 in March 2007 for $451 million in cash.

Credit Facilities

Our revolving bank credit facility provides for total unsecured financing capacity of $6.0 billion. As of March 31, 2007 we had $2.6 billion of outstanding letters of credit, including a $2.5 billion letter of credit that is required by the FCC s Report and Order, and $399 million in commercial paper, net of discounts, backed by this facility, resulting in $3.0 billion of available revolving credit. We also had an additional $12 million of outstanding letters of credit as of March 31, 2007 used for various financial obligations that are not backed by our bank credit facility.

In March 2007, we entered into a $750 million unsecured loan agreement with Export Development Canada. As of March 31, 2007, we had borrowed all $750 million available under this agreement and this loan will mature in March 2012. The terms of this loan provide for an interest rate equal to the London Interbank Offered Rate, or LIBOR, plus a spread that varies depending on our credit ratings. We may choose to prepay this loan, in whole or in part, at any time.

Commercial Paper

In April 2006, we commenced a commercial paper program, which has reduced our borrowing costs by allowing us to issue short-term debt at lower rates than those available under our $6.0 billion revolving credit facility. The $2.0 billion program is backed by our revolving credit facility and reduces the amount we can borrow under the facility to the extent of the commercial paper outstanding. As of March 31, 2007, we had $399 million of commercial paper outstanding net of discounts, included in the current maturities of long-term debt with a weighted average interest rate of 5.6% and a weighted average maturity of 72 days.

Note 8. Employee Benefit Information

We have a non-contributory defined benefit pension plan and a postretirement benefit plan which provide benefits to certain employees. We also provide postretirement life insurance to employees who retired before certain dates. Most of our employees who were employed by us prior to the Sprint-Nextel merger are participants in the pension plan. At the time of the Sprint-Nextel merger, we did not extend plan participation to Nextel employees for either the pension plan or retiree medical plan.

The pension and postretirement benefit plan activity for the quarter ended March 31, 2007 did not have a significant impact on our results of operations. As of December 31, 2005, the pension plan was amended to freeze benefit accruals for pension plan participants not designated to work for Embarq following the spin-off. The postretirement benefit plan was amended to include only employees designated to work for Embarq following the spin-off and pre-merger Sprint employees born prior to 1956.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of May 17, 2006, in connection with the spin-off of Embarq, accrued pension benefit obligations for participants designated to work for Embarq and related plan assets were transferred to Embarq. Additionally, the accrued postretirement benefit obligation for participants designated to work for Embarq was transferred to Embarq. This event required a remeasurement of benefit obligations associated with both the pension and postretirement benefit plans for the remaining Sprint Nextel employees.

Note 9. Income Taxes

FASB Interpretation No. 48

We adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48, on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes,* and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The cumulative effect of adopting FIN 48 generally is recorded directly to retained earnings. However, to the extent the adoption of FIN 48 resulted in a revaluation of uncertain tax positions acquired in purchase business combinations, the cumulative effect is recorded as an adjustment to the goodwill remaining from the corresponding purchase business combination.

As a result of the adoption of FIN 48, we recognized a $20 million increase in the liability for unrecognized tax benefits, which was accounted for as a $24 million increase to goodwill and a $4 million increase to retained earnings as of January 1, 2007. The total unrecognized tax benefits as of January 1, 2007 were $669 million, which includes a $606 million liability for uncertain tax positions and $63 million of unrecognized tax benefits related to the tax deductions resulting from stock option exercises. In accordance with SFAS 123R, these option related tax benefits are not recorded until the cash tax benefits are realized. Upon adoption of FIN 48, we reclassified the majority of our liability for unrecognized tax benefits from deferred tax liabilities to other liabilities with the remainder being netted against our deferred tax assets. The total unrecognized tax benefits include items that would favorably affect the income tax provision by $89 million, if recognized. The total unrecognized tax benefits did not materially change during the first quarter 2007. We recognize interest related to unrecognized tax benefits in interest expense or interest income. We recognize penalties as additional income tax expense. As of January 1, 2007, the accrued expense for income tax related interest and penalties was not material.

We file income tax returns in the U.S. federal jurisdiction and each state jurisdiction which imposes an income tax. We also file income tax returns in a number of foreign jurisdictions. However, our foreign income tax activity has been immaterial. The Internal Revenue Service, or IRS, is currently examining our 2005 consolidated federal income tax return and other 2005 returns of certain of our subsidiaries. They have effectively completed the examination of our consolidated returns related to years prior to 2005. We have reached oral settlement agreements with the Appeals division of the IRS for our examination issues in dispute following the IRS exam for the years 1995-2002. The unresolved disputed issues from the 2003-2004 IRS examination are awaiting consideration by IRS Appeals; however, they are immaterial to our consolidated financial statements. The IRS is also beginning an examination of the 2001 through pre-merger 2005 consolidated income tax returns of our subsidiary, Nextel Communications, Inc. We are also involved in multiple state income tax examinations related to various years beginning with 1988, which are in various stages of the examination, administrative review or appellate process.

Based on our current knowledge of the proposed adjustments from the aforementioned examinations, we do not anticipate the adjustments would result in a material change to our financial position. We also do not believe it is reasonably possible that we will have any significant increases or decreases to the liability for unrecognized tax benefits for the remainder of 2007 on our current uncertain tax positions. We do, however, expect to recognize about $30 million of tax benefits associated with previous stock option exercises during 2007. The resulting

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

reduction in income taxes payable will be allocated between a decrease to goodwill and an increase to paid in capital.

Effective Income Tax Rate

The differences that caused our effective income tax rates to vary from the 35% federal statutory rate for income taxes related to continuing operations were as follows:

	Quarter Ended March 31,	
	2007	2006
	(in millions)	
Income tax (benefit) expense at the federal statutory rate	$ (119)	$ 88
Effect of:		
State income taxes, net of federal income tax effect	(11)	(6)
Other, net	2	4
Income tax (benefit) expense	$ (128)	$ 86
Effective income tax rate	37.8%	34.4%

We maintain a valuation allowance against certain of our deferred tax assets in instances where we determine that it is more likely than not that a tax benefit will not be realized. As of March 31, 2007, we maintained a total valuation allowance of about $816 million related to our deferred tax assets. This amount includes a valuation allowance of $604 million for the total tax benefits related to net operating loss carryforwards subject to utilization restrictions, acquired in connection with certain acquisitions. The remainder of the valuation allowance relates to capital loss, state net operating loss and tax credit carryforwards. Within our total valuation allowance, we had $54 million related to separate company state net operating losses incurred by the PCS entities after we acquired them.

Note 10. Commitments and Contingencies

Litigation, Claims and Assessments

In March 2004, eight purported class action lawsuits relating to the recombination of our tracking stocks were filed against us and our directors by holders of PCS common stock. Seven of the lawsuits were consolidated in the District Court of Johnson County, Kansas. The eighth, pending in New York, has been voluntarily stayed. The consolidated lawsuit alleges breach of fiduciary duty in connection with allocations between the wireline operations and the wireless operations before the recombination of the tracking stocks and breach of fiduciary duty in the recombination. The lawsuit seeks to rescind the recombination and monetary damages. In December 2006, the court denied defendants motion to dismiss the complaint and for summary judgment, and granted a motion to certify the class. In February 2007, the court, upon reconsideration, dismissed a count of the complaint related to intracompany allocations, which requires dismissal of the complaint against three of our former directors and reconsideration of the class definition. The court asked the parties for further briefing on the class certification issue and the plaintiff s request for a jury trial. In April 2007, the Kansas Court of Appeals accepted interlocutory appeal of the District Court s class certification and stayed proceedings in the trial court pending the decision on appeal. All defendants have denied plaintiffs allegations and intend to defend this matter vigorously.

In September 2004, the U.S. District Court for the District of Kansas denied a motion to dismiss a shareholder lawsuit alleging that our 2001 and 2002 proxy statements were false and misleading in violation of federal securities laws to the extent they described new employment agreements with certain senior executives without disclosing that, according to the allegations, replacement of those executives was inevitable. These allegations,

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

made in an amended complaint in a lawsuit originally filed in 2003, are asserted against us and certain current and former officers and directors, and seek to recover any decline in the value of our tracking stocks during the class period. The parties have stipulated that the case can proceed as a class action. All defendants have denied plaintiffs allegations and intend to defend this matter vigorously. Allegations in the original complaint, which asserted claims against the same defendants and our former independent auditor, were dismissed by the court in April 2004.

A number of putative class action cases that allege Sprint Communications Company LP failed to obtain easements from property owners during the installation of its fiber optic network in the 1980 s have been filed in various courts. Several of these cases sought certification of nationwide classes, and in one case, a nationwide class has been certified. In 2002, a nationwide settlement of these claims was approved by the U.S. District Court for the Northern District of Illinois, but objectors appealed the preliminary approval order to the Seventh Circuit Court of Appeals, which overturned the settlement and remanded the case to the trial court for further proceedings. The parties now are proceeding with litigation and/or settlement negotiations on a state by state basis. In 2001, we accrued an expense reflecting the estimated settlement costs of these suits.

Various other suits, proceedings and claims, including purported class actions, typical for a large business enterprise, are pending against us or our subsidiaries. While it is not possible to determine the ultimate disposition of each of these proceedings and whether they will be resolved consistent with our beliefs, we expect that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on our financial condition or results of operations.

Note 11. Segments

We operate, and are managed, as two strategic segments: Wireless and Wireline. These segments are organized by products and services.

Our executives use segment earnings as the primary measure to evaluate segment performance and make resource allocation decisions. Segment earnings is defined as wireless or wireline operating income before depreciation, amortization, severance, lease exit costs, asset impairments and other expenses. These expenses, along with all items below operating income (loss) on our consolidated statements of operations, including interest expense and income tax (expense) benefit, are managed on a total company basis and are reflected only in our consolidated results.

Our Wireless segment includes revenue from a wide array of wireless mobile telephone and wireless data transmission services and the sale of wireless equipment. Through our Wireless segment, we, together with the remaining third party PCS Affiliates, offer digital wireless service in all 50 states, Puerto Rico and the U.S. Virgin Islands.

Our Wireline segment includes revenue from domestic and international wireline voice and data communication services and services to the cable multiple systems operators that resell our long distance service and/or use our back office systems and network assets in support of their telephone services provided over cable facilities.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We generally account for transactions between segments based on fully distributed costs, which we believe approximate fair value. In certain transactions, pricing is set using market rates. Segment financial information is as follows:

Statement of Operations Information	Wireless	Wireline	Corporate, Other and Eliminations[1]	Consolidated
			(in millions)	
Quarter Ended March 31, 2007				
Net operating revenues	$ 8,723	$ 1,373	$	$ 10,096
Inter-segment revenues		225	(225)	
Total segment operating expenses	(6,328)	(1,393)	208	(7,513)
Segment earnings	$ 2,395	$ 205	$ (17)	$ 2,583
Less:				
Depreciation				(1,355)
Amortization				(913)
Severance, lease exit costs and asset impairments[2]				(174)
Merger and integration costs				(99)
Other expense[3]				(41)
Operating income				1
Interest expense				(367)
Interest income				31
Equity in losses of unconsolidated investees, net				(2)
Other, net				(2)
Loss from continuing operations before income taxes				$ (339)
Quarter Ended March 31, 2006				
Net operating revenues	$ 8,517	$ 1,499	$ 58[4]	$ 10,074
Inter-segment revenues	1	167	(168)	
Total segment operating expenses	(5,834)	(1,427)	131[4]	(7,130)
Segment earnings	$ 2,684	$ 239	$ 21	2,944
Less:				
Depreciation				(1,408)
Amortization				(938)
Severance, lease exit costs and asset impairments[2]				(38)

Merger and integration costs		(76)
Operating income		484
Interest expense		(394)
Interest income		84
Equity in earnings of unconsolidated investees, net		20
Other, net		56
Income from continuing operations before income taxes	$	250

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Statement of Operations Information	**Wireless**	**Wireline**	**Corporate, Other and Eliminations[1]**	**Consolidated**
		(in millions)		
Other Information				
Capital expenditures for the quarter ended March 31, 2007	$ 1,582	$ 153	$ 78	$ 1,813
Total assets as of March 31, 2007	63,242	3,576	28,271	95,089
Capital expenditures for the year ended December 31, 2006	$ 5,944	$ 828	$ 784	$ 7,556
Total assets as of December 31, 2006	65,514	3,547	28,100	97,161

(1) Inter-segment revenues consist primarily of long distance services provided to the Wireless segment for resale to wireless customers.

Corporate assets are not allocated to the operating segments, and consist primarily of cash and cash equivalents, the operational headquarters campus and other assets managed at a corporate level. Corporate capital expenditures were incurred mainly for various administrative assets and improvements at our operational headquarters campus. Operating expenses related to corporate assets are allocated to each segment.

(2) See note 6 for additional information on severance, lease exit costs and asset impairments.

(3) Other expense includes a charge associated with legal contingencies and net costs associated with a planned exit of a non-core line of business.

(4) Included in the 2006 corporate results are the historical net revenues and related operating costs of certain consumer wireline customers transferred to Embarq in connection with the spin-off. These operating results were previously reported in our Local segment and reflect activity through the date of the spin-off. These operating results have not been reflected as discontinued operations due to our continuing involvement with these consumer wireline customers under a wholesale long distance agreement with Embarq. This agreement became effective as of the date of the spin-off.

SPRINT NEXTEL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Net operating revenues by service and products were as follows:

Quarter Ended March 31,	Wireless	Wireline	Corporate and Eliminations[1]	Consolidated
		(in millions)		
2007				
Wireless services	$ 7,815		$	$ 7,815
Wireless equipment	648			648
Voice		$ 898	(196)	702
Data		311	(21)	290
Internet		344	(8)	336
Other	260	45		305
Total net operating revenues	$ 8,723	$ 1,598	$ (225)	$ 10,096
2006				
Wireless services	$ 7,487		$ (1)	$ 7,486
Wireless equipment	830			830
Voice		$ 966	(55)	911
Data		373	(38)	335
Internet		269	(3)	266
Other	201	58	(13)	246
Total net operating revenues	$ 8,518	$ 1,666	$ (110)	$ 10,074

(1) Revenues eliminated in consolidation consist primarily of long distance services provided to the Wireless segment for resale to wireless customers.

Note 12. Subsequent Event

On May 8, 2007, our board of directors declared a dividend of $0.025 per share on our common shares, payable on June 29, 2007 to shareholders of record at the close of business on June 8, 2007.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Sprint Nextel Corporation:

We have reviewed the consolidated balance sheet of Sprint Nextel Corporation and subsidiaries as of March 31, 2007, the related consolidated statements of operations and cash flows for the quarters ended March 31, 2007 and 2006, and the related consolidated statement of shareholders equity for the quarter ended March 31, 2007. These consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Sprint Nextel Corporation and subsidiaries as of December 31, 2006, and the related consolidated statements of operations, cash flows and shareholders equity for the year then ended (not presented herein); and in our report dated March 1, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

McLean, Virginia
May 9, 2007

SPRINT NEXTEL CORPORATION

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

Forward-Looking Statements

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

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

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

the effects of vigorous competition, including the impact of competition on the price we are able to charge customers for services and equipment we provide and our ability to attract new customers and retain existing customers; the overall demand for our service offerings, including the impact of decisions of new subscribers between our post-paid and prepaid services offerings and between our two network platforms; and the impact of new, emerging and competing technologies on our business;

the impact of overall wireless market penetration on our ability to attract and retain customers with good credit standing and the intensified competition among wireless carriers for those customers;

the potential impact of difficulties we may encounter in connection with the integration of the pre-merger Sprint and Nextel Communications, Inc. businesses, and the integration of the businesses and assets of Nextel Partners, Inc. and the third party affiliates, or PCS Affiliates, that provide wireless personal communications services, or PCS, under the Sprint® brand name, that we have acquired, including the risk that these difficulties could prevent or delay our realization of the cost savings and other benefits we expect to achieve as a result of these integration efforts and the risk that we will be unable to continue to retain key employees;

the uncertainties related to the implementation of our business strategies, investments in our networks, our systems, and other businesses, including investments required in connection with our planned deployment of a next generation broadband wireless network;

the costs and business risks associated with providing new services and entering new geographic markets, including with respect to our development of new services expected to be provided using the next generation broadband wireless network that we plan to deploy;

the impact of potential adverse changes in the ratings afforded our debt securities by ratings agencies;

the effects of mergers and consolidations and new entrants in the communications industry and unexpected announcements or developments from others in the communications industry;

unexpected results of litigation filed against us;

the inability of third parties to perform to our requirements under agreements related to our business operations, including a significant adverse change in Motorola, Inc. s ability or willingness to provide handsets and related equipment and software applications, or to develop new technologies or features for our integrated Digital Enhanced Network, or iDEN®, network;

the impact of adverse network performance;

the costs and/or potential customer impacts of compliance with regulatory mandates, particularly requirements related to the Federal Communications Commission, or FCC s, Report and Order;

equipment failure, natural disasters, terrorist acts, or other breaches of network or information technology security;

one or more of the markets in which we compete being impacted by changes in political or other factors such as monetary policy, legal and regulatory changes or other external factors over which we have no control; and

other risks referenced from time to time in this report and other filings of ours with the Securities and Exchange Commission, or SEC, including in our annual report on Form 10-K for the year ended December 31, 2006 in Part I, Item 1A, Risk Factors.

The words may, could, estimate, project, forecast, intend, expect, believe, target, providing guidan expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. We are not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report, including unforeseen events.

Overview

We are a global 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 and government customers. We have organized our operations to meet the needs of our targeted customer groups through focused communications solutions that incorporate the capabilities of our wireless and wireline services to meet their specific needs. We are one of the three largest wireless companies in the United States based on the number of wireless subscribers. We own extensive wireless networks and a global long distance, Tier 1 Internet backbone.

Business

We, together with the PCS Affiliates, offer digital wireless services in all 50 states, Puerto Rico and the U.S. Virgin Islands under the Sprint brand name utilizing wireless code division multiple access, or CDMA, technology. The PCS Affiliates, through commercial arrangements with us, provide wireless services mainly in and around smaller U.S. metropolitan areas on wireless networks built and operated at their expense, in most instances using spectrum licensed to and controlled by us. We also offer digital wireless services under our Nextel and Boost Mobile brand names using iDEN technology. We also are one of the largest providers of long distance services and one of the largest carriers of Internet traffic in the nation.

On May 17, 2006, we spun-off to our shareholders our local communications business, which is now known as Embarq Corporation and is comprised primarily of what was our Local segment prior to the spin-off. As a result of the spin-off, we no longer own any shares of Embarq. The results of Embarq for periods prior to the spin-off are presented as discontinued operations.

We believe the communications industry has been and will continue to be highly competitive on the basis of price, the types of services offered and quality of service. Although we believe that many of our targeted customers base their purchase decisions on quality of service and the availability of differentiated features and services, competitive pricing, both in terms of the monthly recurring charges and the number of minutes or other features available under a particular rate plan, and handset offerings and pricing are often important factors in potential customers purchase decisions.

Our industry has been and continues to be subject to consolidation and dynamic change as well as intense competition. In an effort to maintain our operating margins in a price-competitive environment, we continually seek ways to create or improve capital and operating efficiencies in our business. Consequently, we routinely reassess our business strategies and their implications on our operations, and these assessments may continue to impact the future valuation of our long-lived assets. As part of our overall business strategy, we regularly evaluate opportunities to expand and complement our business and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on our business, financial condition, liquidity or results of operations.

The FCC regulates the licensing, operation, acquisition and sale of the licensed radio spectrum that is essential to our business. The FCC and state Public Utilities Commissions, or PUCs, also regulate the provision of communications services. Future changes in regulations or legislation related to spectrum licensing or other matters related to our business could impose significant additional costs on us either in the form of direct out-of-pocket costs or additional compliance obligations.

Management Overview

Wireless

We offer a wide array of wireless mobile telephone and wireless data transmission services on networks that utilize CDMA and iDEN technologies to meet the needs of individual consumers, businesses and government customers. Through our Wireless segment, we, together with the PCS Affiliates, offer digital wireless service in all 50 states, Puerto Rico and the U.S. Virgin Islands, and provide wireless coverage in over 300 metropolitan markets, including 298 of the 300 largest U.S. metropolitan areas, where more than 280 million people live or work. We offer wireless international voice roaming for subscribers of both CDMA and iDEN-based services in numerous countries. We, together with the PCS Affiliates and resellers of our wholesale wireless services, served about 53.6 million wireless subscribers as of March 31, 2007.

We offer wireless mobile telephone and data transmission services and features in a variety of pricing plans, including prepaid service plans. We offer these services, other than those offered under prepaid service plans, typically on a contract basis, for one or two year periods, with services billed on a monthly basis according to the applicable pricing plan. We market our prepaid services under the Boost Mobile brand, as a means to directly target the youth and prepaid wireless service markets. We also offer wholesale wireless services to resellers, commonly known as mobile virtual network operators, or MVNOs, such as Embarq, Virgin Mobile USA, Helio Inc., Qwest Communications International, Inc., The Walt Disney Company and Modiva Communications, Inc., which purchase wireless services from us at wholesale rates and resell the services to their customers under their own brand names. Under these MVNO arrangements, the operators bear the costs of acquisition, billing and customer service.

We also provide wireless services that are marketed and sold by several cable multiple systems operators, or MSOs, in eight markets. We also have entered into an agreement with several cable MSOs to jointly develop converged services designed to combine many of cable s core products and interactive features with wireless technology to deliver a broad range of services, including video, wireless voice and data services, high speed Internet and cable phone service, to the participating cable MSO s customers. During 2007, we expect to develop new products and services and introduce service in additional markets.

Our strategy is to utilize state-of-the-art technology to provide differentiated wireless services and applications in order to acquire and retain high-quality wireless subscribers. We offer numerous sophisticated data messaging, imaging, entertainment and location-based applications, marketed as Power Vision^{sm}, across our CDMA network that utilize high-speed evolution data optimized, or EV-DO, technology. Currently EV-DO technology covers about 206 million people and serves customers in over 219 communities with populations of at least 100,000. EV-DO data roaming is available in selected markets in Canada and Mexico. We have incorporated EV-DO Rev. A, the next version of EV-DO technology, into a majority of our network. EV-DO Rev. A is designed to support a variety of

Internet Protocol, or IP, and video and high performance walkie-talkie applications for our CDMA network.

On our iDEN network, we continue to support features and services that are designed to meet the needs of our customers. Both the Nextel and Boost Mobile brands feature our industry-leading walkie-talkie services, which give subscribers the ability to communicate instantly across the continental United States and to and from

Hawaii and, through agreements with other iDEN providers, to and from selected markets in Canada, Latin America and Mexico, as well as a variety of digital wireless mobile telephone and wireless data transmission services.

We also plan to utilize QUALCOMM Incorporated s QChat® technology, which is designed to provide high performance walkie-talkie services on our CDMA network, and we are designing interfaces to provide for interoperability of walkie-talkie services on our CDMA and iDEN networks. Currently, we are developing and testing the QChat application on our CDMA network and plan to launch customer trials in the fourth quarter 2007 with a goal of launching the related service offerings in 2008.

We also plan to deploy a next generation broadband wireless network that will be designed to provide significantly higher data transport speeds using our spectrum holdings in the 2.5 gigahertz, or GHz, band and technology based on the Worldwide Inter-Operability for Microwave Access, or WiMAX, standard. We are designing this network to support a wide range of high-speed IP-based wireless services in a mobile environment. Our initial plans contemplate deploying the new network in larger metropolitan areas with a goal of launching the related service offerings in some of those markets beginning in 2008.

Our Wireless segment generates revenues from the provision of wireless services, the sale of wireless equipment and the provision of wholesale and other services. The ability of our Wireless segment to generate service revenues is primarily a function of:

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

- the revenue generated by each subscriber, which in turn is a function of the types and amount of services utilized by each subscriber and the rates that we charge for those services.

We believe that wireless carriers increasingly must attract a greater proportion of new customers from the existing customer bases of competitors rather than from first time purchasers of wireless services. For example, we are experiencing increased competition in our prepaid and youth markets from new entrants that are targeting these subscribers. Certain of our competitors continue to increase their focus on customer retention efforts and have reported improvements in their customer retention rates, which may make it harder for us to acquire new customers from these competitors. In addition, the higher market penetration of wireless services in our markets may suggest that customers purchasing wireless services for the first time may, on average, have a lower credit rating than existing wireless users, which generally results in both a higher churn rate due to involuntary churn and in higher bad debt expense. This has intensified the competition among wireless carriers to attract higher quality customers with stronger credit standing, resulting in aggressive pricing strategies for both voice services and other features that are designed to attract those customers.

We have experienced declines in the average voice revenue per subscriber due to the increased penetration of the corporate/business market and increased sales of family add-on plans, both of which contribute to improved credit quality of our subscriber base and reduced subscriber churn. The increased percentage of our customers with plans that have roaming included in their plans has also contributed to the decline in voice revenue. We are developing and implementing service plans that are designed to offset these declines in voice revenue by expanding and enhancing our value-added array of imaging, high-speed data messaging, entertainment and location-based applications. Recently, the growth in revenue per subscriber generated by these data services, while significant, has not kept pace with the decline in voice revenue, resulting in a decline in our overall monthly average revenue per subscriber.

The ability of our Wireless segment to generate equipment revenues is primarily a function of the number of new and existing subscribers who purchase handsets and other accessories and the prices at which we sell such equipment, which is partially impacted by the pricing practices of our competitors. Handset costs in excess of the revenue generated from handset sales (or subsidy) have increased significantly in recent periods, as a result of aggressive customer acquisition and retention pricing, as well as handsets with increased functionality, which have a higher cost. The ability of our Wireless segment to generate wholesale revenues is primarily a function of the number and type of MVNOs that resell our wireless service, their success at acquiring and retaining subscribers and the rates that we charge MVNOs for utilization of our network.

Although many of the costs relating to the operation of our wireless networks are fixed in the short-term, other costs, such as interconnection fees, fluctuate based on the utilization of the networks. Sales and marketing expenses are dependent on the number of subscriber additions and the nature and extent of our marketing and promotional activities. Customer care costs are dependent on the number of subscribers that we serve and the nature of programs designed to serve and retain subscribers. General and administrative expenses consist of fees paid for billing, customer care and information technology operations, bad debt expense, customer retention and back office support activities, including collections, legal, finance, human resources, strategic planning and technology and product development, along with the related payroll and facilities costs. Although our goal is to improve operating margins through cost savings initiatives and benefits of scale, costs that fluctuate based on network utilization and the number of subscribers that we serve and costs associated with enhancing and expanding the coverage of our network generally will increase in absolute terms over time. We also seek to realize operating efficiencies in our business from merger-related cost savings and other synergies.

In the second half of 2006, we began to initiate a series of actions designed to improve the performance of our networks, raise brand awareness, enhance customer satisfaction, stabilize average customer revenues, reduce churn and increase sales and distribution productivity. These initiatives include:

- adding cell sites to improve network performance and expand the coverage and capacity of our networks;

- increasing media expenditures to improve brand awareness;

- enhancing incentives to improve third-party sales distribution and accelerate growth, and implementing customer retention programs that focus on our high-value customers;

- improving our handset portfolio across both our CDMA and iDEN network platforms;

- offering a new line of combined CDMA-iDEN devices, marketed as PowerSource™, that feature voice and data applications over our CDMA network and walkie-talkie applications over our iDEN network, in order to help relieve capacity constraints on the iDEN network and to offer subscribers of our iDEN services all of the benefits of applications on our CDMA network and our walkie-talkie applications; and

- continuing to integrate a number of other systems, including human resources, general ledger, sales commissions and billing, which we expect to substantially complete in 2007 and believe will create efficiencies in the way we do business, and, in the case of our billing system, will increase functionality for our customer care representatives and produce more reliable information, which should enhance the customer experience.

In February 2005, Nextel accepted the terms and conditions of the Report and Order, which implemented a spectrum reconfiguration plan designed to eliminate interference with public safety operators in the 800 megahertz, or MHz, band. Under the terms of the Report and Order, Nextel surrendered certain spectrum rights and received certain other spectrum rights, and undertook to pay the costs incurred by Nextel and third parties in connection with the reconfiguration plan, which is required to be completed within a 36-month period, subject to certain exceptions particularly with respect to markets that border Mexico and Canada. We assumed these obligations when we merged with Nextel in August 2005. If, as a result of events within our control, we fail to complete the reconfiguration plan within the 36-month period, the FCC could take actions against us to enforce the Report and Order. These actions could have adverse operating or financial impacts on us, some of which could be material. We believe that, based on our experiences to date, we will not complete the reconfiguration process within the 36-month period due to events largely outside of our control. We do not believe at this time that the impact from this delay will be material to our results of operation or financial condition, although there can be no assurance. Recognizing the current limitations in the reconfiguration process, we and the public safety community jointly filed a letter with the FCC on February 15, 2007 requesting that the FCC direct the Transition Administrator, or TA, through working closely with the affected parties, to develop a schedule and benchmarks for completing the second phase of the 800 MHz reconfiguration. The FCC has not yet taken action with regard to this request. See Forward-Looking Statements.

As part of the reconfiguration process in most markets, we must cease using portions of the surrendered 800 MHz spectrum before we are able to commence use of replacement 800 MHz spectrum, which has contributed, and may in the future contribute, to the capacity constraints experienced on our iDEN network, particularly in some of our more capacity constrained markets, and has impacted performance of our iDEN network in the affected markets.

Based on the FCC s determination of the values of the spectrum rights received and surrendered by Nextel, the minimum obligation to be incurred under the Report and Order is $2.8 billion. The Report and Order also provides that qualifying costs we incur as part of the reconfiguration plan, including costs to reconfigure our own infrastructure and spectrum positions, can be used to offset the minimum obligation of $2.8 billion; however, we are obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed that amount.

In addition, a financial reconciliation is required to be completed at the end of the reconfiguration implementation, at which time we will be required to make a payment to the U.S. Treasury to the extent that the value of the spectrum rights received exceeds the total of (i) the value of spectrum rights that are surrendered and (ii) the qualifying costs referred to above. As a result of the uncertainty with regard to the calculation of the credit for our internal network costs, as well as the significant number of variables outside of our control, particularly with regard to the 800 MHz reconfiguration licensee costs, we do not believe that we can reasonably estimate what amount, if any, will be paid to the U.S. Treasury.

As required under the terms of the Report and Order, we delivered a $2.5 billion letter of credit to provide assurance that funds will be available to pay the relocation costs of the incumbent users of the 800 MHz spectrum. Although the Report and Order provides for the possibility of periodic reductions in the amount of the letter of credit, no reductions have been made as of March 31, 2007.

Wireline

Through our Wireline segment, we provide a broad suite of wireline voice and data communications services targeted to domestic business customers, multinational corporations and other communications companies. These services include domestic and international data communications using various protocols, such as multi-protocol label switching, or MPLS, technologies, IP, asynchronous transfer mode, or ATM, frame relay, managed network services and voice services. We also provide services to the cable MSOs that resell our long distance service and/or use our back office systems and network assets in support of their telephone service provided over cable facilities primarily to residential end-user customers. We are one of the nation s largest providers of long distance services and operate all-digital long distance and Tier 1 IP networks.

For several years, our long distance voice services have experienced an industry-wide trend of lower revenue from lower prices and competition from other wireline and wireless communications companies, as well as cable MSOs and Internet service providers. Growth in voice services provided by cable MSOs is accelerating as consumers use cable MSOs as alternatives to local and long distance voice communications providers. We continue to assess the portfolio of services provided by our Wireline segment and are focusing our efforts on IP-based services and de-emphasizing stand-alone voice services and non-IP-based data services. For example, in addition to increased emphasis on selling IP and managed services, we are converting most of our existing customers from ATM and frame relay to more advanced IP technologies, such as MPLS, Sprintlink Frame Relay and Sprintlink ATM, which will reduce our cost structure by moving toward one consolidated data platform that can provide converged services. Over time, this conversion is expected to result in decreases in revenue from frame relay and ATM service offset by increases in IP and MPLS services. We also are taking advantage of the growth in voice services provided by cable MSOs, by providing large cable MSOs with wholesale voice long distance, which they offer as part of their bundled service offerings, as well as traditional voice and data services for their enterprise use.

Critical Accounting Policies and Estimates

We consider the following accounting policies and estimates to be the most important to our financial position and results of operations, either because of the significance of the financial statement item or because they require the exercise of significant judgment and/or use of significant estimates. While management believes that the estimates used are reasonable, actual results could differ from those estimates.

Revenue Recognition and Allowance for Doubtful Accounts Policies

Operating revenues primarily consist of wireless service revenues, revenues generated from handset and accessory sales and revenues from wholesale operators and PCS Affiliates, as well as long distance voice, data and Internet revenues. Service revenues consist of fixed monthly recurring charges, variable usage charges and miscellaneous fees, such as activation fees, directory assistance, operator-assisted calling, equipment protection, late payment charges and certain regulatory related fees. We recognize service revenues as services are rendered and equipment revenue when title passes to the dealer or end-user customer, in accordance with SEC Staff Accounting Bulletin, or SAB, No. 104, *Revenue Recognition*, and Emerging Issues Task Force, or EITF, Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables.* We recognize revenue for access charges and other services charged at fixed amounts ratably over the service period, net of credits and adjustments for service discounts, billing disputes and fraud or unauthorized usage. We recognize excess wireless usage and long distance revenue at contractual rates per minute as minutes are used. Additionally, we recognize excess wireless data usage based on kilobytes and one-time use charges, such as for the use of premium services, as incurred. As a result of the cutoff times of our multiple billing cycles each month, we are required to estimate the amount of subscriber revenues earned but not billed from the end of each billing cycle to the end of each reporting period. These estimates are based primarily on rate plans in effect and our historical usage and billing patterns and represented about 14% of our accounts receivable balance as of March 31, 2007.

Certain of our bundled products and services, primarily in our Wireless segment, are considered to be revenue arrangements with multiple deliverables. Total consideration received in these arrangements is allocated and measured using units of accounting within the arrangement (i.e., service and handset contracts) based on relative fair values. The activation fee revenue associated with these arrangements in our direct sales channels is recognized as equipment sales at the time the related handset is sold. For our indirect sales channels, the activation fee is solely linked to the service contract with the subscriber. Accordingly, the activation fee revenue is deferred and amortized over the estimated average service life of the end user customer, and is classified as service revenue.

We establish an allowance for doubtful accounts receivable sufficient to cover probable and reasonably estimable losses. Because of the number of accounts that we have, it is not practical to review the collectibility of each of those accounts individually when we determine the amount of our allowance for doubtful accounts each period, although we do perform some account level analysis with respect to wireline customers. Our estimate of the allowance for doubtful accounts considers a number of factors, including collection experience, the credit quality of our subscriber base, aging of the accounts receivable portfolios, industry norms, regulatory decisions and other factors.

The accounting estimates related to the recognition of revenue in the results of operations require us to make assumptions about future billing adjustments for disputes with customers, unauthorized usage and future returns on handset sales.

The allowance amounts recorded, in each instance, represent our best estimate of future outcomes, but the actual outcomes could differ from the estimate selected, and the impact that changes in our actual performance versus these amounts recorded would have on the accounts receivable reported on our balance sheet and our results of operations could be material to our financial condition.

Inventories

Inventories of handsets and accessories in the Wireless segment are stated at the lower of cost or market. We determine cost by the first-in, first-out, or FIFO, method. Handset costs in excess of the revenues generated from handset sales, or handset subsidies, are expensed at the time of sale. We do not recognize the expected handset subsidies prior to the time of sale because the promotional discount decision is made at the point of sale and/or because we expect to recover the handset subsidies through service revenues.

As of March 31, 2007, we held about $884 million of inventory. We analyze the realizable value of our handset and other inventory on a quarterly basis. This analysis includes assessing obsolescence, sales forecasts, product life cycle, marketplace and other considerations. If our assessments regarding the above factors change, we may be required to sell handsets at a higher subsidy or potentially record expense in future periods prior to the point of sale to the extent that we expect that we will be unable to sell handsets with a service contract.

Valuation and Recoverability of Long-lived Assets Including Definite Lived Intangible Assets