

Sprint Nextel Corp.
10-K Financial Report — Excerpt
February 27, 2009

We hold several kinds of licenses to deploy our services: 1.9 GHz PCS licenses utilized in our CDMA network, and 800 MHz and 900 MHz licenses utilized in our IDEN network. We also hold and lease 1.9 GHz and other FCC licenses that we currently do not utilize in our networks or operations, but which we intend to use in the future consistent with customer demand and our obligations as a licensee.

1.9 GHz PCS License Conditions

All PCS licenses are granted for ten-year terms. For purposes of issuing PCS licenses, the FCC utilizes major trading areas, or MTAs, and basic trading areas, or BTAs, with several BTAs making up each MTA. Each license is subject to buildout requirements, and the FCC may revoke a license after a hearing if the buildout or other applicable requirements have not been met. We have met these requirements in all of our MTA and BTA markets.

If applicable buildout conditions are met, these licenses may be renewed for additional ten-year terms. Renewal applications are not subject to auctions. If a renewal application is challenged, the FCC grants a preference commonly referred to as a license renewal expectancy to the applicant if the applicant can demonstrate that it has provided "substantial service" during the past license term and has substantially complied with applicable FCC rules and policies and the Communications Act. The licenses for the 10 MHz of spectrum in the 1.9 GHz band that we received as part of the FCC's Report and Order, described below, have ten-year terms and are not subject to specific buildout conditions, but are subject to renewal requirements that are similar to those for our PCS licenses.

800 MHz and 900 MHz License Conditions

We hold licenses for channels in the 800 MHz and 900 MHz bands that are used to deploy our IDEN services. Because spectrum in these bands originally was licensed in small groups of channels, we hold thousands of these licenses, which together allow us to provide coverage across much of the continental United States. Our 800 MHz and 900 MHz licenses are subject to requirements that we meet population coverage benchmarks tied to the initial license grant dates. To date, we have met all of these construction requirements applicable to these licenses, except in the case of licenses that are not material to our business. Our 800 MHz and 900 MHz licenses have ten-year terms, at the end of which each license is subject to renewal requirements that are similar to those for our 1.9 GHz licenses.

800 MHz Band Spectrum Reconfiguration

In 2004, the FCC adopted a Report and Order that included new rules regarding interference in the 800 MHz band and a comprehensive plan to reconfigure the 800 MHz band. The interference is believed to have been caused as a result of the operations of CMRS providers operating on frequencies adjacent to a number of public safety communication systems in the same geographic area. We assumed the obligations inherent in the Report and Order in August 2005 when we merged with Nextel Communications, Inc.

The Report and Order provides for the exchange of a portion of our 800 MHz FCC spectrum licenses, and requires us to fund the cost incurred by public safety systems and other incumbent licensees to reconfigure the 800 MHz spectrum band. In addition, we received licenses for 10 MHz of nationwide spectrum in the 1.9 GHz band; however, we are required to relocate and reimburse the incumbent licensees in this band for their costs of relocation to another band designated by the FCC.

The Report and Order requires us to make a payment to the U.S. Treasury at the conclusion of the band reconfiguration process to the extent that the value of the 1.9 GHz spectrum we received exceeds the total of the value of licenses for spectrum in the 700 MHz and 800 MHz bands that we surrendered under the decision plus the actual costs, or qualifying costs, that we incur to retune incumbents and our own facilities under the Report and Order. The FCC determined under the Report and Order that, for purposes of calculating that payment amount, the value of the 1.9 GHz spectrum is about \$4.9 billion and the aggregate value of the 700 MHz spectrum and the 800 MHz spectrum surrendered, net of 800 MHz spectrum received as part of the exchange, is about \$2.1 billion, which, because of the potential payment to the U.S. Treasury, results in a minimum cash obligation of about \$2.8 billion by

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us under the Report and Order. We are, however, obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed \$2.8 billion.

From the inception of the program through December 31, 2008, we have incurred approximately \$1.8 billion of costs directly attributable to the spectrum reconfiguration program. When expended, these costs are generally accounted for either as property, plant and equipment or as additions to the FCC licenses intangible asset. We estimate based on our experience to date with the reconfiguration program and on information currently available, that our total direct costs attributable to complete the spectrum reconfigurations will range between \$3.2 and \$3.6 billion. Neither the actual amounts incurred through December 31, 2008, nor the range of total direct costs estimated to complete the spectrum reconfigurations, includes any of our internal network costs that we have preliminarily allocated to the reconfiguration program for capacity sites and modifications for which we may request credit under the reconfiguration program. This estimate is dependent on significant assumptions including the final licensee costs, and costs associated with relocating licensees in the Canadian border region under the border plan that was adopted by the FCC and the Mexican border region for which there is currently no approved border plan. In addition, we are entitled to receive reimbursement from the mobile-satellite service licensees for their pro rata portion of our costs of clearing a portion of the 1.9 GHz spectrum. Those licensees may be unable or unwilling to reimburse us for their share of the costs, which we estimate to be approximately \$200 million. Accordingly, we believe that it is unlikely that we will be required to make a payment to the U.S. Treasury. The FCC has designated the independent Transition Administrator, or TA, to monitor, facilitate and review our expenditures for the 800 MHz band reconfiguration.

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. The Report and Order provides for the possibility of periodic reductions in the amount of the letter of credit. During 2008, we determined, based on the information available to us, that the total cost of reconfiguring the incumbent users of the 800 MHz spectrum are likely to be less than \$2.5 billion. The TA reviewed our forecasts and recommended to the FCC \$529 million in reductions in the letter of credit based on costs incurred through June 30, 2008. The FCC concurred with the TA's requests and the letter of credit has been reduced to \$2.0 billion.

With respect to timing, the Report and Order required the completion of the 800 MHz band reconfiguration within a 36-month period, ending June 26, 2008, with an exception made with respect to markets that border Mexico and Canada. On October 30, 2008, the FCC released an Order granting us relief we had previously requested with respect to the June 26, 2008 completion date whereby a staged, milestone-based reduction will be used for the interleaved spectrum that we would otherwise have been required to surrender by June 26, 2008. In addition to defining progress benchmarks, which will determine the amount of spectrum we relinquish on a region-by-region basis, the FCC adopted a deadline of March 31, 2010, at which time we may be required to relinquish portions of our 800 MHz interleaved spectrum in advance of completion of rebanding and receipt of remain replacement spectrum. This Order alleviates the spectrum constraints we may have faced as a result of the original June 26, 2008 completion date. The exception with respect to markets that border Canada was clarified on May 9, 2008, when the FCC issued the Canadian border plans which included a 30-month deadline for completion.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Spectrum Reconfiguration Obligations

In 2004, the FCC adopted a Report and Order that included new rules regarding interference in the 800 MHz band and a comprehensive plan to reconfigure the 800 MHz band. The interference is believed to have been caused as a result of the operations of commercial mobile radio service providers operating on frequencies adjacent to a number of public safety communication systems in the same geographic area. We assumed the obligations inherent in the Report and Order in August 2005 when we merged with Nextel Communications, Inc. The Report and Order provides for the exchange of a portion of our 800 MHz FCC spectrum licenses, and requires us to fund the cost incurred by public safety systems and other incumbent licensees to reconfigure the 800 MHz spectrum band. In

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The Report and Order requires us to make a payment to the U.S. Treasury at the conclusion of the band reconfiguration process to the extent that the value of the 1.9 GHz spectrum we received exceeds the total of the value of licenses for spectrum in the 700 MHz and 800 MHz bands that we surrendered under the decision plus the actual costs, or qualifying costs, that we incur to retune incumbents and our own facilities under the Report and Order. The FCC determined under the Report and Order that, for purposes of calculating that payment amount, the value of the 1.9 GHz spectrum is about \$4.9 billion and the aggregate value of the 700 MHz spectrum and the 800 MHz spectrum surrendered, net of 800 MHz spectrum received as part of the exchange, is about \$2.1 billion, which, because of the potential payment to the U.S. Treasury, results in minimum cash obligation of about \$2.8 billion by us under the Report and Order. We are, however, obligated to pay the full amount of the costs relating to the reconfiguration plan, even if those costs exceed \$2.8 billion.

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

	Through Dec 31, 2007	2008 Additions and Adjustments	Through Dec 31, 2008
		(in millions)	
FCC licenses	\$732	645	1,377
Property, plant and equipment	\$148	2	150
Costs not benefiting our infrastructure or spectrum positions	\$234	4	238
	<u>\$1,114</u>	<u>651</u>	<u>1,765</u>

Footnote: Excluded from 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 improvements. The methodology with which we have calculated these costs has not been approved by the Transition Administrator, or TA. 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.

From the inception of the program through December 31, 2008, we have incurred approximately \$1.8 billion of costs directly attributable to the spectrum reconfiguration program. When expended, these costs are generally accounted for either as property, plant and equipment or as additions to the FCC licenses intangible asset. We estimate, based on our experience to date with the reconfiguration program and on information currently available, that our total direct costs attributable to complete the spectrum reconfigurations will range between \$3.2 and \$3.6 billion. Neither the actual amounts incurred through December 31, 2008, nor the range of total direct costs estimated to complete spectrum reconfigurations, includes any of our internal network costs that we have preliminarily allocated to the reconfiguration program for capacity sites and modifications for which we may request credit under the reconfiguration program. This estimate is dependent on significant assumptions including the final licensee costs and costs associated with relocating licensees in the Canadian border region under the border plan that was adopted by the FCC and the Mexican border region for which there is currently no approved border plan. In addition, we are entitled to receive reimbursement from the mobile-satellite service licensees for their pro rata portion of our costs of clearing a portion of the 1.9 GHz spectrum. Those licensees may be unable or unwilling to reimburse us for their share of the costs, which we estimate to be approximately \$200 million. Accordingly, we believe that it is unlikely that we will be required to make a payment to the U.S. Treasury. The FCC has designated the independent TA to monitor, facilitate and review our expenditures for the 800 MHz band reconfiguration.

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