SPRINT Corp
Form 10-Q
January 31, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
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 CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	46-1170005
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6200 Sprint Parkway, Overland Park, Kansas	66251
(Address of principal executive offices)	(Zip Code)

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

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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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

COMMON SHARES OUTSTANDING AT JANUARY 30, 2019:

Sprint Corporation Common Stock	4,079,316,764

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SPRINT CORPORATION
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	March 31, 2018
	(in millions, except share and per share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,191	$ 6,610
Short-term investments	632	2,354
Accounts and notes receivable, net of allowance for doubtful accounts and deferred interest of $334 and $409, respectively	3,455	3,711
Device and accessory inventory	919	1,003
Prepaid expenses and other current assets	1,199	575
Total current assets	12,396	14,253
Property, plant and equipment, net	21,422	19,925
Costs to acquire a customer contract	1,497	—
Intangible assets		
Goodwill	6,598	6,586
FCC licenses and other	41,448	41,309
Definite-lived intangible assets, net	1,915	2,465
Other assets	1,128	921
Total assets	$ 86,404	$ 85,459
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 3,637	$ 3,409
Accrued expenses and other current liabilities	3,467	3,962
Current portion of long-term debt, financing and capital lease obligations	3,596	3,429
Total current liabilities	10,700	10,800
Long-term debt, financing and capital lease obligations	36,288	37,463
Deferred tax liabilities	7,684	7,294
Other liabilities	3,403	3,483
Total liabilities	58,075	59,040
Commitments and contingencies		
Stockholders' equity:		
Common stock, voting, par value $0.01 per share, 9.0 billion authorized, 4.079 billion and 4.005 billion issued, respectively	41	40
Paid-in capital	28,278	27,884
Treasury shares, at cost	(7)	—
Retained earnings (accumulated deficit)	291	(1,255)
Accumulated other comprehensive loss	(333)	(313)
Total stockholders' equity	28,270	26,356
Noncontrolling interests	59	63
Total equity	28,329	26,419
Total liabilities and equity	$ 86,404	$ 85,459

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SPRINT CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2018	2017	2018	2017
	(in millions, except per share amounts)			
Net operating revenues:				
Service	$5,699	$5,930	$17,201	$17,968
Equipment sales	1,589	1,262	4,180	3,443
Equipment rentals	1,313	1,047	3,778	2,912
	8,601	8,239	25,159	24,323
Net operating expenses:				
Cost of services (exclusive of depreciation and amortization included below)	1,648	1,733	5,019	5,140
Cost of equipment sales	1,734	1,673	4,521	4,622
Cost of equipment rentals (exclusive of depreciation below)	182	123	457	347
Selling, general and administrative	2,003	2,108	5,731	6,059
Depreciation - network and other	1,088	987	3,132	2,961
Depreciation - equipment rentals	1,137	990	3,454	2,732
Amortization	145	196	475	628
Other, net	185	(298)	298	(657)
	8,122	7,512	23,087	21,832
Operating income	479	727	2,072	2,491
Other (expense) income:				
Interest expense	(664)	(581)	(1,934)	(1,789)
Other income (expense), net	32	(42)	153	(50)
	(632)	(623)	(1,781)	(1,839)
(Loss) income before income taxes	(153)	104	291	652
Income tax benefit (expense)	8	7,052	(56)	6,662
Net (loss) income	(145)	7,156	235	7,314
Less: Net loss (income) attributable to noncontrolling interests	4	6	(4)	6
Net (loss) income attributable to Sprint Corporation	$(141)	$7,162	$231	$7,320
Basic net (loss) income per common share attributable to Sprint Corporation	$(0.03)	$1.79	$0.06	$1.83
Diluted net (loss) income per common share attributable to Sprint Corporation	$(0.03)	$1.76	$0.06	$1.79
Basic weighted average common shares outstanding	4,078	4,001	4,050	3,998
Diluted weighted average common shares outstanding	4,078	4,061	4,110	4,080
Other comprehensive (loss) income, net of tax:				
Net unrealized holding (losses) gains on securities and other	$(2)	$7	$(9)	$25
Net unrealized holding (losses) gains on derivatives	(25)	19	(8)	12
Net unrecognized net periodic pension and other postretirement benefits	2	—	5	1
Cumulative effect of accounting change	—	—	(8)	—
Other comprehensive (loss) income	(25)	26	(20)	38
Comprehensive (loss) income	$(170)	$7,182	$215	$7,352

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended December 31,	
	2018	2017
	(in millions)	
Cash flows from operating activities:		
Net income	$235	$7,314
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,061	6,321
Provision for losses on accounts receivable	278	312
Share-based and long-term incentive compensation expense	101	137
Deferred income tax expense (benefit)	25	(6,707)
Gains from asset dispositions and exchanges	—	(479)
Loss on early extinguishment of debt	—	65
Amortization of long-term debt premiums, net	(94)	(125)
Loss on disposal of property, plant and equipment	642	533
Deferred purchase price from sale of receivables	(223)	(909)
Other changes in assets and liabilities:		
Accounts and notes receivable	65	(74)
Inventories and other current assets	248	570
Accounts payable and other current liabilities	(530)	(104)
Non-current assets and liabilities, net	(601)	260
Other, net	375	295
Net cash provided by operating activities	7,582	7,409
Cash flows from investing activities:		
Capital expenditures - network and other	(3,814)	(2,539)
Capital expenditures - leased devices	(5,739)	(5,533)
Expenditures relating to FCC licenses	(145)	(92)
Proceeds from sales and maturities of short-term investments	6,619	7,113
Purchases of short-term investments	(5,152)	(1,842)
Proceeds from sales of assets and FCC licenses	416	367
Proceeds from deferred purchase price from sale of receivables	223	909
Proceeds from corporate owned life insurance policies	110	2
Other, net	52	(1)
Net cash used in investing activities	(7,430)	(1,616)
Cash flows from financing activities:		
Proceeds from debt and financings	6,416	3,073
Repayments of debt, financing and capital lease obligations	(6,937)	(7,159)
Debt financing costs	(286)	(19)
Call premiums paid on debt redemptions	—	(129)
Proceeds from issuance of common stock, net	281	12

Other, net	—	(18)
Net cash used in financing activities	(526)	(4,240)
Net (decrease) increase in cash, cash equivalents and restricted cash	(374)	1,553
Cash, cash equivalents and restricted cash, beginning of period	6,659	2,942
Cash, cash equivalents and restricted cash, end of period	$6,285	$4,495

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

	Nine Months Ended December 31, 2018								
	Common Stock		Paid-in Capital	Treasury Shares		(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Shares	Amount		Shares	Amount				
Balance, March 31, 2018	4,005	$ 40	$27,884	—	$ —	$ (1,255)	$ (313)	$ 63	$26,419
Net income (loss)						176		(3)	173
Other comprehensive income, net of tax							4		4
Issuance of common stock, net	8		2	1	(4)				(2)
Share-based compensation expense			40						40
Capital contribution by SoftBank			1						1
Cumulative effect of accounting changes						1,315	(8)		1,307
Other, net			3						3
Increase (decrease) attributable to noncontrolling interests			8					(8)	—
Balance, June 30, 2018	4,013	40	27,938	1	(4)	236	(317)	52	27,945
Net income						196		11	207
Other comprehensive income, net of tax							9		9
Issuance of common stock, net	66	1	288	1	(11)				278
Share-based compensation expense			27						27
Capital contribution by SoftBank			1						1
Other, net			(3)						(3)
Balance, September 30, 2018	4,079	41	28,251	2	(15)	432	(308)	63	28,464
Net loss						(141)		(4)	(145)
Other comprehensive loss, net of tax							(25)		(25)
Issuance of common stock, net			(3)	(1)	8				5
Share-based compensation expense			34						34
Other, net			(4)						(4)
Balance, December 31, 2018	4,079	$ 41	$28,278	1	$ (7)	$ 291	$ (333)	$ 59	$28,329

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

	Nine Months Ended December 31, 2017								
	Common Stock		Paid-in Capital	Treasury Shares		(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Shares	Amount		Shares	Amount				
Balance, March 31, 2017	3,989	$ 40	$27,756	—	$ —	$ (8,584)	$ (404)	$ —	$18,808
Net income						206			206
Other comprehensive loss, net of tax							(4)		(4)
Issuance of common stock, net	7		9						9
Share-based compensation expense			40						40
Capital contribution by SoftBank			2						2
Other, net			(46)						(46)
Balance, June 30, 2017	3,996	40	27,761	—	—	(8,378)	(408)	—	19,015
Net loss						(48)			(48)
Other comprehensive income, net of tax							16		16
Issuance of common stock, net	4		1	1	(9)				(8)
Share-based compensation expense			47						47
Capital contribution by SoftBank			3						3
Other, net			(5)						(5)
Balance, September 30, 2017	4,000	40	27,807	1	(9)	(8,426)	(392)	—	19,020
Net income (loss)						7,162		(6)	7,156
Other comprehensive income, net of tax							26		26
Issuance of common stock, net	2		2	(1)	9				11
Share-based compensation expense			50						50
Other, net			(6)						(6)
(Decrease) increase attributable to noncontrolling interests			(28)					76	48
Balance, December 31, 2017	4,002	$ 40	$27,825	—	$ —	$ (1,264)	$ (366)	$ 70	$26,305

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SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation and Other Information
Basis of Presentation
The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X for interim financial information. All normal recurring adjustments considered necessary for a fair presentation have been included. Certain disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes contained in our Annual report on Form 10-K for the year ended March 31, 2018. Unless the context otherwise requires, references to "Sprint," "we," "us," "our" and the "Company" mean Sprint Corporation and its consolidated subsidiaries for all periods presented, and references to "Sprint Communications" are to Sprint Communications, Inc. and its consolidated subsidiaries.
The preparation of the unaudited interim consolidated financial statements requires management of the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements. These estimates are inherently subject to judgment and actual results could differ.
The consolidated financial statements include our accounts, those of our 100% owned subsidiaries, and subsidiaries we control or in which we have a controlling financial interest. For controlled subsidiaries that are not wholly-owned, the noncontrolling interests are included in "Net (loss) income" and "Total equity." All intercompany transactions and balances have been eliminated in consolidation.
Reclassification of Prior Period Amounts
Certain prior period amounts have been reclassified to conform to the current period presentation. As a result of the growing significance of our leasing program, in fiscal year 2017 we disaggregated equipment revenue between device sales and device operating lease revenue in our consolidated statements of comprehensive (loss) income. Revenue derived from device sales is now being reported in a new caption called "Equipment sales," and revenue derived from device operating leases is now being reported in a new caption called "Equipment rentals." For the three- and nine-month periods ended December 31, 2017, we have disaggregated revenues of $1.0 billion and $2.9 billion, respectively, from equipment revenue to "Equipment rentals."
To align with the changes made to our revenue presentation, we have added two new captions within the consolidated statements of comprehensive (loss) income to capture certain costs directly attributable to our leasing activities consisting of "Cost of equipment rentals (exclusive of depreciation)" and "Depreciation - equipment rentals." For the three- and nine-month periods ended December 31, 2017, we have reclassed $123 million and $347 million, respectively, of loss on disposal of property, plant and equipment, net of recoveries resulting from the write-off of leased devices from "Other, net" to a new caption called "Cost of equipment rentals (exclusive of depreciation)." Additionally, we disaggregated total depreciation between network and other versus depreciation related to equipment rentals. Network and other depreciation is now being reported in a new caption called "Depreciation - network and other," and depreciation derived from equipment rentals is now being reported in a new caption called "Depreciation - equipment rentals." For the three- and nine-month periods ended December 31, 2017, we have disaggregated depreciation of $990 million and $2.7 billion, respectively, from depreciation to "Depreciation - equipment rentals." Total net operating revenues, net operating expenses, net (loss) income, and basic and diluted earnings per share were not affected by these reclassifications.
On January 1, 2018, the Company adopted authoritative guidance regarding Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments. The Company adopted this standard with retrospective application to the consolidated statements of cash flows. The standard impacted the presentation of cash flows related to beneficial

interests in securitization transactions, which is the deferred purchase price associated with our accounts receivable facility, resulting in reclassification of cash inflows from operating activities to investing activities of $909 million for the nine-month period ended December 31, 2017 in our consolidated statements of cash flows. The standard also impacted the presentation of cash flows related to separately identifiable cash flows and application of the predominance principal primarily related to direct channel leased devices resulting in a material reclassification of cash outflows from operating

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activities to investing activities of $3.8 billion for the nine-month period ended December 31, 2017 in our consolidated statements of cash flows. In addition, the standard also impacted the presentation of cash flows related to debt prepayment or debt extinguishment costs and resulted in a reclassification of cash outflows from operating activities to financing activities of $129 million for the nine-month period ended December 31, 2017 in our consolidated statements of cash flows. Proceeds from the settlement of corporate-owned life insurance policies resulted in a $2 million reclassification between operating and investing activities in our consolidated statements of cash flows for the nine-month period ended December 31, 2017.

On January 1, 2018, the Company adopted authoritative guidance regarding Statement of Cash Flows: Restricted Cash, requiring that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this standard with retrospective application to the consolidated statements of cash flows. The adoption of this standard resulted in an increase of $72 million in the beginning balance of cash, cash equivalents and restricted cash on April 1, 2017 and $55 million to the ending balance of cash, cash equivalents and restricted cash as of December 31, 2017.

Business Combination Agreement

On April 29, 2018, we announced that we entered into a Business Combination Agreement with T-Mobile US (T-Mobile) to merge in an all-stock transaction for a fixed exchange ratio of 0.10256 of T-Mobile shares for each Sprint share, or the equivalent of 9.75 Sprint shares for each T-Mobile share. Immediately following the transactions, Deutsche Telekom AG and SoftBank Group Corp. are expected to hold approximately 42% and 27% of fully-diluted shares of the combined company, respectively, with the remaining 31% of the fully-diluted shares of the combined company held by public stockholders. The Board will consist of 14 directors, of which nine will be nominated by Deutsche Telekom AG, four will be nominated by SoftBank Group Corp, and the final director will be the CEO of the combined company. The combined company will be named T-Mobile. The transaction is subject to customary closing conditions, including regulatory approvals, and is expected to close in the first half of calendar year 2019. Sprint and T-Mobile completed the Hart-Scott-Rodino filing with the Department of Justice on May 24, 2018. On June 18, 2018, the parties filed with the FCC the merger applications, including the Public Interest Statement. On July 18, 2018, the FCC accepted the applications for filing and established a public comment period for the transaction. The formal comment period concluded on October 31, 2018. The transaction received clearance from the Committee on Foreign Investment in the United States on December 17, 2018 and is awaiting further regulatory approvals.

Note 2. New Accounting Pronouncements

Accounting Pronouncements Adopted During the Current Year

In May 2014, the Financial Accounting Standards Board (FASB) issued new authoritative literature, Revenue from Contracts with Customers (Topic 606). This standard update, along with related subsequently issued updates, clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. The new standard supersedes much of the existing authoritative literature for revenue recognition (Topic 605). The standard update also amends current guidance for the recognition of costs to obtain and fulfill contracts with customers such that incremental costs of obtaining and direct costs of fulfilling contracts with customers will be deferred and amortized consistent with the transfer of the related good or service. Upon adoption, the Company applied the standard only to contracts that were not completed, referred to as open contracts.

The Company adopted this standard update beginning on April 1, 2018 using the modified retrospective method. This method requires that the cumulative effect of initially applying the standard be recognized at the date of application beginning April 1, 2018. We recorded a pre-tax cumulative effect of $1.7 billion ($1.3 billion, net of tax) as a reduction to the April 1, 2018 opening balance of accumulated deficit. Results for reporting periods beginning after April 1, 2018 are presented under Topic 606, while amounts reported for prior periods have not been adjusted and continue to be reported under accounting standards in effect for those periods. See Note 8. Revenues from Contracts with Customers for additional information related to revenues and contract costs, including qualitative and quantitative disclosures required under Topic 606.

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In January 2016, the FASB issued authoritative guidance regarding Financial Instruments, which amended guidance on the classification and measurement of financial instruments. Under the new guidance, entities will be required to measure equity investments that are not consolidated or accounted for under the equity method at fair value with any changes in fair value recorded in net (loss) income, unless the entity has elected the new practicability exception. For financial liabilities measured using the fair value option, entities will be required to separately present in other comprehensive (loss) income the portion of the changes in fair value attributable to instrument-specific credit risk. Additionally, the guidance amends certain disclosure requirements associated with the fair value of financial instruments. The Company adopted this standard update beginning on April 1, 2018 on a retrospective basis resulting in a pre-tax cumulative effect of $12 million ($8 million, net of tax) to our opening balance of accumulated deficit.

In October 2016, the FASB issued authoritative guidance regarding Income Taxes, which amended guidance for the income tax consequences of intra-entity transfers of assets other than inventory. Under the new guidance, entities will be required to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, thereby eliminating the recognition exception within current guidance. The Company adopted this standard on April 1, 2018 on a modified retrospective basis with no impact to our consolidated financial statements.

In January 2017, the FASB issued authoritative guidance amending Business Combinations: Clarifying the Definition of a Business, to clarify the definition of a business with the objective of providing a more robust framework to assist management when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company adopted this standard on April 1, 2018 with prospective application to future business combinations.

In January 2017, the FASB issued authoritative guidance regarding Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the goodwill impairment test by eliminating the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge (Step 2 of the test), but rather to record an impairment charge based on the excess of the carrying value over its fair value. The Company adopted this standard on April 1, 2018 with no impact to our consolidated financial statements at the date of adoption.

The cumulative after-tax effect of the changes made to our consolidated balance sheet for the adoption of Topic 606 and other ASUs effective for the Company on April 1, 2018 were as follows:

		Adjustments due to		
	March 31, 2018	Topic 606	Other ASUs	April 1, 2018
	(in millions)			
ASSETS				
Current assets:				
Accounts and notes receivable, net	$3,711	$ 97	$ —	$3,808
Device and accessory inventory	1,003	(24)	—	979
Prepaid expenses and other current assets	575	271	—	846
Costs to acquire a customer contract	—	1,219	—	1,219
Other assets	921	43	—	964
LIABILITIES AND EQUITY				
Current liabilities:				
Accrued expenses and other current liabilities	$3,962	$ (35)	$ —	$3,927
Deferred tax liabilities	7,294	366	—	7,660

Other liabilities	3,483	(32)	—	3,451
Stockholders' equity:				
(Accumulated deficit) retained earnings	(1,255)	1,307	8	60
Accumulated other comprehensive loss	(313)	—	(8)	(321)

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The most significant impact upon adoption of Topic 606 on April 1, 2018 was the recognition of a deferred contract cost asset of $1.2 billion, which was recorded in "Costs to acquire a customer contract" in our consolidated balance sheets for incremental contract acquisition costs paid on open contracts at the date of adoption. We are capitalizing and subsequently amortizing commission costs, which were previously expensed, related to new service contracts over the expected customer relationship period, while costs associated with contract renewals are amortized over the anticipated length of the service contract. We expect that operating expenses will be lower in the current fiscal year compared to amounts recorded under Topic 605 due to higher deferrals of such costs compared to the amortization of prior period commission costs deferred only for open contracts at the date of adoption as permitted by Topic 606.
A reconciliation of the adjustments from the adoption of Topic 606 relative to Topic 605 on our consolidated statements of comprehensive (loss) income and balance sheet is as follows:

	Three Months Ended December 31, 2018			Nine Months Ended December 31, 2018		
	As reported	Balances without adoption of Topic 606	Change	As reported	Balances without adoption of Topic 606	Change
	(in millions, except per share amounts)			(in millions, except per share amounts)		
Net operating revenues:						
Service	$5,699	$5,898	$(199)	$17,201	$17,716	$(515)
Equipment sales	1,589	1,264	325	4,180	3,223	957
Equipment rentals	1,313	1,329	(16)	3,778	3,827	(49)
	8,601	8,491	110	25,159	24,766	393
Net operating expenses:						
Cost of services (exclusive of depreciation and amortization included below)	1,648	1,671	(23)	5,019	5,073	(54)
Cost of equipment sales	1,734	1,715	19	4,521	4,431	90
Cost of equipment rentals (exclusive of depreciation below)	182	182	—	457	457	—
Selling, general and administrative	2,003	2,145	(142)	5,731	6,047	(316)
Depreciation - network and other	1,088	1,088	—	3,132	3,132	—
Depreciation - equipment rentals	1,137	1,137	—	3,454	3,454	—
Amortization	145	145	—	475	475	—
Other, net	185	185	—	298	298	—
	8,122	8,268	(146)	23,087	23,367	(280)
Operating income	479	223	256	2,072	1,399	673
Total other expense	(632)	(632)	—	(1,781)	(1,781)	—
(Loss) income before income taxes	(153)	(409)	256	291	(382)	673
Income tax benefit (expense)	8	62	(54)	(56)	85	(141)
Net (loss) income	(145)	(347)	202	235	(297)	532
Less: Net loss (income) attributable to noncontrolling interests	4	4	—	(4)	(4)	—

Net (loss) income attributable to Sprint	$(141)	$(343)	$202	$231	$(301)	$532
Basic net (loss) income per common share attributable to Sprint	$(0.03)	$(0.08)	$0.05	$0.06	$(0.07)	$0.13
Diluted net (loss) income per common share attributable to Sprint	$(0.03)	$(0.08)	$0.05	$0.06	$(0.07)	$0.13
Basic weighted average common shares outstanding	4,078	4,078	—	4,050	4,050	—
Diluted weighted average common shares outstanding	4,078	4,078	—	4,110	4,050	60

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SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2018		
	As reported	Balances without adoption of Topic 606	Change
	(in millions)		
ASSETS			
Current assets:			
Accounts and notes receivable, net	$3,455	$3,356	$99
Device and accessory inventory	919	941	(22)
Prepaid expenses and other current assets	1,199	672	527
Costs to acquire a customer contract	1,497	—	1,497
Other assets	1,128	939	189
LIABILITIES AND EQUITY			
Current liabilities:			
Accrued expenses and other current liabilities	$3,467	$3,489	$(22)
Deferred tax liabilities	7,684	7,177	507
Other liabilities	3,403	3,437	(34)
Stockholders' equity:			
Retained earnings (accumulated deficit)	291	(1,548)	1,839

The most significant impacts to our financial statement results as reported under Topic 606 as compared to Topic 605 for the current reporting period are as follows:

- Consideration paid to customers or on behalf of customers is included as a reduction of the total transaction price of customer contracts, resulting in a contract asset that is amortized to service revenue over the term of the contract. As a result, the income statement impact reflects an increase in equipment sales offset by a reduction in wireless service revenue. Under the previous standard, this consideration paid to customers or on behalf of customers was recognized as a reduction to revenue or as selling, general and administrative expense.
- Costs to acquire a customer contract or for a contract renewal are now capitalized and amortized to selling, general and administrative expenses over the expected customer relationship period or length of the service contract, respectively. Under the previous standard, these commission costs were expensed as incurred.
- Deferred tax liabilities were increased for temporary differences established upon adoption of Topic 606, primarily attributable to costs to acquire a customer contract. For income tax purposes, these commission costs will continue to be expensed as incurred.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued authoritative guidance regarding Leases, and has subsequently modified several areas of the standard in order to provide additional clarity and improvements. The new standard will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. In July 2018, the FASB made targeted improvements to the standard, including providing an additional and optional transition method. Under this method, an entity initially applies the standard at the adoption date, including the election of certain transition reliefs, and recognizes a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption. The standard will be effective for the Company for its fiscal year beginning April 1, 2019, including interim periods within that fiscal year, with early adoption permitted. The Company is currently evaluating the guidance and assessing its overall impact. However, we expect the adoption of this guidance to have a material impact on our consolidated balance sheets and we are implementing significant new processes and internal controls over lease recognition, which will ultimately assist in the application of the new lease standard.

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SPRINT CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

In June 2016 and November 2018, the FASB issued authoritative guidance regarding Financial Instruments - Credit Losses, which requires entities to use a Current Expected Credit Loss impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost within the scope of the standard. The entity's estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts, which will result in recognition of lifetime expected credit losses. The standard will be effective for the Company's fiscal year beginning April 1, 2020, including interim reporting periods within that fiscal year, although early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2018, the FASB issued authoritative guidance regarding Compensation - Stock Compensation, which expands the scope of ASC Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The standard will be effective for the Company for its fiscal year beginning April 1, 2019, including interim periods within that fiscal year, with early adoption permitted. The Company is currently evaluating the guidance and assessing its overall impact. However, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

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