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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______________ to ______________

Commission file number 1-04721

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

KANSAS **(State or other jurisdiction of incorporation or organization)**	**48-0457967** **(IRS Employer Identification No.)**
P.O. Box 11315, **Kansas City, Missouri** **(Address of principal executive offices)**	**64112** **(Zip Code)**
Registrant's telephone number, including area code	**(913) 624-3000**

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

Title of each class	Name of each exchange on which registered
FON Common Stock, Series 1, $2.00 par value, and FON Group Rights	New York Stock Exchange
PCS Common Stock, Series 1, $1.00 par value, and PCS Group Rights	New York Stock Exchange
Guarantees of Sprint Capital Corporation 6.875% Notes due 2028	New York Stock Exchange
Corporate Units	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 these reports), and (2) has been subject to these filing requirements for the past 90 days. Yes X No ___

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes X No ___

Aggregate market value of voting and non-voting common equity held by non-affiliates at June 28, 2002, was $13,928,503,414.

COMMON SHARES OUTSTANDING AT FEBRUARY 21, 2003:

FON COMMON STOCK	**896,584,780**
PCS COMMON STOCK	
Series 1	**687,142,404**
Series 2	**278,872,490**
Series 3	**34,441,023**
CLASS A COMMON STOCK	**43,118,018**

Documents incorporated by reference.

Registrant's definitive proxy statement filed under Regulation 14A promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, which definitive proxy statement is to be filed within 120 days after the end of Registrant's fiscal year ended December 31, 2002, is incorporated by reference in Part III hereof.

Part I

Item 1. Business

The Corporation

Sprint Corporation, incorporated in 1938 under the laws of Kansas, is mainly a holding company, with its operations primarily conducted in its subsidiaries.

Sprint is a global communications company and a leader in integrating long-distance, local service, and wireless communications. Sprint is also one of the largest carriers of Internet traffic using its tier one Internet Protocol network, which provides connectivity to any point on the Internet either through its own network or via direct connections with other backbone providers. Sprint is the nation's third-largest provider of long distance services based on revenues, and operates nationwide, all-digital long distance and tier one Internet protocol networks using fiber-optic and electronic technology. In addition, Sprint's local division currently serves approximately 8.1 million access lines in 18 states. Sprint also operates a 100% digital personal communications service, or PCS, wireless network with licenses to provide service to the entire United States population using a single frequency band and a single technology. Sprint operates in an industry that has been and continues to be subject to consolidation and dynamic change. Therefore, Sprint routinely reassesses its business strategies. In light of current events and specific changes in telecommunications, including bankruptcies, over-capacity and the economic downturn, Sprint continues to assess the implications on its operations. Any such assessment may impact the valuation of its long-lived assets. As part of its overall business strategy, Sprint regularly evaluates opportunities to expand and complement its operations and may at any time be discussing or negotiating a transaction that, if consummated, could have a material effect on its business, financial condition, liquidity or results of operations.

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for $2.23 billion in cash. The sale closed on January 3, 2003.

In November 1998, Sprint's shareholders approved the allocation of all of Sprint's assets and liabilities into two groups, the FON Group and the PCS Group, as well as the creation of the FON stock and the PCS stock. In addition, Sprint purchased the remaining ownership interests in Sprint Spectrum Holding Company, L.P. and PhillieCo, L.P. (together, Sprint PCS), other than a minority interest in Cox Communications PCS, L.P. (Cox PCS), which is now called Sprint Telephony PCS L.P. Sprint acquired these ownership interests from Tele-Communications, Inc. (TCI), Comcast Corporation and Cox Communications, Inc. (the Cable Partners). In exchange, Sprint issued the Cable Partners special low-vote PCS shares and warrants to acquire additional PCS shares. Sprint also issued the Cable Partners shares of a new series of preferred stock convertible into PCS shares. The purchase of the Cable Partners' interests is referred to as the PCS Restructuring. In the 1999 second quarter, Cox Communications, Inc. exercised a put option requiring Sprint to purchase the remaining 40.8% interest in Cox PCS. Sprint issued additional low vote PCS shares in exchange for this interest.

Also in November 1998, Sprint reclassified each of its publicly traded common shares into one share of FON stock and ½ share of PCS stock. This recapitalization was tax-free to shareholders. In addition, the Class A common shares owned by France Telecom (FT) and Deutsche Telekom AG (DT) were reclassified into shares representing both FON and PCS stock. These transactions are referred to as the Recapitalization.

FT no longer holds FON shares, and DT no longer holds either FON or PCS shares.

FON common stock and PCS common stock are intended to reflect the financial results and economic value of the FON and PCS Groups. However, they are classes of common stock of Sprint, not of the group they are intended to track. Accordingly, FON and PCS shareholders are subject to the risks related to an equity investment in Sprint and all of Sprint's businesses, assets and liabilities. Shares of FON common stock and PCS common stock do not represent a direct legal interest in the assets and liabilities allocated to either group, but rather represent a direct equity interest in our assets and liabilities as a whole. Sprint's Board of Directors may, subject to the restrictions in Sprint's articles of incorporation, change the allocation of the assets and liabilities that comprise each of the FON Group and the PCS Group without shareholder approval.

Access to Public Filings

Sprint provides public access to its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports filed with the Securities and Exchange Commission (SEC) under the 1934 Act. These documents may be accessed free of charge on Sprint's website at the following address: http://www.sprint.com/sprint/ir. These documents are provided as soon as is practicable after filing with the SEC, although not generally on the same day. These documents may also be found at the SEC's website at http://www.sec.gov.

Operating Segments

Sprint's business is divided into three lines of business: the global markets division, the local division and the PCS wireless telephony products and services business. For financial information relating to Sprint's segments, see Note 18 to Sprint's consolidated financial statements under Item 8—Financial Statements and Supplementary Data in this Form 10-K.

Sprint FON Group

General Overview of the Sprint FON Group

The FON Group is comprised of the global markets division, the local division and other businesses consisting primarily of wholesale distribution of telecommunications products. The main activities of the global markets division include domestic and international long distance communications (except for consumer long distance services used by customers within Sprint's local franchise territories), broadband fixed wireless services and certain other ventures. The global markets division is the nation's third-largest provider of long distance services based on revenues. The activities of the local division include local exchange communications and consumer long distance services used by customers within Sprint's local franchise territories.

The FON Group is implementing a metropolitan area network (MAN) strategy through the lease and purchase of dark-fiber and lit rings in key U.S. cities. This fiber-optic infrastructure is expected to enable Sprint to reduce local access costs in the future.

The FON Group also includes other businesses consisting primarily of wholesale distribution of telecommunication products. Finally, the FON Group includes investments in EarthLink, Inc., an Internet service provider; Call-Net, a long distance provider in Canada; Intelig Telecommunicacoes Ltda. (Intelig), a long distance provider in Brazil; and certain other telecommunications investments.

Global Markets Division

The global markets division's financial performance for 2002, 2001 and 2000 is summarized as follows:

	2002	2001	2000
		(millions)	
Net operating revenues	$8,943	$ 9,916	$10,528
Operating income (loss)(1)	$ (200)	$(2,049)	$ 585

(1) *Includes $194 million and $1.7 billion of restructuring and asset impairment charges in 2002 and 2001, respectively. In 2002, includes a $3 million charge to increase the reserve for the expected loss on receivables due to the bankruptcy declaration of WorldCom. In 2001, includes a $24 million charge for litigation. In 2000, a $238 million asset impairment charge is included.*

General

The global markets division provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice, data communications using various protocols such as Internet protocol and frame relay (a data service that transfers packets of data over Sprint's network), and managed network services. In addition, the global markets division provides web and applications hosting, consulting services, colocation services, and international data communications.

The global markets division also includes the operating results of the wireless high speed data and cable TV service operations of the broadband fixed wireless companies. In 2001, Sprint announced it would halt further deployment of Multipoint Multichannel Distribution Services (MMDS) services using current line of sight technology. Current video and high speed data customers continue to receive service. Sprint is pursuing alternative strategies with respect to the spectrum leases and licenses.

Competition

The division competes with AT&T, WorldCom, the Regional Bell Operating Companies (RBOCs) and other telecommunications providers in all segments of the long distance communications market. AT&T continues to have the largest market share of the domestic long distance communications market. Some competitors are targeting the high-end data market and are offering deeply discounted rates in exchange for high-volume traffic as they attempt to fill their networks with traffic volume. As of December 31, 2002, the RBOCs have obtained authorization to provide in-region long distance service in 35 states, which has heightened competition. The RBOCs may secure regulatory clearance to offer long distance services in a significant number of the remaining states in the next 12 months. As the RBOCs have entered the long distance service market, they have proven to be formidable long distance competitors. In addition, long distance services provided by wireless service providers are expected to continue to adversely affect the global markets division. Competition in long distance is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability. Sprint's ability to compete successfully will depend on its ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions, and pricing strategies.

Strategy

In order to achieve profitable market share growth in an increasingly competitive long distance communications environment, the global markets division intends to leverage its principal strategic assets: its high-capacity national fiber-optic network, its tier one Internet Protocol network, its base of business and residential customers, its established national brand, and offerings available from other Sprint operating entities and other affinity relationships. The long distance operation will focus on expanding its presence in the data communications markets. The global markets division continues to deploy network and systems infrastructure which provides reliability, cost effectiveness and technological improvements.

Local Division

General

The local division consists mainly of regulated local phone companies serving approximately 8.1 million access lines in 18 states. The local division provides local voice and data services, including Digital Subscriber Line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local division's local network, nationwide long distance services to residential customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. DSL enables high speed transmission of data over existing copper telephone lines.

The local division's financial performance for 2002, 2001 and 2000 is summarized as follows:

	2002	2001	2000
		(millions)	
Net operating revenues	$6,212	$6,247	$6,155
Operating income[(1)]	$1,830	$1,783	$1,763

[(1)] *Includes $56 million and $109 million of restructuring charges in 2002 and 2001, respectively. In 2002, includes a $27 million charge to increase the reserve for the expected loss on receivables due to the bankruptcy declaration of WorldCom.*

Competition

The local division is principally in suburban and rural markets. As a result, competition in its markets is occurring more gradually than for the RBOCs. In urban areas where the local division operates there is already substantial competition for business customers and indications of increasing competition for residential customers. Cable modems provide increasing competition for high-speed data services for residential customers, and wireless services will continue to grow as an alternative to wireline services. There continues to be significant competition in toll services. Certain mergers or other combinations involving competitors may increase competition. Competition in these services is based on price and pricing plans, the types of services offered, customer service, and communications quality, reliability and availability.

Strategy

The local division's strategy is to market to its local customers Sprint's entire product portfolio as well as its core product line of local voice, advanced network features and data products, including DSL. The local division is also engaged in a trial in which it serves as a CLEC providing local and long distance services to small and medium business customers utilizing leased loops and transport from the ILEC and Sprint-provided switching.

Sprint PCS Group

General Overview of the Sprint PCS Group

The PCS Group includes Sprint's wireless PCS operations. It operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population using a single frequency and a single technology. At year-end 2002, the PCS Group, together with third party affiliates, operated PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The service offered by the PCS Group and its third party affiliates now covers more than a quarter billion people. The PCS Group provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all speech bits, sending a scrambled transmission of the encoded speech over the air and reassembling the speech into its original format,
- affiliating with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- roaming on other providers' analog cellular networks using multi-mode and multi-band handsets, and
- roaming on other providers' digital networks that use CDMA.

Sprint launched nationwide third generation (3G) capability in the 2002 third quarter. This capability allows more efficient utilization of the network when voice calls are made using 3G-enabled handsets. It also provides enhanced data services. The service, marketed as "PCS Vision", allows consumer and business customers to use their Vision-enabled PCS devices to check personal and corporate e-mail, take and receive pictures, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds up to 144 kbps (with average speeds of 50 to 70 kbps).

The PCS Group supplements its own network through affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer PCS services under the Sprint brand name on CDMA networks built and operated at their own expense. Several of these affiliates are experiencing financial difficulties, are evaluating restructuring activities and could face bankruptcy. In February 2003, one affiliate filed for bankruptcy protection. For further discussion see Risk Factors Relating to Sprint.

The PCS Group also includes an investment in Virgin Mobile, USA, a joint venture to market wireless services. This investment is accounted for using the equity method.

The PCS Group also provides PCS services to companies that resell PCS services to their customers on a retail basis under their own brand. These companies bear the costs of acquisition, billing and customer service.

The financial performance for the PCS Group for 2002, 2001 and 2000 is summarized as follows:

	2002	2001	2000
		(millions)	
Net operating revenues	$12,074	$9,725	$ 6,341
Operating income (loss)[1]	$ 475	$ (647)	$(1,928)

[1] *Includes $138 million and $10 million of restructuring charges in 2002 and 2001, respectively. In 2002, includes a $6 million charge to increase the reserve for the expected loss on receivables due to the bankruptcy declaration of WorldCom. Includes a $24 million charge in 2000 for costs associated with the terminated merger between Sprint and WorldCom.*

Competition

The market for wireless services is highly competitive. Each of the markets in which the PCS Group competes is served by other two-way wireless service providers. A majority of the markets, including each of the top 50 metropolitan markets, have five or more wireless service providers including the PCS Group. Many of the PCS Group's competitors have been operating for a number of years and serve a substantial subscriber base. In January 2003, the Federal Communications Commission (FCC) rule imposing limits on the amount of spectrum that can be held by one provider in a specific market was lifted. Competition may continue to increase to the extent that licenses are transferred from smaller stand-alone operators to larger, better capitalized, and more experienced wireless communications operators, or as new firms enter the market as additional radio spectrum is made available for commercial wireless services.

Strategy

The PCS Group intends to increase capacity and expand network coverage and to increase market penetration by aggressively marketing competitively priced PCS products and services under the Sprint brand name, offering enhanced voice and data services and seeking to provide superior customer service. The principal elements of the PCS Group's strategy for achieving these goals are:

- operating a nationwide digital wireless network,
- using state-of-the-art technology, including 3G CDMA,
- leveraging the operating scale of the PCS Group's national network to achieve significant cost advantages in purchasing power, operations, and marketing,
- leveraging Sprint's national brand to gain consumer confidence in, and acceptance of, the PCS Group's products and services,
- delivering superior service to its customers,
- growing its customer base using multiple distribution channels,
- continuing to increase capacity and expand coverage, and
- offering PCS Group services in combination with FON Group services.

Legislative and Regulatory Developments

Telecommunications services are subject to regulation at the federal level by the FCC and at the state level by public utilities commissions. In general, incumbent local exchange carriers (ILECs) such as Sprint's local phone companies are subject to the most extensive regulation. Regulation not only covers rates and service terms, but also the terms on which ILECs provide connections and network elements to potential competitors known as competitive local exchange carriers (CLECs). Long distance providers such as the global markets division are subject to less regulation, but still must comply with various statutory requirements and regulations. Commercial mobile radio service (CMRS) providers such as the PCS Group are not regulated from a retail pricing standpoint, but are subject to various licensing and technical requirements imposed by the FCC.

Telecommunications have been and remain the subject of legislative initiatives at both the federal and state levels. The Telecommunications Act of 1996 (Telecom Act) was the first comprehensive update of the Communications Act of 1934. Among other things, the Telecom Act provided a framework for local competition, but required the passage of implementing rules by the FCC and the states. These rules have been the subject of numerous appeals to both the courts and to Congress. In virtually every session of Congress since the adoption of the Telecom Act, legislation has been proposed to amend it. In addition, members of Congress use Congressional hearings and letters to emphasize points to regulators. This Congressional participation in the development of regulatory policy and enforcement makes the regulatory process less predictable and potentially adverse to Sprint's interest. Similar legislative involvement occurs in various states.

Sprint FON Group

Competitive Local Service

The Telecom Act was designed to promote competition in all aspects of telecommunications. It eliminated legal and regulatory barriers to entry into local phone markets. It also required ILECs to allow local resale at wholesale rates, negotiate interconnection agreements, provide nondiscriminatory access to unbundled network elements and allow colocation of interconnection equipment by competitors. The rules implementing the Telecom Act are the subject of legal challenges and uncertainty. Moreover, many of the CLECs that invested money to participate in local competition have filed for bankruptcy. Thus, the future of local competition remains unclear.

The FON Group is impacted by local competition rules from two perspectives: primarily, as an ILEC serving approximately 4% of the access lines in the United States and, secondarily, as a potential CLEC for the remainder of the country's access lines. In Columbus, Ohio, Sprint is engaged in a trial in which it serves as a CLEC providing local and long distance services to small and medium business customers utilizing leased loops and transport from the ILEC and Sprint-provided switching. Additionally, Sprint is conducting a limited market test of a CLEC offering targeted to mass market customers in major domestic geographic markets which utilizes a platform of unbundled network elements, referred to as "UNE-P," leased from the ILEC.

In 2001, the FCC commenced a review of its ILEC unbundled network element rules. In February 2003, the FCC voted to adopt an order that addresses various aspects of the unbundled network element rules, including UNE-P, broadband deregulation and high-capacity loops. Under the order, ILECs continue to be required to make available loop and transport elements such as those needed for the Columbus, Ohio trial, but the order establishes a mechanism to allow state regulatory commissions to remove the transport element from the required list if certain competitive tests are met. The order further presumes that UNE-P should remain available for mass-market customers and requires state regulatory commissions to decide whether UNE-P should continue to be available for mass-market customers; if a state should determine that UNE-P should no longer be required, the order establishes a three-year phase-out period. Various parties to the FCC proceeding have announced their intention to appeal the FCC's order.

Separately, the FCC also initiated proceedings to explore whether it should establish performance measures for ILEC provision of unbundled network elements and special access services and it has convened a proceeding to determine the appropriate regulatory requirements for ILEC provision of domestic broadband telecommunications.

Universal Service Requirements and Access Reform

The FCC continues to address issues related to universal service and access reform. In 2000, the FCC adopted an access reform plan that substantially reduced switched access charges paid by long distance carriers to the large ILECs and created a new universal service fund that offsets a portion of this reduction in access charges. In connection with its advocacy of this plan, Sprint committed that it would flow through the reductions in switched access costs over the five-year life of the plan to both business and residential customers. Sprint also committed to certain other pricing actions, including eliminating charges to residential and single-line business customers which had been used to pass through certain access costs that were eliminated by this plan, and maintaining, for the duration of the plan, at least one pricing option that does not include a minimum usage charge. The FCC order adopting this access reform plan requires Sprint to adhere to these commitments.

The FCC and many states have established "universal service" programs to ensure affordable, quality local telecommunications services for all U.S. residents. The FON Group's assessment to fund these programs is typically a percentage of interstate and international end-user revenues. Currently, management cannot predict the extent of the FON Group's future federal and state universal service assessments, or its ability to recover its contributions to the universal service fund from its customers.

In May 2001, the FCC initiated a proceeding to determine whether the carrier assessment program described in the preceding paragraph should be changed. In a December 2002 decision, the FCC asked for further comment on whether to move from a carrier assessment based on revenues to a per-line or per-number assessment; in addition, it revised the revenue-based assessment from one based on historical revenues to one based on projected revenues in order to better account for RBOC entry into long distance and the loss of market share by other long distance carriers. The FCC also increased, from 15% to 28.5%, the "safe harbor" estimate of the amount of wireless revenues that can be attributed to interstate and international services. This "safe harbor" can be used by wireless carriers in lieu of attempting to measure how much of their traffic and revenues are from interstate and international calls (and thus subject to federal universal service contributions). This increase in the "safe harbor" is likely to increase the overall share of federal universal service funding borne by wireless carriers. At current funding levels, the effect of this FCC decision should be to reduce slightly the FON Group's contributions to the federal universal service funds.

Communications Assistance for Law Enforcement Act

The Communications Assistance for Law Enforcement Act (CALEA) was enacted in 1994 to preserve electronic surveillance capabilities authorized by federal and state law. CALEA required telecommunications companies to meet certain “assistance capability requirements” by June 30, 2000. The local division has agreed to a CALEA deployment schedule with the Department of Justice (DOJ) and obtained an extension for CALEA compliance from the FCC until June 30, 2002. The local division has timely filed a petition for further extension until June 30, 2004. This petition and similar petitions filed by other carriers have not been acted on, but based on past practice, no penalties are likely to be imposed for the period after the expiration of the previous extension.

Reallocation of Spectrum

The FCC has issued an order reallocating certain spectrum (the 2150-2162 MHz band) currently used by Sprint and others in the provisioning of MMDS for advanced wireless services. The order provides that incumbents such as Sprint will be relocated to a band that will be identified later and will be reimbursed for their relocation costs.

MMDS License Conditions

The FCC auctioned certain MMDS licenses – those licensed on a basic trading area (BTA) geographic basis – in 1996 for a term of ten years. The licenses may be renewed by the FCC for additional ten year terms. The FCC rules require all licensees of auctioned MMDS spectrum to meet certain buildout requirements in order to retain their licenses of this spectrum. These licensees are required to construct stations to provide signals capable of reaching at least two-thirds of the population of the applicable service area by August 16, 2003 or five years from the deadline specified on a conditional license, whichever is later. Although Sprint believes it has met these requirements in a number of its MMDS markets, it has just begun filing certifications with the FCC and has not yet received confirmation from the FCC that the requirement has been met in any BTA. Sprint, other MMDS licensees and the MMDS trade association have asked the FCC to delay the buildout deadline and to amend its rules regarding the buildout obligation. Those requests remain pending. Failure to comply with FCC requirements in a given market could result in the loss of the MMDS BTA license for that part of the service area in which the buildout requirements are not met.

Sprint PCS Group

The FCC sets rules, regulations and policies to, among other things:

- grant licenses for PCS frequencies and license renewals,
- rule on assignments and transfers of control of PCS licenses,
- govern the interconnection of PCS networks with other wireless and wireline carriers,
- establish access and universal service funding provisions,
- impose fines and forfeitures for violations of any of the FCC’s rules,
- regulate the technical standards governing wireless services, and
- impose other obligations that it determines to be in the public interest.

In January 2003, the FCC eliminated its rule prohibiting a single entity from having a combined attributable interest (20% or greater interest in any license) in broadband PCS, cellular and specialized mobile radio licenses totaling more than 55MHz in any geographic area. The FCC will now analyze transactions involving spectrum on a case-by-case basis and will impose limits on the amount of spectrum a single entity may hold in a market only if market conditions warrant such restrictions.

The FCC recently reallocated additional spectrum for 3G purposes. The FCC – in coordination with the National Telecommunications Infrastructure Administration (NTIA) – identified which spectrum bands should be used for advanced wireless services and is considering the technical parameters and service rules to govern operation in these frequencies. After this process is complete, the FCC will auction this spectrum. The amount of spectrum that will be reallocated and the cost of moving incumbent users cannot be determined at this time. In addition, the FCC plans to auction additional spectrum in the 700 MHz band which is currently used for analog broadcasting. It is not clear if the allocation of additional spectrum for 3G purposes and the auction of 700 MHz spectrum for mobile services may impact the value of the PCS Group's current spectrum licenses. At the present time the PCS Group believes that it has adequate spectrum to implement its business plan.

PCS License Conditions

All PCS licenses are granted for 10-year terms if the FCC's construction requirements are met. The licenses are subject to renewal. All 30 MHz broadband major trading area (MTA) licensees must build PCS networks offering coverage to ⅓ of the population within five years and ⅔ within 10 years. In 2000, the PCS Group met the five-year buildout requirement in all its MTA markets. The PCS Group has already met the ten-year buildout requirement in the majority of its MTA markets and expects to meet the ten-year buildout requirements in all of its MTA markets before the June 2005 deadline. All 10 MHz and 15 MHz broadband PCS licensees must construct networks offering coverage to at least ¼ of the population or make a showing of "substantial service" within five years of license grant. In April 2002, the PCS Group met the 10/15 MHz five-year buildout requirement in all its BTA markets. Licenses may be revoked if the FCC's construction requirements are not met.

PCS licenses may be renewed for additional 10-year terms. Renewal applications are not subject to auctions and the FCC will award a license renewal expectancy to a licensee that can demonstrate it has provided "substantial service" during the past license term and has substantially complied with the FCC rules.

Other FCC Requirements

By November 24, 2003, all covered CMRS providers, including the PCS Group, must offer a database solution for local number portability (LNP) that must be able to support roaming. LNP allows customers to retain, subject to certain geographical limitations, existing telephone numbers when switching from one telecommunications carrier to another. Once LNP is implemented, current rules require that covered CMRS providers would have to provide LNP in the 100 largest metropolitan statistical areas, in compliance with certain FCC performance criteria, if a bona fide request from another carrier (CMRS provider or local exchange carrier) is made.

A number of CMRS carriers and the PCS Group have asked the U.S. Circuit Court of Appeals for the District of Columbia to invalidate the FCC's imposition of this requirement. The LNP requirement would impose increased operating costs on all CMRS carriers and may result in higher subscriber churn rates.

Broadband PCS and other CMRS providers must implement enhanced emergency 911 capabilities in a two-tiered manner. In the first phase, wireless carriers must identify the base station from which a call originated. In the second phase, wireless carriers must provide location within a radius as small as fifty meters. Implementation of the second phase location requirements must generally begin within six months of a valid request by a public safety organization. The PCS Group has been granted a limited waiver of certain emergency 911 obligations and has sought an additional waiver extending the time within which 100% of its new handsets must contain location capability.

Communications Assistance for Law Enforcement Act

CALEA requires telecommunications carriers, including Sprint, to modify their equipment, facilities and services to allow for authorized electronic surveillance based on either industry or FCC standards. Like other CMRS carriers, the PCS Group has sought certain extensions of CALEA deadlines for packet-mode data services and these requests remain pending. Sprint believes that the FCC will grant extensions of the deadlines; however, if the extension requests are not granted, the PCS Group could be subject to fines if it is unable to comply with a surveillance request from a law enforcement agency due to the failure to provide the required surveillance capabilities. The PCS Group has also sought clarification from the FCC on the scope of the PCS Group's obligation to intercept packet-mode data services. The FCC has yet to respond to the PCS Group's request for clarification.

Other Federal Regulations

Wireless systems must comply with certain FCC and Federal Aviation Administration (FAA) regulations about the siting, lighting and construction of transmitter towers and antennas. In addition, FCC rules may subject certain cell site locations to National Environmental Policy Act (NEPA) and National Historic Preservation Act (NHPA) regulation. The FCC's NEPA and NHPA rules require carriers to meet certain land use and radio frequency standards. These requirements can delay or prevent siting in certain areas.

Universal Service Requirements and Access Charges

The FCC and many states have established "universal service" programs to ensure affordable telecommunications services for all U.S. residents. As discussed above under "Sprint FON Group – Universal Service Requirements and Access Reform," the FCC recently increased the "safe harbor" estimate of the amount of wireless revenues that can be attributed to interstate and international services. Although wireless carriers may still rely on their actual interstate traffic levels to determine universal service fund contributions, the FCC's modification of the "safe harbor" is expected to increase the overall share of federal universal service funding borne by wireless carriers, including the PCS Group.

In 2001, the FCC initiated a proceeding to consider a number of issues regarding compensation arrangements between carriers that exchange local and long distance traffic, including the issue of whether wireless carriers should be allowed to charge long distance carriers for terminating long distance calls to their wireless customers. Separately, in 2001, the PCS Group and AT&T filed petitions for a declaratory ruling with the FCC regarding the lawfulness of the PCS Group's practice of charging AT&T for terminating AT&T's long distance calls to the PCS Group's wireless customers. In July 2002, the FCC released a ruling affirming that nothing prohibited wireless carriers from imposing access charges for the use of their networks; however, the FCC also stated that interexchange carriers could not be unilaterally required to pay these charges without a contractual obligation to do so. This ruling is currently on appeal before the U.S. Circuit Court of Appeals for the District of Columbia.

State and Local Regulation

The Telecom Act preempts state and local regulation of market entry or the rates charged by a CMRS provider. States may, however, regulate "other terms and conditions" of mobile service, such as billing practices and other consumer-related issues. Several states have commenced proceedings to implement consumer protection and service quality regulations that would impose substantial incremental costs across the industry.

The location and construction of radio towers and antennas are also subject to a variety of state and local zoning, land use and regulatory requirements. Therefore, the time needed to obtain zoning approvals for the construction of additional wireless facilities varies from market to market and state to state.

The potential impact on Sprint, the FON Group and the PCS Group of material regulatory developments is discussed under Risk Factors Relating to Sprint.

Environmental Compliance

Sprint recently paid $1.9 million for the cleanup of a former manufactured gas plant and has identified an additional seven former manufactured gas plants where it may have some obligation to contribute to cleanup costs. Sprint is evaluating whether and to what extent it has liability with respect to each site and has reserved for additional cleanup costs. The manufactured gas plants are not currently owned or operated by Sprint, but may have been owned or operated by entities acquired by Sprint's subsidiary, Centel Corporation, before Sprint acquired Centel Corporation. Other environmental compliance and remediation expenditures mainly result from the operation of standby power generators for its telecommunications equipment. The expenditures arise in connection with standards compliance, permits or occasional remediation, which are usually related to generators, batteries or fuel storage. Sprint's environmental compliance and remediation expenditures have not been material to its financial statements or to its operations and are not expected to have any future material adverse effects on the FON Group or the PCS Group.

Patents, Trademarks and Licenses

Sprint owns numerous patents, patent applications, service marks and trademarks in the United States and other countries. Sprint expects to apply for and develop trademarks, service marks and patents for the benefit of the Groups in the ordinary course of business. "Sprint" and "Sprint PCS" are registered trademarks of Sprint. Sprint is also licensed under domestic and foreign patents and trademarks owned by others. In total, these patents, patent applications, trademarks, service marks and licenses are of material importance to the business. Generally, Sprint's trademarks, trademark licenses and service marks have no limitation on duration; Sprint's patents and licensed patents have remaining terms generally ranging from one to 19 years.

Sprint has granted licenses to others to use its registered trademark "Sprint" in certain situations, including to R.H. Donnelley in connection with the provision of telephone directories in Sprint's local franchise territories and to its third party PCS affiliates.

Employee Relations

At year-end 2002, Sprint had approximately 44,200 FON Group and approximately 28,000 PCS Group active employees. Approximately 8,800 FON Group employees were represented by unions. During 2002, Sprint had no material work stoppages caused by labor controversies.

In the 2002 fourth quarter, Sprint announced plans to consolidate its Network, Information Technology, and Billing and Accounts Receivable organizations, as well as steps to reduce operating costs. These decisions included work force reductions in the FON Group, PCS Group and corporate functions. Additionally, in a separate action, the PCS Group announced it would reduce operating expenses through a further work force reduction.

In the 2002 third quarter, Sprint announced a restructuring integrating its EISolutions' web hosting sales, mobile computing consulting, marketing, and product sales support capabilities into Sprint Business while integrating its customer service operations into Network Services. Additionally, Sprint announced that its global markets division will discontinue offering and supporting facilities-based Digital Subscriber Line (DSL) services to customers. These decisions included work force reductions in the FON Group.

In the 2002 first quarter, the PCS Group announced plans to close five PCS customer solution centers, as well as additional steps to reduce operating costs in its network, sales and distribution, and customer solutions business units. These decisions included work force reductions in the PCS Group.

In the 2001 fourth quarter, Sprint terminated its efforts to provide its Sprint ION offerings and announced plans to reduce operating costs. These decisions included work force reductions in the FON Group and corporate functions.

See Note 3 of Notes to Consolidated Financial Statements, "Restructuring and Asset Impairments," for more information on the impacts of these decisions.

Management

For information concerning the executive officers of Sprint, see "Executive Officers of the Registrant" in this document.

Information as to Business Segments

For information required by this section, refer to Sprint's "Management's Discussion and Analysis of Financial Condition and Results of Operations" and also refer to Note 18 of Sprint's "Notes to Consolidated Financial Statements" section of the Financial Statements filed as part of this document.

Risk Factors Relating to Tracking Stocks

Unless the context otherwise requires, references to "Sprint," "we," "us," and "our" mean Sprint Corporation and its subsidiaries.

Because the FON stock and the PCS stock are classes of common stock of Sprint, not of the group they are intended to track, the holders of the FON stock and PCS stock are subject to the risks related to an equity investment in Sprint and all of Sprint's businesses, assets and liabilities. Therefore, the market prices of the FON stock and the PCS stock may not accurately reflect the performance of the group they are intended to track.

FON stock and PCS stock are intended to track the performance of the FON Group and the PCS Group, respectively. However, they do not represent a direct legal interest in the assets and liabilities of the groups, but represent a direct equity interest in our assets and liabilities as a whole. Holders of FON stock and PCS stock are common stockholders of Sprint and as such are subject to the risks related to all of our businesses, assets and liabilities. This means that events affecting the business, assets or financial condition of the FON Group could also adversely affect the business, assets or financial condition of the PCS Group and vice versa. In addition, negative investor expectations for one group could adversely affect both groups. Consequently, the market price of both the FON stock and the PCS stock may not accurately reflect the performance of the group they are intended to track.

Holders of FON stock and PCS stock vote together on most matters submitted to a vote of our stockholders and the holders of the class of common stock with the least votes will likely not be able to determine the outcome of the vote.

Sprint is the issuer of both the FON stock and the PCS stock. With few exceptions, holders of FON stock and PCS stock have only the rights customarily held by common stockholders of a corporation and do not have rights specifically related to the assets or business of either group. For example, holders of FON stock vote together with holders of PCS stock as a single class on most matters, including the election of directors. The FON stock has one vote per share. The vote per share of the PCS stock fluctuates, based on its market price relative to the market price of a share of FON stock for a period of time before the record date for a stockholders' meeting. The holders of the stock with the greater voting power would be in a position to control the outcome of stockholder votes, including the election of directors. This would be true even if the matter to be voted upon involves a conflict in the interests of the holders of the FON stock and the PCS stock.

Under applicable corporate law, Sprint's board of directors does not owe separate duties to the holders of the FON stock or to the holders of the PCS stock.

Sprint has a single board of directors and no separate board represents solely the interests of the holders of the FON stock or PCS stock. Consequently, there is no board of directors that owes separate duties to the holders of either the FON stock or the PCS stock. Our tracking stock policies provide that our Board, in resolving material matters in which the holders of FON stock and PCS stock have potentially divergent interests, will act in the best interest of Sprint and all of its common stockholders after giving fair consideration to the potentially divergent interests of the holders of the separate classes of common stock. These tracking stock policies may be changed by the board of directors without stockholder approval.

Conflicts of interest between holders of FON stock and PCS stock in transactions between the FON Group and the PCS Group or in our dealings with third parties could be resolved by our board of directors to the detriment of the holders of one or the other class of common stock.

Holders of FON stock and PCS stock may have interests that differ from or conflict with the interests of holders of the other stock. For example, conflicts could arise with respect to decisions by our board of directors with respect to, among other things, the following matters:

- conversion of the outstanding shares of PCS stock into shares of FON stock, which our board of directors may do any time,
- payment of dividends on FON stock or PCS stock,
- sale of the assets of either the FON Group or the PCS Group to a third party,
- transfer of assets from one group to the other group,
- allocation of consideration in a merger among holders of FON stock and PCS stock,
- intercompany loans from one group to the other group,
- formulation of public policy positions that could have different effects on the interests of the FON Group and the PCS Group, and
- operational and financial decisions.

Sprint's board of directors may convert each share of PCS stock, Series 1 into shares of FON stock, Series 1 at any time. At the same time, it must convert the PCS stock, Series 2 into FON stock, Series 2 and the PCS stock, Series 3 into FON stock, Series 3. In addition, the unissued shares of PCS stock underlying the Class A common stock will convert into unissued shares of FON stock. The conversion ratio is at the discretion of the board of directors, subject to the requirement that it must make independent determinations as to the fairness of the conversion ratio to the holders of the PCS stock, taken as a separate class, and to the holders of the FON stock, taken as a separate class. Subject to this requirement, the conversion rate determined by the board may benefit, or appear to benefit, the holders of one stock to the detriment of the holders of the other stock.

Policies adopted by our board of directors with respect to our tracking stocks provide that loans from the FON Group to the PCS Group will be made at interest rates and on terms and conditions substantially equivalent to the interest rates and terms and conditions that the PCS Group would be able to obtain from third parties, including the public markets, as a wholly owned subsidiary, but without the benefit of any guaranty from Sprint or any member of the FON Group. This provision applies regardless of the interest rate at which the loaned funds are borrowed by Sprint or the FON Group. We anticipate that the interest rates payable by the PCS Group will continue to be higher than those payable by Sprint or the FON Group for the foreseeable future.

Sprint's tracking stock policies also provide guidelines for addressing material conflicts. Sprint's board of directors has appointed a committee, consisting of outside board members, to interpret and oversee implementation of these policies. Subject to these policies, the resolution of conflicts by the board may benefit, or appear to benefit, one group at the expense of the other group.

A majority of our directors own more FON stock than PCS stock, which could give rise to claims of conflict of interest.

A majority of the members of our board of directors have a greater economic interest in the FON Group than in the PCS Group. Some of our directors have a greater economic interest in the PCS Group. This difference in ownership could give rise to claims of conflict of interest when our board of directors makes decisions on matters where the interests of the FON Group and the PCS Group diverge.

Payments to the PCS Group under the tax sharing arrangement could be less than expected, and our board of directors could change the terms of the tax sharing arrangement to the detriment or benefit of one group over the other group.

Federal and state income taxes incurred by Sprint are allocated between the groups in accordance with a tax sharing arrangement. These allocations are based principally on the taxable income and tax credits contributed by each group. Allocations to or from the PCS Group are intended to reflect its actual incremental cumulative effect (positive or negative) on Sprint's consolidated federal and state taxable income and related tax liability and tax credit positions. Significant payments pursuant to the tax sharing arrangement have been made by the FON Group to the PCS Group and Sprint expects that significant payments will continue to be made by the FON Group to the PCS Group in the near future, in light of the tax losses that the PCS Group has incurred or is expected to incur during this time. It is possible that these payments will be more or less than expected. For example, PCS Group losses or FON Group income could be less than anticipated, in which case the payments to the PCS Group would be less than expected. Sprint's board of directors could change the terms of the tax sharing arrangement in a way that would benefit one group over the other group.

Sprint's board of directors has the discretion to change the allocation of the assets and liabilities that comprise each of the FON Group and the PCS Group without the approval of Sprint's stockholders.

Sprint's board of directors, subject to the restrictions in Sprint's articles of incorporation, has the discretion to change the allocation of the assets and liabilities that comprise each of the FON Group and the PCS Group without the approval of Sprint's stockholders. It is possible that a change in the existing allocation of the assets and liabilities between the groups could adversely affect the FON Group or the PCS Group. We intend to disclose any change in this allocation in our reports filed with the SEC; however, this disclosure is not required and the timing and content of this disclosure is at our discretion. Because our stockholders would not be entitled to vote on any change in the allocations, the market prices of the FON stock and the PCS stock may not reflect a change until the change is disclosed by us.

Sprint's board of directors could change its established policies relating to the holders of FON stock to the detriment of the FON Group or could change its established policies relating to the holders of PCS stock to the detriment of the PCS Group.

Sprint's board of directors may change its tracking stock policies without the approval of Sprint's stockholders. Sprint's board of directors may also adopt additional policies depending upon the circumstances. The board of directors may adopt new policies and change existing policies in a manner consistent with its fiduciary duties after giving fair consideration to the potentially divergent interests and all other relevant interests of the holders of the separate classes of common stock, including the holders of FON stock and the holders of PCS stock. However, new policies and changes to the existing policies could have different impacts upon holders of FON stock and PCS stock and could affect one common stock negatively in relation to the other common stock.

The structure of the tracking stocks may impede an acquisition of either group.

If either group were a stand-alone entity, a person that did not wish to negotiate with our management could seek to acquire that group by means of a tender offer or proxy contest involving only the stockholders of that entity. However, because each group is a part of Sprint, acquiring either group without negotiation with our management would require a proxy contest or tender offer to gain control of Sprint as a whole and would probably require solicitations to holders of both FON stock and PCS stock. This may hinder potential acquirers of the assets of either group and thereby prevent holders of either class of common stock from achieving additional return on their investment related to such acquisitions.

Holders of either class of common stock may receive less in an acquisition of the assets of the group than they would if the group were a separate company.

If either group were a stand-alone entity and its shares were acquired by another person, certain costs, including corporate level taxes, might not be payable in connection with the acquisition. As a result, holders of FON stock might receive more consideration in an acquisition of the FON Group if the FON Group were an independent company. Similarly, holders of PCS stock might receive more consideration in an acquisition of the PCS Group if the PCS Group were an independent company. In addition, the after-tax proceeds per share that holders of either common stock would receive as a result of a disposition of the assets of the group tracked by that class of common stock might be less than the market value per share of that common stock before or after the announcement of such disposition.

Risk Factors Relating to Sprint

Failure to satisfy Sprint's capital requirements could cause us to delay or abandon our expansion plans.

The PCS Group and the FON Group will continue to require additional capital to continue to expand their businesses. We intend to fund these capital requirements with cash flow generated from operations. If we do not generate sufficient cash flow from operations, we may need to rely on additional financing to expand our business. Sprint may not be able to arrange additional financing to fund its capital requirements on terms acceptable to us. Our ability to arrange additional financing will depend on, among other factors, our financial performance, general economic conditions, and prevailing market conditions. Many of these factors are beyond Sprint's control. Either of the PCS Group's or the FON Group's financing efforts may adversely affect the other group's ability to raise additional capital. Failure to obtain suitable financing could, among other things, result in the inability of the PCS Group and/or the FON Group to continue to expand their businesses and meet competitive challenges.

If Sprint incurs additional indebtedness, it could cause a decline in our credit rating, and could limit our ability to raise additional capital.

We have substantial indebtedness. We could incur additional indebtedness in the future as we implement the business plans of the PCS Group and the FON Group if we do not generate sufficient cash flow from operations to implement these plans. In connection with the execution of our business strategies, we are continually evaluating acquisition opportunities with respect to both the PCS Group and the FON Group, and we may elect to finance acquisitions by incurring additional indebtedness. We must use a portion of our future cash flow from operations to pay the principal and interest on our indebtedness, which will reduce the funds available for our operations, including capital investments and business expenses. This could hinder our ability to adjust to changing market and economic conditions. If we incur significant additional indebtedness, our credit rating could be adversely affected. As a result, our future borrowing costs would likely increase and our access to capital could be adversely affected.

If the PCS Group does not achieve and maintain profitability or if the FON Group continues to experience declining operating revenues, our ability to compete effectively and our credit rating will likely be adversely affected.

If the PCS Group does not achieve and maintain profitability on a timely basis, the PCS Group may be unable to make the capital expenditures necessary to implement its business plan, meet its debt service requirements, or otherwise conduct its business in an effective and competitive manner. This would require us to divert cash from other uses, which may not be possible or may detract from the growth of our other businesses. These events could limit our ability to increase revenues and net income of the PCS Group, the FON Group, and Sprint as a whole or cause these amounts to decline.

Although EBITDA (operating income or loss plus depreciation and amortization) for the FON Group is increasing, the FON Group has experienced declining operating revenues for the past several quarters. If the FON Group cannot increase its revenues, it may be unable to make the capital expenditures necessary to implement its business plan or otherwise conduct its business in an effective and competitive manner. This could further damage our ability to maintain or increase revenues of Sprint as a whole.

If the PCS Group does not achieve and maintain profitability on a timely basis or if the FON Group continues to experience declining operating revenues, our credit rating will likely be adversely affected. If our credit rating is adversely affected, our future borrowing costs would likely increase and our access to capital may be adversely affected.

Sprint faces intense competition that may reduce its market share and harm its financial performance.

There is substantial competition in the telecommunications industry. The traditional dividing lines between long distance, local, wireless, and Internet services are increasingly becoming blurred. Through mergers and various service integration strategies, major providers, including Sprint, are striving to provide integrated solutions both within and across all geographical markets.

We expect competition to intensify as a result of the entrance of new competitors and the rapid development of new technologies, products, and services. We cannot predict which of many possible future technologies, products, or services will be important to maintain our competitive position or what expenditures will be required to develop and provide these technologies, products or services. Our ability to compete successfully will depend on marketing and on our ability to anticipate and respond to various competitive factors affecting the industry, including new services that may be introduced, changes in consumer preferences, demographic trends, economic conditions, and discount pricing strategies by competitors. To the extent we do not keep pace with technological advances or fail to timely respond to changes in competitive factors in our industry, we could lose market share or experience a decline in revenue and net income.

PCS Group. The PCS Group competes in markets served by other two-way wireless service providers. A majority of the markets including each of the top 50 metropolitan markets have five or more wireless service providers. Many of these competitors have been operating for a number of years and serve a substantial subscriber base. In January 2003, the FCC rule imposing limits on the amount of spectrum that can be held by one provider in a specific market was lifted. Competition may continue to increase to the extent that licenses are transferred from smaller stand-alone operators to larger, better capitalized, and more experienced wireless communications operators. These larger wireless communications operators may be able to offer customers network features not offered by the PCS Group. The actions of these larger wireless communications operators could negatively affect the PCS Group's customer churn, ability to attract new customers, average revenue per user, cost to acquire customers, and operating costs per customer.

The PCS Group relies on agreements with competitors to provide automatic roaming capability to PCS Group customers in many of the areas of the United States not covered by the PCS Group's network, which primarily serves metropolitan areas. Certain competitors may be able to offer coverage in areas not served by the PCS Group's network or may be able to offer roaming rates that are lower than those offered by the PCS Group. Certain of our competitors are seeking to reduce access to their networks through actions pending with the FCC. Moreover, AT&T Wireless has sought reconsideration of an FCC ruling in order to expedite elimination of the engineering standard (AMPS) for the dominant air interface on which PCS customers roam. If AT&T Wireless is successful and the FCC eliminates this standard before the PCS Group can transition its handsets to different standards, customers of the PCS Group could be unable to roam in those markets where cellular operators cease to offer their AMPS network for roaming.

Many wireless providers have been upgrading their systems and provide expanded and digital services to compete with the PCS Group's services. Many of these wireless providers require their customers to enter into long term contracts, which may make it more difficult for the PCS Group to attract customers away from these wireless providers.

We anticipate that market prices for wireless voice services and products generally will be under pressure in the future as a result of increased competition. All of this may lead to greater choices for customers, possible consumer confusion, and increased industry churn.

FON Group. The FON Group competes with AT&T, WorldCom and the RBOCs, as well as a host of smaller competitors in the provision of long distance services. Some of these companies have built high-capacity fiber-optic networks capable of supporting large amounts of bandwidth. Although these companies have not captured a large market share, they and others with a strategy of using Internet-based networks claim certain cost structure advantages which, among other factors, may position them well for the future. Increased competition has forced lower prices for long distance services. The significant increase in capacity resulting from new networks may drive prices down further.

The Telecommunications Act of 1996 allows the RBOCs to provide long distance services in their respective regions if certain conditions are met. By year-end 2002, the RBOCs had received authority to enter the long distance market in 35 states. The RBOCs may secure regulatory clearance to offer long distance services in a significant number of their remaining states in the next 12 months. As the RBOCs have entered the market, they have proven to be formidable long distance competitors. In addition, long distance services provided by wireless service providers are expected to continue to adversely affect the global markets division.

The local division is principally in suburban and rural markets. As a result, competition in the local division's markets is occurring more gradually than for the RBOCs. In urban areas where the local division operates there is already substantial competition for business customers and indications of increasing competition for residential customers. Cable modems provide increasing competition for high-speed data services for residential customers, and wireless services will continue to grow as an alternative to wireline services. These competitive inroads, combined with the current economic downturn, have resulted in some decline in access lines served by the local division and in its switched access and long distance minutes. Certain mergers or other combinations involving our competitors may increase competition.

Demand for some of Sprint's communications products and services has been adversely affected by the downturn in the United States economy as well as bankruptcies of customers. The financial difficulties of Sprint's suppliers could result in additional expenses and interruption of its services.

A number of the FON Group's customers have struggled financially and some have filed for bankruptcy. As a result, we have experienced lower than expected revenues for our business.

Likewise, a number of our suppliers have experienced financial challenges. WorldCom has filed for bankruptcy. If suppliers cannot meet their commitments, we would have to use different vendors and this could result in delays, interruptions, or additional expenses associated with the upgrade and expansion of our networks and the offering of our products and services. If WorldCom fails to meet its commitments under various long-term lease and services agreements relating to network facilities, Sprint would have to pursue alternative strategies to provide this capacity that could result in delays, interruptions or additional expenses.

If current general economic conditions worsen or if other companies file for bankruptcy, the revenues, cash flow, and operating results of the PCS Group, the FON Group, and our company as a whole could be adversely affected.

Any failure by the PCS Group to continue the buildout of its network and meet capacity requirements of its customer growth will likely impair its financial performance and adversely affect Sprint's results of operations.

The PCS Group has additional network buildout and substantial capacity additions to complete. As the PCS Group continues the buildout and expansion of its PCS network, it must:

- obtain rights to a large number of cell sites,
- obtain zoning variances or other approvals or permits for network construction and expansion, and
- build and maintain additional network capacity to satisfy customer growth.

Network buildout and expansion may not occur as scheduled or at the cost that the PCS Group has estimated. The FCC requires certain levels of construction or “buildout” for licensees to retain their PCS licenses. Moreover, delays or failure to add network capacity, or increased costs of adding capacity, could limit our ability to increase the revenues of, or cause a deterioration in the operating margin of, the PCS Group or Sprint as a whole.

The financial difficulties being experienced by the PCS Group affiliates will likely force the PCS Group to incur additional expenses and adversely affect its financial performance.

The PCS Group supplements its own network buildout through affiliation arrangements with other companies. Under these arrangements, these companies offer PCS services under the Sprint brand name and build and operate CDMA networks at their own expense. In most cases, the PCS Group pays these companies a fee based on collected revenues for operating the network on its behalf. Several of these affiliates are currently experiencing financial difficulties, are evaluating restructuring alternatives, and could face bankruptcy. One affiliate recently declared bankruptcy, alleging that Sprint violated its agreements with the affiliate. Additionally, the affiliate asserts the percentage of collected revenues paid as a fee to this affiliate increased as a result of the acceleration of its debt, a claim Sprint is challenging. The PCS Group may incur additional expenses to ensure that service is available to its customers in the areas served by these affiliates or its customers may have to incur roaming charges in areas where service was previously provided by the affiliates. Furthermore, if the PCS Group affiliates cease operations, it could increase the cost of Sprint’s meeting FCC buildout requirements.

Significant changes in the wireless industry could cause a decline in demand for the PCS Group’s services.

The wireless telecommunications industry is experiencing significant technological change, including improvements in the capacity and quality of digital technology such as the move to 3G wireless technology. This causes uncertainty about future customer demand for the PCS Group’s services and the prices that we will be able to charge for these services. For example, the demands for wireless data services provided by the PCS Group may be affected by the proliferation of wireless local area networks using new technologies or the enactment of new laws or regulations restricting use of wireless handsets. The rapid change in technology may lead to the development of wireless telecommunications services or alternative services that consumers prefer over PCS. There is also uncertainty as to the extent to which airtime charges and monthly recurring charges may continue to decline. As a result, the future prospects of the wireless industry and the PCS Group and the success of PCS and other competitive services remain uncertain.

A high rate of customer churn would likely impair the PCS Group’s financial performance.

A key element in the economic success of wireless carriers is the rate of customer churn. Customer churn for the PCS Group for the year 2002 was higher than it was for the year 2001. Current strategies to reduce customer churn may not be successful. In addition, the implementation of local number portability, now scheduled for November 2003, is likely to increase churn. A continued high rate of customer churn would impair our ability to increase the revenues of, or cause a deterioration in the operating margin of, the PCS Group or Sprint as a whole.

Government regulation could adversely affect the prospects and results of operations of the PCS Group and the FON Group.

PCS Group. The licensing, construction, operation, sale, and interconnection arrangements of wireless telecommunications systems are regulated by the FCC and, depending on the jurisdiction, state and local regulatory agencies. The Communications Act of 1934 preempts state and local regulation of market entry by, and the rates charged by, CMRS providers. States may, however, regulate such things as billing practices and consumer-related issues. Several states have commenced proceedings to implement consumer protection and service quality regulations that could significantly increase the costs of the PCS Group’s operations. The FCC, together with the FAA, also regulates tower marking and lighting. In addition, tower construction is affected by federal statutes addressing environmental protection and historic preservation. The FCC, the FAA, or other governmental authorities having jurisdiction over the PCS Group’s business could adopt regulations or take other actions that would adversely affect the business prospects or results of operations of the PCS Group.

FCC licenses to provide PCS services are subject to renewal and revocation. The PCS Group's metropolitan trading area licenses will expire in 2005, and its basic trading area licenses will expire in 2007. Metropolitan trading areas and basic trading areas are areas defined by the FCC for the purpose of issuing licenses for PCS. Several basic trading areas make up each metropolitan trading area. The licenses may be renewed by the FCC for additional ten-year terms, but there is no guarantee that the PCS Group's licenses will be renewed. FCC rules require all PCS licensees to meet certain buildout requirements to retain their licenses. Failure to comply with FCC requirements in a given license area could result in revocation of the PCS Group's PCS license for that license area.

Failure by various regulatory bodies to make telephone numbers available in a timely fashion could result in the PCS Group not having enough local numbers to assign to new subscribers in certain markets. The FCC has adopted rules to promote the efficient use of numbering resources, including restrictions on the assignment of telephone numbers to carriers, including wireless carriers. The FCC has delegated to states the authority to assign, administer, and conserve telephone numbers. The FCC lifted its prohibition on area codes designated only for customers using a specific technology, such as an area code for only those using wireless technology, and now considers proposals submitted by state commissions seeking to implement this change on a case-by-case basis. Depending on the rules adopted by the states, the supply of available numbers could be adversely restricted. As a result, the PCS Group:

- may be required to assign subscribers non-local telephone numbers, which may be a disincentive for potential customers to subscribe to PCS service,
- may incur significant costs to either acquire new numbers or reassign subscribers to new numbers, and
- may be unable to enroll new subscribers at projected rates.

FON Group. FCC licenses to provide MMDS are subject to renewal and revocation. The FCC auctioned certain MMDS licenses—those licensed on a basic trading area geographic basis—in 1996 for a term of ten years. Those licenses will expire in 2006. The licenses may be renewed by the FCC for additional ten-year terms, but there is no guarantee that Sprint's MMDS licenses will be renewed. The FCC rules require all licensees of auctioned MMDS spectrum to meet certain buildout requirements in order to retain their licenses of this spectrum. These licensees are required to construct stations to provide signals capable of reaching at least two-thirds of the population of the applicable service area by August 16, 2003 or five years from the deadline specified on a conditional license, whichever is later. Although the FON Group believes it has met these requirements in a number of its MMDS markets, it has not received confirmation from the FCC. Failure to comply with FCC requirements in a given market could result in the loss of the MMDS license for that part of the service area in which the buildout requirements are not met.

Failure to complete development, testing and rollout of new technology could affect Sprint's ability to compete in the industry.

On an ongoing basis, Sprint develops, tests and rolls out various new technologies intended to help us compete in the industry. Successful implementation of technology upgrades depends on the success of contract negotiations and vendors meeting their obligations in a timely manner. We may not successfully complete the development and rollout of new technology in a timely manner, and any new technology may not be widely accepted by customers. In either case, we may not be able to compete effectively in the industry.

Delays associated with hiring a qualified individual to replace Sprint's chief executive officer could adversely affect its financial performance.

Sprint's outside directors have offered the position of Chief Executive Officer of the corporation to Gary Forsee, Vice Chairman of BellSouth Corporation. BellSouth obtained a preliminary injunction to prevent Mr. Forsee from joining Sprint. Although the court invalidated the non-compete provisions of Mr. Forsee's employment agreement, the non-disclosure provisions of the agreement are currently subject to arbitration. If the invalidation of the non-compete is reversed on appeal, if the arbitration proceedings are delayed for an extended period of time, or if the arbitrator fails to determine that Mr. Forsee can join Sprint without violating the non-disclosure provisions, the delay in hiring Mr. Forsee or the delay and difficulty in finding and hiring someone other than Mr. Forsee could adversely affect Sprint's ability to formulate and execute its business strategies and therefore could adversely affect its financial performance.

Item 2. Properties

Sprint's gross property, plant and equipment totaled $52.0 billion at year-end 2002. Of this amount $18.3 billion relates to the FON Group's local division, $14.5 billion relates to the FON Group's global markets division, $17.0 billion relates to the PCS Group and the remainder relates to the FON Group's product distribution properties and general support assets.

The FON Group's gross property, plant and equipment totaled $35.1 billion at year-end 2002. These properties mainly consist of land, buildings, digital fiber-optic network, switching equipment, microwave radio and cable and wire facilities. Sprint leases certain switching equipment and several general office facilities. The long distance operation has been granted easements, rights-of-way and rights-of-occupancy, mainly by railroads and other private landowners, for its fiber-optic network. Under various long-term lease and services agreements, WorldCom provides Sprint access to network facilities that compose approximately 20% of Sprint's long distance fiber network and a larger percentage of network traffic. These network facilities are also shared or utilized by WorldCom.

The PCS Group's properties consist of network assets including base transceiver stations, switching equipment and towers, as well as, leased and owned general office facilities and retail stores. The PCS Group leases space for base station towers and switch sites for its PCS network. At year-end 2002, the PCS Group had under lease (or options to lease) approximately 21,000 cell sites.

Sprint owns its corporate campus located in the greater Kansas City metropolitan area.

Gross property, plant and equipment totaling $16.1 billion is either pledged as security for first mortgage bonds and certain notes or is restricted for use as mortgaged property.

For additional information, see Note 16 of the Notes to Consolidated Financial Statements.

Item 3. Legal Proceedings

In December 2000, Amalgamated Bank, an institutional shareholder, filed a derivative action purportedly on behalf of Sprint against certain of its current and former officers and directors in the Jackson County, Missouri, Circuit Court. The complaint alleges that the individual defendants breached their fiduciary duties to Sprint and were unjustly enriched by making undisclosed amendments to Sprint's stock option plans, by failing to disclose certain information concerning regulatory approval of the proposed merger of Sprint and WorldCom, and by overstating Sprint's earnings for the first quarter of 2000. The plaintiff seeks damages, to be paid to Sprint, in an unspecified amount.

In June 2001, New England Healthcare Employees Pension Fund and other institutional shareholders filed a purported class action lawsuit against Sprint and certain of its directors and officers in the U.S. District Court for the District of Kansas. The lawsuit alleged violations of the federal securities laws. The plaintiffs seek damages in an unspecified amount. In September 2002, the Court granted in substantial part the motion of defendants to dismiss the lawsuit. The allegations that were not dismissed assert that defendants knew in April 2000 that Sprint's proposed merger with WorldCom would be rejected by regulatory authorities but failed to publicly disclose that information.

The PCS Group has been involved in legal proceedings in various states concerning the suspension of the processing or approval of permits for wireless telecommunications towers, the denial of applications for permits and other issues arising in connection with tower siting. There can be no assurance that such litigation and similar actions taken by others seeking to block the construction of individual cell sites of the PCS Group's network will not, in the aggregate, significantly delay further expansion of the PCS Group's network coverage.

Sprint is involved in various other legal proceedings incidental to the conduct of its business.

While it is not possible to determine the ultimate disposition of each of these proceedings, Sprint believes that the outcome of such proceedings, individually or in the aggregate, will not have a material adverse effect on Sprint's, the FON Group's or the PCS Group's financial conditions or results of operations. For additional information see Note 16 of the Notes to Consolidated Financial Statements.

Item 4. Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of 2002.

Item 10(b). Executive Officers of the Registrant

Office	Name	Age
Chairman and Chief Executive Officer	William T. Esrey(1)	63
President and Chief Operating Officer	Ronald T. LeMay(2)	57
President—Local Telecommunications Division	Michael B. Fuller(3)	58
President—Sprint PCS	Len J. Lauer(4)	45
Executive Vice President—Chief Financial Officer	Robert J. Dellinger(5)	42
Executive Vice President—General Counsel, External Affairs and Corporate Secretary	J. Richard Devlin(6)	52
Senior Vice President and Treasurer	Gene M. Betts(7)	50
Senior Vice President and Controller	John P. Meyer(8)	52
Senior Vice President—Strategic Planning and Corporate Development	Liane J. Pelletier(9)	45
Senior Vice President—Communications and Human Resources	I. Benjamin Watson(10)	54

(1) *Mr. Esrey was elected Chairman in 1990. He was elected Chief Executive Officer and a member of the Board of Directors in 1985.*

(2) *Mr. LeMay was elected President and Chief Operating Officer and a member of the Board of Directors in 1997.*

(3) *Mr. Fuller was elected President—Local Telecommunications Division in 1996.*

(4) *Mr. Lauer became President—Sprint PCS in October 2002. He had served as President—Global Markets Division since September 2000. He had been elected President—Sprint Business in June 2000. Mr. Lauer served as President—Consumer Services Group of Sprint/United Management Company, a subsidiary of Sprint, from 1999 to 2000. He joined Sprint in 1998 as Senior Vice President—Quality, Development and Public Relations. From 1995 to 1998, he had been President and Chief Executive Officer of Bell Atlantic—New Jersey, a telecommunications company.*

(5) *Mr. Dellinger was elected Executive Vice President—Chief Financial Officer in June 2002. He had served as Executive Vice President—Finance since April 2002. Before joining Sprint, he had served as President and Chief Executive Officer of GE Frankona Re based in Munich Germany with responsibility for the European operations of General Electric's Employers Reinsurance Corporation, a global reinsurer, from 2000 to 2002. From 2001 to 2002, he also served as President and Chief Executive Officer of General Electric's Employers Reinsurance Corporation's Property and Casualty Reinsurance Business in Europe and Asia. From 1997 to 2000, he served as Executive Vice President and Chief Financial Officer of General Electric's Employers Reinsurance Corporation.*

(6) *Mr. Devlin was elected Executive Vice President—General Counsel and External Affairs in 1989. He was elected Corporate Secretary in June 2002.*

(7) *Mr. Betts was elected Senior Vice President in 1990. He was elected Treasurer in 1998.*

(8) *Mr. Meyer was elected Senior Vice President—Controller in 1993.*

(9) *Ms. Pelletier was elected Senior Vice President—Strategic Planning and Corporate Development in 2000. She had served as Vice President—Corporate Strategy of Sprint/United Management Company since 1995.*

(10) *Mr. Watson became Senior Vice President—Communications and Human Resources in August 2002. He had served as Senior Vice President—Human Resources since 1993.*

There are no known family relationships between any of the persons named above or between any of these persons and any outside directors of Sprint. Officers are elected annually.

Sprint's outside directors have offered the position of Chief Executive Officer of the corporation to Gary Forsee, Vice Chairman of BellSouth Corporation. In February 2003, the Board announced that William T. Esrey and Ronald T. LeMay have agreed to remain as the Company's chairman/chief executive officer and chief operating officer, respectively, during the transition period until Mr. Esrey's successor can assume the role of chief executive officer.

Part II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Common Stock Data

	2002 Market Price		
	High	Low	End of Period
FON Stock, Series 1			
First quarter	$20.47	$12.51	$15.29
Second quarter	17.53	8.80	10.61
Third quarter	13.15	6.65	9.12
Fourth quarter	15.40	7.96	14.48
PCS Stock, Series 1			
First quarter	25.20	7.22	10.29
Second quarter	13.45	3.50	4.47
Third quarter	6.93	1.75	1.96
Fourth quarter	6.38	1.77	4.38

	2001 Market Price		
	High	Low	End of Period
FON Stock, Series 1			
First quarter	$29.31	$20.34	$21.99
Second quarter	23.87	19.06	21.36
Third quarter	24.60	19.50	24.01
Fourth quarter	24.39	18.50	20.08
PCS Stock, Series 1			
First quarter	33.25	15.72	19.00
Second quarter	27.50	16.43	24.15
Third quarter	27.10	22.25	26.29
Fourth quarter	29.05	21.50	24.41

As of February 21, 2003, Sprint had approximately 64,900 FON stock, Series 1 record holders, 58,300 PCS stock, Series 1 record holders, eight PCS stock, Series 2 record holders, one PCS stock, Series 3 record holder, and one Class A common stock record holder. The principal trading market for Sprint's FON stock, Series 1 and PCS stock, Series 1 is the New York Stock Exchange. The PCS stock, Series 2 and 3 and the Class A common stock are not publicly traded. Sprint paid a FON stock dividend of $0.125 per share in each of the quarters of 2002 and 2001. Sprint paid Class A common stock dividends of $0.125 per share in the first quarter of 2001. Sprint does not intend to pay dividends on the PCS stock in the foreseeable future.

Item 6. Selected Financial Data

Consolidated Selected Financial Data

	2002	2001	2000	1999	1998[1]
		(millions, except per share data)			
Results of Operations					
Net operating revenues	$26,634	$25,515	$23,145	$19,857	$16,749
Operating income (loss)[3],[7]	2,100	(901)	296	(484)	21
Income (Loss) from continuing operations[3],[4],[7]	468	(1,552)	(732)	(859)	475
Earnings per Share and Dividends					
Earnings per Sprint common share from continuing operations:[2],[3],[4],[7]					
Diluted	$ NA	$ NA	$ NA	$ NA	$ 2.08
Basic	NA	NA	NA	NA	2.11
Dividends per Sprint common share	NA	NA	NA	NA	0.75
Earnings (Loss) per Share and Dividends					
Earnings (Loss) per common share from continuing operations:[2],[3],[4],[5],[6],[7]					
Sprint FON Group (diluted)	$ 1.18	$ (0.33)	$ 1.28	$ 1.84	$ 0.17
Sprint FON Group (basic)	1.18	(0.33)	1.30	1.88	0.17
Sprint PCS Group (diluted and basic)	(0.58)	(1.27)	(1.95)	(2.71)	(0.63)
Dividends per FON common share	0.50	0.50	0.50	0.50	0.125
Financial Position					
Total assets	$45,293	$45,793	$43,068	$39,721	$33,257
Property, plant and equipment, gross	52,033	48,706	43,072	37,051	32,124
Property, plant and equipment, net	28,745	28,960	25,291	21,939	18,976
Total debt (including short-term and long-term borrowings, equity unit notes and redeemable preferred stock)	22,273	22,883	18,975	17,028	12,445
Shareholders' equity	12,294	12,616	13,716	13,313	12,202
Cash Flow Data					
Net cash from operating activities—continuing operations	$ 6,206	$ 4,563	$ 4,096	$ 1,801	$ 4,134
Capital expenditures	4,849	9,046	7,152	6,088	4,229

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported. All prior period amounts have been restated to reflect the results of Sprint's directory publishing business, which was sold in January 2003, as a discontinued operation.

See footnotes following Consolidating Selected Financial Data.

NA = Not applicable

Consolidating Selected Financial Data

	2002	2001	2000	1999	1998[1]
			(millions)		
Results of Operations					
Net operating revenues					
Sprint FON Group	$15,182	$16,368	$17,220	$16,752	$15,563
Sprint PCS Group	12,074	9,725	6,341	3,373	1,294
Eliminations	(622)	(578)	(416)	(268)	(108)
Consolidated	$26,634	$25,515	$23,145	$19,857	$16,749
Operating income (loss)[3],[7]					
Sprint FON Group	$ 1,592	$ (265)	$ 2,224	$ 2,753	$ 2,591
Sprint PCS Group	475	(647)	(1,928)	(3,237)	(2,570)
Eliminations	33	11	—	—	—
Consolidated	$ 2,100	$ (901)	$ 296	$ (484)	$ 21
Income (Loss) from continuing operations[3],[4],[7]					
Sprint FON Group	$ 1,046	$ (296)	$ 1,136	$ 1,622	$ 1,565
Sprint PCS Group	(578)	(1,249)	(1,868)	(2,481)	(1,090)
Eliminations	—	(7)	—	—	—
Consolidated	$ 468	$ (1,552)	$ (732)	$ (859)	$ 475
Financial Position					
Total assets					
Sprint FON Group	$23,043	$24,272	$24,190	$22,247	$18,975
Sprint PCS Group	23,022	22,190	19,763	17,924	15,165
Eliminations	(772)	(669)	(885)	(450)	(883)
Consolidated	$45,293	$45,793	$43,068	$39,721	$33,257
Property, plant and equipment, gross					
Sprint FON Group	$35,055	$34,072	$30,955	$27,640	$25,136
Sprint PCS Group	16,978	14,634	12,117	9,411	6,988
Consolidated	$52,033	$48,706	$43,072	$37,051	$32,124
Property, plant and equipment, net					
Sprint FON Group	$16,894	$17,491	$15,808	$13,972	$12,457
Sprint PCS Group	11,897	11,516	9,522	7,996	6,535
Eliminations	(46)	(47)	(39)	(29)	(16)
Consolidated	$28,745	$28,960	$25,291	$21,939	$18,976
Total debt (including short-term and long-term borrowings, equity unit notes and redeemable preferred stock)					
Sprint FON Group	$ 3,980	$ 5,324	$ 4,518	$ 5,443	$ 4,452
Sprint PCS Group	18,573	17,839	14,906	12,015	8,721
Eliminations	(280)	(280)	(449)	(430)	(728)
Consolidated	$22,273	$22,883	$18,975	$17,028	$12,445
Shareholders' equity					
Sprint FON Group	$11,814	$11,704	$12,343	$10,514	$ 9,024
Sprint PCS Group	480	912	1,366	2,794	3,229
Eliminations	—	—	7	5	(51)
Consolidated	$12,294	$12,616	$13,716	$13,313	$12,202
Cash Flow Data					
Net cash from operating activities—continuing operations					
Sprint FON Group	$ 4,176	$ 4,457	$ 4,104	$ 3,562	$ 3,850
Sprint PCS Group	2,030	106	(8)	(1,692)	(159)
Eliminations	—	—	—	(69)	443
Consolidated	$ 6,206	$ 4,563	$ 4,096	$ 1,801	$ 4,134
Capital expenditures					
Sprint FON Group	$ 2,181	$ 5,295	$ 4,105	$ 3,508	$ 3,157
Sprint PCS Group	2,668	3,751	3,047	2,580	1,072
Consolidated	$ 4,849	$ 9,046	$ 7,152	$ 6,088	$ 4,229

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported. All prior period amounts have been restated to reflect the results of Sprint's directory publishing business, which was sold in January 2003, as a discontinued operation.

See footnotes following Consolidating Selected Financial Data.

(1) *Sprint's 1998 results of operations include Sprint PCS Group's operating results on a consolidated basis for the entire year. The Cable Partners' share of losses through the PCS Restructuring date has been reflected as "Other partners' loss in Sprint PCS" in the results of operations. Sprint PCS Group's financial position at year-end 1998 has also been reflected on a consolidated basis. Cash flow data reflects Sprint PCS Group's cash flows only after the PCS Restructuring date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—General" for more information relating to the November 1998 PCS Restructuring.*

(2) *As discussed in Note 1 of Notes to Consolidated Financial Statements, the Recapitalization occurred in November 1998. As a result, earnings per share for Sprint common stock reflects earnings through the Recapitalization date, while earnings (loss) per share for FON common stock and PCS common stock reflects results from that date to year-end 1998.*

(3) *In 2002, Sprint recorded charges reducing Sprint's operating income by $402 million and reducing income from continuing operations by $253 million. The FON Group recorded charges reducing operating income by $281 million and reducing income from continuing operations by $176 million. The charges taken by the FON Group are related primarily to restructurings, asset impairments and expected loss on WorldCom receivables. The PCS Group recorded charges reducing operating income by $121 million and reducing income from continuing operations by $77 million. The PCS Group charges also relate primarily to restructurings, asset impairments and expected loss on WorldCom receivables.*

In 2001, Sprint recorded charges reducing Sprint's operating income by $1,837 million to an operating loss and increasing the loss from continuing operations by $1,151 million. The charge to the FON Group reduced operating income by $1,827 million and reduced income from continuing operations by $1,144 million. The charge to the PCS Group increased operating loss by $10 million and increased loss from continuing operations by $7 million. The charges taken by both the FON and PCS Groups related primarily to restructuring and asset impairments.

In 2000, Sprint recorded charges reducing Sprint's operating income by $425 million and increasing the loss from continuing operations by $273 million. The FON Group recorded charges that reduced operating income by $401 million and reduced income from continuing operations by $257 million. The PCS Group recorded charges that increased operating loss by $24 million and increased loss from continuing operations by $16 million. Charges relating to the terminated WorldCom merger were taken by both the FON and PCS Groups. Additional asset impairment charges were also taken by the FON Group.

In 1998, the PCS Group recorded a charge to write off $179 million of acquired in-process research and development costs related to the PCS Restructuring. This charge reduced operating income and income from continuing operations by $179 million.

(4) *In 2002, the PCS Group recorded in Other expense, net, a gain on the sale of its investment in Pegaso of $67 million with the same impact on loss from continuing operations. The FON Group recorded in Other expense, net, charges of $201 million which reduced income from continuing operations by $216 million. These amounts primarily included a write-down of an investment due to declining market value offset by a gain on the sale of customer contracts. In the 2002 third quarter, Sprint recognized a tax benefit related to capital losses not previously recognizable of $292 million. The benefit to the FON Group was $235 million. The benefit to the PCS Group was $57 million.*

In 2001, the FON Group recorded in Other expense, net, charges of $48 million which increased the loss from continuing operations by $81 million. These amounts primarily included a write-down of an equity investment offset by a curtailment gain on the modification of certain retirement plan benefits and a gain on investment activities.

In 2000, Sprint recorded charges of $68 million, which increased the loss from continuing operations by $74 million. Charges taken by the FON Group relate primarily to write-downs of certain equity investments. The PCS Group recorded a gain from the sale of customers and network infrastructure to a PCS third party affiliate.

In 1999, the FON Group recorded net gains of $54 million from investment activities which reduced the loss from continuing operations by $35 million.

In 1998, the FON Group recorded net gains of $104 million mainly from the sale of local exchanges. This increased income from continuing operations by $62 million.

(5) *In the 2000 first quarter, Sprint effected a two-for-one stock split of Sprint's PCS common stock. In the 1999 second quarter, Sprint effected a two-for-one stock split of its Sprint FON common stock. As a result, diluted and basic earnings per common share and dividends for Sprint FON common stock and diluted and basic loss per common share for Sprint PCS common stock have been restated for periods before these stock splits.*

(6) *As the effects of including the incremental shares associated with options and Employees Stock Purchase Plan shares are antidilutive, both basic loss per share and diluted loss per share reflect the same calculation for all periods presented for the PCS Group and for the year ended December 31, 2001 for the FON Group.*

(7) *Sprint adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. Accordingly, amortization of goodwill, spectrum licenses and trademarks ceased as of that date because they are indefinite life intangibles.*

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Information

Sprint includes certain estimates, projections and other forward-looking statements in its 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, demand for our products and services, pricing, costs to acquire customers and provide service, timing and cost of planned capital expenditures, and general economic conditions.

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

- extent and duration of the current economic downturn;
- the effects of vigorous competition in the markets in which Sprint operates;
- the costs and business risks associated with providing new services and entering new markets necessary to provide nationwide or global services;
- adverse change in the ratings afforded our debt securities by ratings agencies;
- the ability of the PCS Group to continue to grow a significant market presence;
- the ability of the PCS Group to improve its profitability and reduce its cash requirements;
- the effects of mergers and consolidations within the telecommunications industry and unexpected announcements or developments from others in the telecommunications industry;
- the uncertainties related to the outcome of bankruptcies affecting the telecommunications industry;
- the impact to the PCS Group's network coverage due to financial difficulties of third-party affiliates;
- the uncertainties related to Sprint's investments;
- the impact of any unusual items resulting from ongoing evaluations of Sprint's business strategies;
- the impact of new and emerging technologies on Sprint's business;
- unexpected results of litigation filed against Sprint;
- delays associated with hiring a qualified individual to replace Sprint's chief executive officer;
- the possibility of one or more of the markets in which Sprint competes being impacted by changes in political or other factors such as monetary policy, legal and regulatory changes, including the impact of the Telecommunications Act of 1996 (Telecom Act), or other external factors over which Sprint has no control; and
- other risks referenced from time to time in Sprint's filings with the Securities and Exchange Commission (SEC).

The words "estimate," "project," "intend," "expect," "believe" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are found throughout Management's Discussion and Analysis. The reader should not place undue reliance on forward-looking statements, which speak only as of the date of this report. Sprint is not obligated to publicly release any revisions to forward-looking statements to reflect events after the date of this report or unforeseen events.

Definitions of Operating and Non-GAAP Financial Measures

Sprint provides readers financial measures generated using generally accepted accounting principles (GAAP) and using adjustments to GAAP (non-GAAP). The non-GAAP financial measures reflect industry conventions, or standard measures of liquidity, profitability or performance commonly used by the investment community for comparability purposes. The non-GAAP financial measures and the operating measures used in this document include the following:

Free cash flow is defined as cash generated from operations less net cash requirements for capital expenditures, other investment activities and dividends. Currently, Sprint also includes cash generated from discontinued operations.

EBITDA is measured as operating income or loss plus depreciation and amortization.

Customer churn is used by the PCS Group to define the ratio of customers discontinuing PCS service over total average subscribers for the period.

ARPU (Average monthly revenue per user) is used by the PCS Group to define a measure of average monthly service revenue per user.

CCPU (Cash cost per user) is used by the PCS Group to define a measure of the cash costs to operate the business on a per user basis consisting of costs of service revenues, service delivery and other general and administrative costs divided by average subscribers.

CPGA (Cost per gross addition) is used by the PCS Group to define a measure of the sales and marketing efforts computed as the costs of acquiring a new subscriber, including equipment subsidies and marketing costs, divided by handset activations.

General

Sprint is a global communications company and a leader in integrating long-distance, local service, and wireless communications. Sprint is also one of the largest carriers of Internet traffic using its tier one Internet protocol network, which provides connectivity to any point on the Internet either through its own network or via direct connections with other backbone providers. Sprint is the nation's third-largest provider of long distance services based on revenues and operates nationwide, all-digital long distance and tier one Internet protocol networks using fiber-optic and electronic technology. In addition, the local division currently serves approximately 8.1 million access lines in 18 states. Sprint also operates a 100% digital PCS, wireless network with licenses to provide service to the entire United States population using a single frequency band and a single technology.

In November 1998, Sprint's shareholders approved the allocation of all of Sprint's assets and liabilities into two groups, the FON Group and the PCS Group, as well as the creation of the FON stock and the PCS stock. In addition, Sprint purchased the remaining ownership interests in Sprint Spectrum Holding Company, L.P. and PhillieCo, L.P. (together, Sprint PCS), other than a minority interest in Cox Communications PCS, L.P. (Cox PCS), which is now called Sprint Telephony PCS, L.P. Sprint acquired these ownership interests from Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. (the Cable Partners). In exchange, Sprint issued the Cable Partners special low-vote PCS shares and warrants to acquire additional PCS shares. Sprint also issued the Cable Partners shares of a new series of preferred stock convertible into PCS shares. The purchase of the Cable Partners' interests is referred to as the PCS Restructuring. In the 1999 second quarter, Cox Communications, Inc. exercised a put option requiring Sprint to purchase the remaining 40.8% interest in Cox PCS. Sprint issued additional low vote PCS shares in exchange for this interest.

Also in November 1998, Sprint reclassified each of its publicly traded common shares into one share of FON stock and ½ share of PCS stock. This recapitalization was tax-free to shareholders. In addition, the Class A common shares owned by FT and DT were reclassified into shares representing both FON stock and PCS stock. These transactions are referred to as the Recapitalization.

In connection with the PCS Restructuring, FT and DT purchased 5.1 million additional PCS shares (pre-split basis).

FT no longer holds FON shares, and DT no longer holds either FON or PCS shares.

Operating Segments

Sprint's business is divided into three lines of business: the global markets division, the local division, and the PCS wireless telephony products and services business.

Board Discretion Regarding Tracking Stocks

FON common stock and PCS common stock are intended to reflect the financial results and economic value of the FON and PCS Groups. However, they are classes of common stock of Sprint, not of the group they are intended to track. Accordingly, FON and PCS shareholders are subject to the risks related to an equity investment in Sprint and all of Sprint's businesses, assets and liabilities. Shares of FON common stock and PCS common stock do not represent a direct legal interest in the assets and liabilities allocated to either group, but rather represent a direct equity interest in our assets and liabilities as a whole.

Sprint's board of directors has the discretion to, among other things, make operating and financial decisions that could favor one group over the other and, subject to the restrictions in Sprint's articles of incorporation, to change the allocation of the assets and liabilities that comprise each of the FON Group and the PCS Group without stockholder approval. Under the applicable corporate law, Sprint's Board owes its fiduciary duties to all of Sprint's shareholders and there is no board of directors that owes separate duties to the holders of either the FON common stock or the PCS common stock. The Tracking Stock Policies provide that the Board, in resolving material matters in which the holders of FON common stock and PCS common stock have potentially divergent interests, will act in the best interests of Sprint and all of its common shareholders after giving fair consideration to the potentially divergent interests of the holders of the separate classes of Sprint common stock. These policies may be changed by the Board without shareholder approval. Given the Board's discretion in these matters, it may be difficult to assess the future prospects of each group based on past performance.

Critical Accounting Policies

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the business activities of Sprint. To aid in that understanding, management has identified Sprint's "critical accounting policies". These policies are considered "critical" because they have the potential to have a material impact on Sprint's financial statements, and because they require judgements and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

- **Long-lived Asset Recovery—**A significant portion of Sprint's total assets consist of long-lived assets, consisting primarily of property, plant and equipment ("PP&E") and definite life intangibles, as well as goodwill and indefinite life intangibles. Changes in technology or in Sprint's intended use of these assets, as well as changes in broad economic or industry factors, may cause the estimated period of use or the value of these assets to change.

  Depreciable Lives of Assets

  Sprint performs annual internal studies to confirm the appropriateness of depreciable lives for each category of PP&E. These studies utilize models, which take into account actual usage, physical wear and tear, replacement history, and assumptions about technology evolution, and use in certain instances actuarially-determined probabilities to calculate remaining life of our asset base.

  Sprint believes that the accounting estimate related to the establishment of asset depreciable lives is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about technology evolution and competitive uses of assets, and (2) the impact of changes in these assumptions could be material to our financial position, as well as our results of operations. Management's assumptions about technology and its future development require significant judgement because the timing and impacts of technology advances are difficult to predict, and actual experience has varied from previous assumptions and could continue to do so.

  If Sprint's studies had resulted in a depreciable rate that was 5% higher or lower than those used in the preparation of Sprint's consolidated financial statements, recorded depreciation expense would have been impacted by approximately $260 million. The impact to FON Group depreciation expense would be approximately $140 million and the impact to PCS Group depreciation expense would be approximately $120 million.

Property, Plant and Equipment and Definite Life Intangibles Impairment

PP&E and definite life intangibles are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, the Company must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the carrying amount is less than the recoverable amount, an impairment charge must be recognized, based on the fair value of the asset.

Sprint believes that the accounting estimate related to asset impairment is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about future revenues and costs of sales over the life of the asset; and (2) the impact of recognizing an impairment could be material to our financial position, as well as our results of operations. Management's assumptions about future revenues require significant judgement because actual revenues have fluctuated in the past and may continue to do so.

In estimating future revenues, we use our internal business forecasts. We develop our forecasts based on recent revenue data for existing products and services, planned timing of new products and services, and other industry and economic factors.

When indicators are present, Sprint tests for impairment. In 2002, this resulted in a total of $198 million of PP&E being impaired. FON Group recorded $156 million for network asset impairments and PCS Group recorded $42 million for abandoned network projects. These impairments represent less than one percent of the December 31, 2002 consolidated net PP&E for Sprint.

Goodwill and Indefinite Life Intangibles

Goodwill and indefinite life intangibles are reviewed at least annually for impairment, or more frequently if indicators of impairment exist. Goodwill is tested by comparing net book value of the reporting unit (identified as Sprint's operating segments) to fair value. Indefinite life intangibles are tested by comparing book value to estimated fair value.

Sprint believes that the accounting estimate related to goodwill and indefinite life intangibles is a "critical accounting estimate" because (1) it requires Company management to make assumptions about fair values, and (2) the impact of recognizing an impairment could be material to our financial position, as well as our results of operations. Management's assumptions about fair values require significant judgement because broad economic factors, industry factors and technology considerations can result in variable and volatile fair values.

Management completed impairment analyses on both goodwill and indefinite life intangibles in the fourth quarter of 2002. These tests were performed internally and, in the case of certain intangibles, by a third party valuation appraisal company. In each instance, as of December 31, 2002, no impairment existed.

- **Employee Benefit Plan Assumptions—**Retirement benefits are a significant cost of doing business for Sprint and yet represent obligations that will be settled far in the future. Retirement benefit accounting is intended to reflect the recognition of the future benefit costs over the employee's approximate service period based on the terms of the plans and the investment and funding decisions made by the Company. The accounting requires that management make assumptions regarding such variables as the return on assets, the discount rate and future health care costs. Changes in these key assumptions can have a significant impact on the projected benefit obligation and periodic benefit cost incurred by the Company.

  Sprint believes that the accounting estimate related to retirement benefit accounting is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about discount rates, future health care costs, and future return on assets funding the obligation; and (2) the impact of changes in actual performance versus these estimates would have on the projected benefit obligation reported on our balance sheet and the benefit cost could be material. The method of determining pension obligations requires assumptions concerning market performance. Market performance has fluctuated in the recent past and could have continued volatility in the future. In selecting these assumptions, Sprint uses historical experience as well as objective indices as benchmarks, and tests the benchmarks against historical industry data on these assumptions provided by an independent actuary.

  An increase in the discount rate or in the expected return on assets would reduce the reported obligation. In contrast, if the discount rate in 2002 used in determining this obligation was 25 basis points lower, it would generate a $162 million increase in the obligation reported on the balance sheet, and a $19 million increase in the benefit costs. Similarly, if the expected return on assets assumption was 25 basis points lower, it would generate a $8 million increase in the obligation reported on the balance sheet, and a similar increase to benefit costs. Reasonable changes in the estimate of health care cost assumptions would not materially affect the obligation or related benefit costs for a single year.

- **Allocation Policies between Tracking Stocks—**As discussed previously, the FON common stock is intended to reflect the financial results and economic value of the FON Group and the PCS common stock is intended to reflect the financial results and economic value of the PCS Group. The FON common stock and the PCS common stock are both classes of the common stock of Sprint, and together, the groups reflect 100% of Sprint's business activities.

  Sprint believes that the accounting estimate related to allocation policies is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about market interest rates and group use of shared costs; and (2) the impact that recognizing a change in this allocation would have on the net assets, use of resources or operating results of either group could be material.

  Allocation policies regarding shared activities impact the business results of the FON Group and the PCS Group. Sprint performs internal studies to confirm the appropriateness of assignment of costs when direct assignment is not possible or practical. The methods used for indirect assignment include time studies, and factors related to marketing or headcount studies.

  Sprint manages the financing activities of the groups on a centralized basis. Debt incurred by Sprint on behalf of the groups is specifically allocated to and reflected in the financial statements of the applicable group. Interest expense is assigned to the PCS Group based on an estimated rate that is substantially equal to the rate it would be able to obtain from third parties as a direct or indirect wholly owned Sprint subsidiary, but without the benefit of any guarantee by Sprint or any member of the FON Group. Additionally, Sprint's centralized cash management program allows one group to advance funds to the other group. These advances are accounted for as short-term borrowings between the groups and bear interest at a rate that is substantially equal to the rate that group would be able to obtain from third parties on a short-term basis.

  Management utilizes credit rating agencies and investment banks to provide an objective basis for determining appropriate assumptions concerning market interest rates. Sprint uses this information in arriving at the assumptions used to determine our allocations.

  The allocation of assets, financial resources and certain expenses require judgement by management and the allocation methods used are subject to the discretion of the board of directors in its fulfillment of its fiduciary duties to all of Sprint's shareholders. Holders of FON stock and PCS stock may have interests that differ from or conflict with the interests of holders of the other stock. Our tracking stock policies provide that our board of directors, in resolving material matters in which holders of FON stock and PCS stock have potentially divergent interests, will act in the best interest of Sprint and all of its common stockholders after giving fair consideration to the potentially divergent interests of the holders of the separate classes of common stock.

- **Tax Valuation Allowances—**Sprint is required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in its financial statements or tax returns for each taxing jurisdiction in which it operates. This process requires Sprint's management to make assessments regarding the timing and probability of the ultimate tax impact. Sprint records valuation allowances on deferred tax assets to reflect the expected realizable future tax benefits. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which Sprint operates, Sprint's inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes can have a significant impact on the financial position of the Company.

  Sprint believes that the accounting estimate related to establishing tax valuation allowances is a "critical accounting estimate" because: (1) it requires Company management to make assessments about the timing of future events, including the probability of expected future taxable income and available tax planning opportunities, and (2) the impact changes in actual performance versus these estimates could have on the realization of tax benefit as reported in our results of operations could be material. Management's assumptions require significant judgement because actual performance has fluctuated in the past and may continue to do so.

Sprint currently carries an income tax valuation allowance of $573 million on its books. This amount includes a valuation allowance for the total tax benefits related to net operating loss carryforwards which were acquired in connection with certain acquisitions. The remainder of the valuation allowance relates to state net operating loss carryforwards. Assumption changes which result in a reduction of expected benefits from realization of state net operating loss carryforwards by 10% would increase our valuation allowance by $27 million for PCS Group and $4 million for FON Group.

- **Revenue Recognition Policies—**Sprint recognizes operating revenues as services are rendered or as products are delivered to customers in accordance with SEC Staff Accounting Bulletin No. 101. In connection with recording revenue, estimates and assumptions are required in determining the expected conversion of the revenue streams to cash collected. The revenue estimation process requires management to make assumptions based on historical results, future expectations, the economic and competitive environment, changes in the credit worthiness of our customers, and other relevant factors. Changes in these key assumptions can have a significant impact on the projection of cash collected and the periodic revenue stream recognized by the Company.

  Sprint believes that the accounting estimate related to the establishment of revenue and receivable reserves and the associated provisions in the results of operations is a "critical accounting estimate" because: (1) it requires Company management to make assumptions about future billing adjustments for disputes with customers, unauthorized usage, future returns on asset sales and future access adjustments for disputes with competitive local exchange carriers and inter-exchange carriers, as well as the future economic viability of our customer base; and (2) the impact of changes in actual performance versus these estimates would have on the accounts receivable reported on our balance sheet and the results reported in our statements of operations could be material. In selecting these assumptions, Sprint uses historical trending of write-offs, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions which might impact the collectibility of accounts.

General Overview of the Sprint FON Group

The FON Group is comprised of the global markets division, the local division and other businesses consisting primarily of wholesale distribution of telecommunications products. The global markets division is the nation's third-largest provider of long distance services based on revenues. The activities of the local division include local exchange communications and consumer long distance services used by customers within Sprint's local franchise territories.

Global Markets Division

The global markets division provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice; data communications using various protocols such as Internet protocol (IP) and frame relay (a data service that transfers packets of data over Sprint's network), and managed network services. In addition, the global markets division provides web and applications hosting, consulting services, colocation services and international data communications.

The global markets division also includes the operating results of the wireless high speed data and cable TV service operations of the broadband fixed wireless companies. In 2001, Sprint announced it would halt further deployment of Multipoint Multichannel Distribution Services (MMDS) services using current line of sight technology. Current video and high speed data customers continue to receive service. Sprint is pursuing alternative strategies with respect to the spectrum leases and licenses.

This division also includes the FON Group's investments in EarthLink, Inc., an Internet service provider; Call-Net, a long distance provider in Canada; Intelig Telecommunicacoes, Ltda., a long distance provider in Brazil; and certain other telecommunications investments and other ventures.

Local Division

The local division consists mainly of regulated local phone companies serving approximately 8.1 million access lines in 18 states. The local division provides local voice and data services, including digital subscriber line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local division's local network, nationwide long distance services to residential customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. DSL enables high speed transmission of data over existing copper telephone lines.

General Overview of the Sprint PCS Group

The PCS Group includes Sprint's wireless PCS operations. It operates a 100% digital PCS wireless network with licenses to provide service to the entire United States population using a single frequency and a single technology. At year-end 2002, the PCS Group, together with third party affiliates, operated PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS Group's service, including third party affiliates, now reaches a quarter billion people. The PCS Group provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all speech bits, sending a scrambled transmission of the encoded speech over the air and reassembling the speech into its original format,
- affiliating with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- roaming on other providers' analog cellular networks using multi-mode and multi-band handsets, and
- roaming on other providers' digital networks that use CDMA.

Sprint launched nationwide third generation (3G) capability in the 2002 third quarter. This capability allows more efficient utilization of the network when voice calls are made using 3G-enabled handsets. It also provides enhanced data services. The service, marketed as "PCS Vision," allows consumer and business customers to use their Vision-enabled PCS devices to check personal and corporate e-mail, take and receive pictures, play games with full-color graphics and polyphonic sounds and browse the Internet wirelessly with speeds up to 144 kbps (with average speeds of 50 to 70 kbps).

The PCS Group supplements its own network through affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer PCS services under the Sprint brand name on CDMA networks built and operated at their own expense. Several of these affiliates are experiencing financial difficulties, are evaluating restructuring activities and could face bankruptcy. In February 2003, one affiliate filed for bankruptcy protection.

The PCS Group also includes its investment in Virgin Mobile, USA, a joint venture to market wireless services. This investment is accounted for using the equity method.

The PCS Group also provides PCS services to companies that resell PCS services to their customers on a retail basis under their own brand. These companies bear the costs of acquisition, billing and customer service.

The wireless industry, including the PCS Group, typically generates a higher number of subscriber additions and handset sales in the fourth quarter of each year compared to the remaining quarters. This is due to the use of retail distribution, which is dependent on the holiday shopping season; timing of new products and service introductions; and aggressive marketing and sales promotions.

Consolidated Results of Operations

Total net operating revenues were as follows:

	2002	2001	2000
		(millions)	
FON Group	$15,182	$16,368	$17,220
PCS Group	12,074	9,725	6,341
Intergroup eliminations	(622)	(578)	(416)
Net operating revenues	$26,634	$25,515	$23,145

Income (Loss) from continuing operations was as follows:

	2002	2001	2000
		(millions)	
FON Group	$1,046	$ (296)	$ 1,136
PCS Group	(578)	(1,249)	(1,868)
Intergroup eliminations	—	(7)	—
Income (Loss) from continuing operations	$ 468	$(1,552)	$ (732)

Income (loss) from continuing operations as presented in the above table includes the after-tax impacts of the charges discussed in the following paragraphs.

In the 2002 fourth quarter, Sprint recorded restructuring charges and asset impairments of $154 million representing consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, impairment of a network asset, abandoned network project costs and additional steps to reduce overall operating costs. Also included in 2002 were the expected loss on receivables due to the bankruptcy declaration of WorldCom of $23 million, a third quarter net restructuring and asset impairment charge of $76 million, a gain on the sale of the PCS Group's investment in Pegaso of $67 million, a gain from the sale of customer contracts of $25 million, the write-down of an investment due to declining market value of $241 million, and a tax benefit related to capital losses not previously recognizable of $292 million. Excluding these charges, income from continuing operations for 2002 would have been $578 million.

As a result of the July 2002 WorldCom Chapter 11 bankruptcy filing, Sprint continues to evaluate its risks regarding its WorldCom receivables and its ongoing business relationship with WorldCom. In addition to being a Sprint customer, WorldCom, under various long-term lease and services agreements, provides Sprint access to network facilities that compose approximately 20% of Sprint's long distance fiber network and a larger percentage of network traffic. These network facilities are also shared or utilized by WorldCom. If WorldCom failed to meet its commitments under these agreements, Sprint would have to pursue alternative strategies to provide this capacity that could result in delays, interruptions or additional expenses associated with the offering of our services. Sprint does not anticipate, or have indications, that WorldCom does not intend to meet its commitments.

In the 2001 fourth quarter, Sprint recorded a restructuring charge and asset impairment of $1,136 million representing the termination of Sprint ION, as well as additional steps to reduce overall operating costs. Additionally, in the 2001 fourth quarter, Sprint recorded a litigation charge of $15 million. Also included in 2001 were a write-down of the FON Group's equity method investment in Intelig of $157 million which had an other than temporary decline in market value, a loss on the sale of a portion of the FON Group's investment in EarthLink of $8 million, a benefit plan curtailment gain of $75 million and net gains from other investment activities of $9 million. Excluding these charges, loss from continuing operations for 2001 would have been $320 million.

In the 2000 fourth quarter, Sprint completed analyses of the valuation of various FON Group assets and equity method investments resulting from its reassessment of the FON Group's business strategies in response to changes in the overall telecommunications industry. These analyses resulted in charges of $152 million primarily related to a write-down of goodwill associated with the FON Group's Paranet operations, $87 million for the write-down of the FON Group's equity method investment in Call-Net, which had an other than temporary decline in market value, and $22 million for the write-down of certain FON Group investment securities, which had an other than temporary decline in market value. Also included in 2000 were charges of $121 million for costs associated with the terminated WorldCom merger, net gains of $17 million from investment activities in the FON Group, and an $18 million gain from the sale of customers and network infrastructure to a PCS third party affiliate. Excluding these charges, loss from continuing operations for 2000 would have been $385 million.

Segmental Results of Operations

Sprint's business is divided into three lines of business: the global markets division, the local division, and the PCS wireless telephony products and services business.

Global Markets Division

	2002	2001	2000
		(millions)	
Net operating revenues			
Voice	$ 5,768	$ 6,610	$ 7,068
Data	1,847	1,857	1,742
Internet	1,009	964	809
Other	319	485	909
Total net operating revenues	8,943	9,916	10,528
Operating expenses			
Costs of services and products	5,015	6,004	5,558
Selling, general and administrative	2,455	2,955	3,026
Depreciation and amortization	1,479	1,318	1,121
Restructuring and asset impairment	194	1,688	238
Total operating expenses	9,143	11,965	9,943
Operating income (loss)	$ (200)	$ (2,049)	$ 585
Operating margin	NM	NM	5.6%
Capital expenditures	$ 733	$ 3,580	$ 2,294

The global markets division faced significant challenges in 2002. The economic downturn coupled with industry-wide pricing pressures and a decline in professional services, legacy data services, and other revenues contributed to a 10% decline in net operating revenues and an operating loss for the year. Throughout 2002, the global markets division focused on cost management. In 2002, the global markets division experienced double-digit reductions in cost of services and products and selling, general, and administrative expenses. In 2002, Sprint undertook initiatives to improve operational efficiency and reduce costs. These actions, along with an adjustment to finalize the 2001 restructuring, resulted in a $194 million net charge to the global markets division's operations. Sprint expects revenues to be down a mid single-digit rate in 2003 as the division continues to be impacted by lower wholesale results, RBOC entry and re-pricing of expiring contracts. These declines are expected to be somewhat offset by business won from distressed carriers.

Net Operating Revenues

Net operating revenues decreased 10% in 2002 and 6% in 2001. Minute growth of 5% in 2002 and 20% in 2001, driven in part by the increase in business minutes sold to the PCS Group, was more than offset by the highly competitive pricing pressures on voice services. The decrease in net operating revenues also reflects year-over-year declines in legacy data services and other services.

Voice Revenues

Voice revenues decreased 13% in 2002 and 6% in 2001. The 2002 decrease is a result of wireless and e-mail substitution, RBOC entry and business voice contract renewals occurring at lower prices. Results were also impacted by the loss of a single large low margin wholesale customer and the termination of an airline partnership. The 2001 decrease was largely due to more competitive pricing and wireless substitution.

Data Revenues

Data revenues reflect sales of current-generation data services including asynchronous transfer mode (ATM) and frame relay services. These revenues were flat in 2002 and increased 7% in 2001. Results in 2002 were flat due to increases in both frame relay and ATM being offset by a decline in private line. Data revenues increased in 2001 due to increased sales in ATM.

Internet Revenues

Internet revenues increased 5% in 2002 and 19% in 2001. The 2002 increase is a result of growth in dedicated IP revenues, partially offset by a decrease in dial IP revenues due to repricing of contracts, combined with strong annual growth in web hosting. The 2001 increase was due to growth in dedicated IP, web hosting, and security.

Other Revenues

Other revenues decreased 34% in 2002 and 47% in 2001. The 2002 decrease is primarily due to the sale of our consulting services business, Paranet, and declines in equipment sales. The 2001 decrease reflects lower cable capacity sales, as well as declines in legacy data services and other services.

During the 2002, 2001 and 2000 periods, cable capacity sales and sales of ownership rights to transoceanic cable represented less than .02%, 0.2%, and 1% of global market division's net operating revenues, respectively. These transactions were executed primarily with Global One, and were in accordance with our transition services agreement.

Equipment sales completed in each of the periods discussed were routine in nature, were completed to support customer purchases of related telecommunications services, and represented less than 2%, 3%, and 6% of global market division's net operating revenues for the 2002, 2001, and 2000 periods, respectively.

Costs of Services and Products

Costs of services and products include interconnection costs paid to local phone companies, other domestic service providers and foreign phone companies to complete calls made by the division's domestic customers, costs to operate and maintain the long distance network and the IP network, and costs of equipment. Costs of services and products decreased 16% in 2002 and increased 8% in 2001. The 2002 decrease was a result of regulatory rate reductions, decreased network operating costs derived from Sprint's 2001 fourth quarter restructuring actions, favorable carrier access settlements, as well as other cost containment efforts, partially offset by volume growth. The 2001 increase was primarily due to a corresponding increase in call volumes, network costs of the long distance operation and costs associated with Sprint ION, partially offset by lower sales of ownership rights to capacity on transoceanic cable. The domestic rate reductions were generally due to the FCC-mandated access rate reductions that took effect in July 2000, July 2001, and July 2002.

Total costs of services and products for the global markets division were 56.1% of net operating revenues in 2002, 60.5% in 2001, and 52.8% in 2000.

Excluding Sprint ION related costs, total costs of services and products for the global markets division were 56% of net operating revenue in 2002, 58.2% in 2001, and 50.5% in 2000.

Selling, General and Administrative Expense

Selling, general and administrative (SG&A) expense decreased 17% in 2002 and 2% in 2001. The 2002 decrease is related to restructuring efforts and tight management of discretionary expenses. The 2001 decrease was due to a reduction in advertising and promotion costs in both the consumer and business markets and a strong emphasis on cost control, partly offset by increased marketing and promotions of Internet services and an increase in bad debt expense primarily related to wholesale customers.

The reserve for bad debts requires management's judgment and is based on customer specific indicators, as well as historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 3.5% in 2002, 3.8% in 2001, and 2.6% in 2000. Reserve for bad debt as a percentage of outstanding accounts receivable was 14.9% in 2002, 12.7% in 2001, and 10.5% in 2000.

Total SG&A expense for the global markets division was 27.5% of net operating revenues in 2002, 29.8% in 2001, and 28.7% in 2000.

Excluding ION related costs, SG&A expense for the global markets division was 27.4% of net operating revenues in 2002, 27.9% in 2001, and 26.7% in 2000.

Depreciation and Amortization Expense

Estimates and assumptions are used in setting depreciable lives. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense increased 12% in 2002 and 18% in 2001. The increases are attributable to an increased asset base to meet anticipated increases in demand for voice and data-related services and other growth initiatives. Depreciation and amortization expense was 16.5% of net operating revenues in 2002, 13.3% in 2001, and 10.6% in 2000.

Excluding Sprint ION related costs, depreciation and amortization expense for the global markets division was 16.5% of net operating revenues in 2002, 12.1% in 2001, and 9.9% in 2000.

Restructuring and Asset Impairment

In the 2002 fourth quarter, Sprint recorded a net restructuring charge of $57 million to the global markets division related to consolidations in Sprints Network, Information Technology, and Billing and Accounts Receivable organizations as well as additional steps to reduce overall operating costs. Additionally, it recorded a network asset impairment related to the global markets division of $14 million. Sprint recorded a net restructuring charge and asset impairment of $123 million related to the global markets division in the 2002 third quarter. This consisted of a $202 million charge for the termination of high-speed data services as well as additional steps to reduce operating costs. The charge was partially offset by a $79 million adjustment to finalize the restructuring charge taken in the 2001 fourth quarter to abandon the ION initiative and restructure operations in the global markets division. The 2001 fourth quarter actions, which resulted in a $1.7 billion charge to the global markets division, were taken in an effort to better focus on enterprise data and Internet services and to aggressively manage costs. For additional information see Note 3 of the Notes to Consolidated Financial Statements.

Local Division

	2002	2001	2000
		(millions)	
Net operating revenues			
Local service	$ 3,054	$ 2,939	$ 2,846
Network access	2,025	2,032	1,987
Long distance	628	731	717
Other	505	545	605
Total net operating revenues	6,212	6,247	6,155
Operating expenses			
Costs of services and products	1,900	1,955	1,965
Selling, general and administrative	1,269	1,280	1,288
Depreciation	1,157	1,120	1,139
Restructuring and asset impairment	56	109	—
Total operating expenses	4,382	4,464	4,392
Operating income	$ 1,830	$ 1,783	$ 1,763
Operating margin	29.5%	28.5%	28.6%
Capital expenditures	$ 1,286	$ 1,337	$ 1,421

In 2002, the local division was impacted by the continued economic slow down, continued cable modem competition for high-speed data in the consumer market, business customer data product competition in major geographic markets and wireless substitution resulting in a decline in access lines and minutes of use. Despite these pressures on revenue growth, the local division achieved improving operating results by effectively managing costs. In the 2002 fourth quarter, Sprint realigned its operations to reduce costs and increase its effectiveness. These actions resulted in a $53 million charge to the local division's operations. Sprint expects that wireless substitution and broadband competition will continue to adversely impact access lines and minutes of use in 2003. However, revenues and operating income are expected to be at levels consistent with 2002.

Beginning in July 2000, Sprint changed its transfer pricing for certain transactions between FON Group entities to more accurately reflect market pricing. The main effect of this change was a reduction in the local division's "Net Operating Revenues—Other Revenues." In addition, Sprint's local division transferred a customer service and telemarketing organization to the PCS Group at the beginning of the 2000 second quarter. For comparative purposes, the following discussion of local division results assumes the transfer pricing change and the transfer of the customer service and telemarketing organization occurred at the beginning of 2000. Adjusting for these changes, the net operating revenues would have been $6.1 billion and the operating margin would have been 28.4% in 2000.

Net Operating Revenues

Net operating revenues decreased less than 1% in 2002 and increased 2% in 2001. The slight decrease in 2002 was due to declines in long distance and equipment sales being partially offset by an increase in network-based services. The increase in 2001 mainly reflects increased special access revenue and increased sales of network-based local services such as Caller ID and Call Waiting. Sales of network-based services and long distance services increased due to strong demand for bundled services which combine local service, network-based features and long distance calling.

Local Service Revenues

Local service revenues, derived from local exchange services, grew 4% in 2002 and 3% in 2001 due to continued demand for network-based services driven by the success of bundled offerings. The local division ended 2002 with just under 8.1 million switched access lines, a decrease of 1.7% from the prior year. Access lines also decreased 1.1% in 2001. The decreases in 2002 and 2001 were driven by the economic slowdown, wireless and cable substitution and losses to competitive local providers.

Network Access Revenues

Network access revenues, derived from long distance phone companies using the local network to complete calls, decreased less than 1% in 2002 and increased 2% in 2001. Special access services demonstrated strong growth in both 2001 and 2002. However, these gains were offset in 2002 by declines in switched access minutes of use and regulator mandated access rate reductions.

Long Distance Revenues

Long distance revenues are mainly derived from providing nationwide long distance services to residential customers within Sprint's local franchise territories and other services within specified regional calling areas, or LATAs, to residential and business customers. These revenues decreased 14% in 2002 and increased 2% in 2001. The 2002 decrease reflects a decline in minutes of use as customers have shifted more of their communications to wireless, e-mail and instant messaging. The 2001 increase reflects the success of bundled services, offset by a decline in intra-LATA long distance services.

Other Revenues

Other revenues decreased 7% in 2002 and 2% in 2001. These decreases were driven by a decline in equipment sales of 14% in 2002 and 9% in 2001. The decreases in equipment sales were a result of both a planned shift in focus to selling higher margin products and the economic slowdown causing a reduction in customer demand for equipment.

Costs of Services and Products

Costs of services and products include costs to operate and maintain the local network and costs of equipment sales. These costs decreased 3% in 2002 and were flat in 2001. In 2002, the decrease is driven mainly by a reduction in reciprocal compensation expense, lower access expense, reduced volume of equipment sales, and a decline in other taxes due to changes in certain state tax laws. In 2001, declines in equipment sales and the success of cost control initiatives were offset by increases in access expense. Costs of services and products were 30.6% of net operating revenues in 2002, 31.3% in 2001 and 31.9% in 2000.

Selling, General and Administrative Expense

Despite increases in bad debt expense, SG&A expense decreased 1% in 2002. In 2001, SG&A remained flat as a continuing emphasis on cost control was offset by an increase in bad debt expense. The reserve for bad debt requires management's judgment and is based on historical trending, industry norms and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was

2.6% in 2002, 2.5% in 2001 and 1.5% in 2000. Reserve for bad debt expense as a percent of outstanding accounts receivable was 13.9% in 2002, 6.9% in 2001, and 4.8% in 2000. In 2002, improved bad debt experience with end user customers was more than offset by the need to establish reserves for certain competitive local exchange carriers and long distance companies, including WorldCom, with financial difficulties.

SG&A expense was 20.4% of net operating revenues in 2002, 20.5% in 2001, and 21.0% in 2000.

Depreciation and Amortization Expense

Estimates and assumptions are used in setting depreciable lives. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense increased 3% in 2002 and decreased 2% in 2001. The 2002 increase reflects capital spending to support voice-grade equivalent growth, service improvements, and ongoing build out of DSL services. The 2001 decrease is primarily due to a decrease in metallic cable depreciation rates. The decrease is due to metallic cable proving to be adequate in carrying higher bandwidth services such as DSL, thus extending its life. Depreciation and amortization expense was 18.6% of net operating revenues in 2002, 17.9% in 2001, and 18.5% in 2000.

Restructuring and Asset Impairment

In the 2002 fourth quarter, Sprint recorded a restructuring charge representing consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, as well as additional steps to reduce overall operating costs. This decision resulted in a charge of $53 million to the local division.

In the fourth quarter of 2001, Sprint announced plans to take steps to improve its competitive position and reduce operating costs in the business units that comprise its FON Group. These efforts included consolidation and streamlining of marketing and network operations, as well as streamlining of corporate support functions. This decision resulted in a charge of $109 million associated with the severance costs of the work force reductions and contractual obligations. In the 2002 third quarter, Sprint performed an analysis to finalize the restructuring estimates recorded in the 2001 fourth quarter. This analysis resulted in the recognition of an additional charge of $3 million being recorded in the 2002 third quarter. For additional information see Note 3 of the Notes to Consolidated Financial Statements.

Other

Other businesses consist primarily of wholesale sales of telecommunications equipment. Net operating revenues were $863 million in 2002, $1,206 million in 2001, and $1,468 million in 2000. Nonaffiliated revenues, which accounted for 35% of revenues in 2002, declined 41% as capital spending continues to suffer in the telecommunications industry. Operating expenses decreased 24% in 2002 and 16% in 2001 driven by reduced cost of services and products. Operating loss for 2002 was $23 million, while operating income was $34 million in 2001 and $75 million in 2000. In 2003, Sprint plans to continue to leverage its web-enabled capabilities to improve revenues and expand value added services.

PCS Group

	2002	2001	2000
		(millions)	
Net operating revenues	$12,074	$ 9,725	$ 6,341
Operating expenses			
Costs of services and products	5,783	5,295	3,942
Selling, general and administrative	3,411	2,917	2,426
Depreciation and amortization	2,267	2,150	1,877
Restructuring and asset impairment	138	10	—
Merger related costs	—	—	24
Total operating expenses	11,599	10,372	8,269
Operating income (loss)	$ 475	$ (647)	$(1,928)
Operating income (loss) before depreciation and amortization	$ 2,742	$ 1,503	$ (51)
Capital expenditures	$ 2,668	$ 3,751	$ 3,047

The wireless industry faced an increasingly challenging operating environment in 2002, with a continued economic slowdown and an accompanying decline in customer growth. While business recovery has been weaker than hoped for, the PCS Group exited the year with a 24% increase in net operating revenues and a $1.12 billion improvement in operating income.

In the second half of 2001, the PCS Group introduced the Clear Pay program. This program targeted the sub-prime customer segment by eliminating a deposit requirement. Clear Pay led to substantial customer growth and increased the PCS Group's share of industry gross additions within its markets to the low twenty percent level in the fourth quarter of 2001. In 2002, an increased percentage of these newly-added customers failed to pay for services or engaged in fraudulent payments that led to deactivation of their accounts, and resulted in an increase in bad debt and customer churn. To address this situation, the PCS Group took several actions during the year. In the first half of 2002, the PCS Group tightened credit screening requirements and limited the use of automated payment vehicles. In the second half of 2002, the PCS Group initiated a deposit requirement for most Clear Pay customers. These actions led to a decline in customer growth and a decline in the PCS Group's share of industry gross additions within its markets to the high teen percent level. However, the credit mix of customers began to improve in the fourth quarter of 2002. In 2003, Sprint expects the PCS Group to sustain this level of industry gross additions within its markets while continuing to improve the credit mix of its customers. Competitive pressure on price is expected to continue, but is expected to be partially offset by increased usage and revenues from PCS Vision services including data, e-mail, instant messaging, taking, sending and receiving photographs, games and Internet browsing and services.

The PCS Group markets its products through multiple distribution channels, including its own retail stores as well as other retail outlets. Equipment sales to one retail chain and the subsequent service revenues generated by sales to its customers accounted for 22% of net operating revenues in 2002 and 24% in both 2001 and 2000.

Net Operating Revenues

	2002	2001	2000
Customers at year-end *(millions)*	14.8	13.6	9.5
Average monthly service revenue per user (ARPU)	$ 62	$ 61	$ 59

Net operating revenues include service revenues and sales of handsets and accessory equipment. Service revenues consist of monthly recurring charges, usage charges, a pro rata portion of activation fees and miscellaneous fees such as directory assistance, operator-assisted calling, handset insurance and late payment charges associated with the PCS Group's subscriber base. Service revenues increased 27% in 2002 mainly reflecting an increase in the average number of customers and stable ARPU. In 2002, Sprint saw increased pricing pressures, which were offset by customers subscribing to higher usage service plans, and increased miscellaneous fees in 2001 and late payment fees in 2002.

The PCS Group added 1.2 million customers in 2002 to end the year with 14.8 million customers in more than 300 metropolitan markets nationwide. Resellers added 196,000 customers in 2002, which increased their customer base to 415,000, principally due to Virgin Mobile, USA. The PCS Group third party affiliates added more than 544,000 customers in 2002, bringing the total number of customers served on the PCS network, including resale customers and third party affiliates, to more than 17.7 million.

Service revenues increased 58% in 2001 mainly reflecting an increase in the average number of customers and an increase in ARPU. The increase in ARPU in 2001 was mainly due to customers subscribing to higher usage service plans and the implementation of activation charges in the second quarter of 2000. The PCS Group added over 4.0 million customers in 2001 to end the year with 13.6 million customers. Service revenues from resale customers declined in 2001 mainly due to the discontinuation of one reseller program, which reduced the reseller customer base to 219,000 in 2001 from 310,000 in 2000. The PCS Group third party affiliates added more than 1.2 million customers in 2001, bringing the total number of customers served on the PCS network, including resale customers, to more than 15.8 million.

The PCS Group assesses access charges to long distance carriers for the termination of landline originated calls. Though regulations generally entitle a carrier that terminates a call on behalf of another to be compensated for providing that service, these regulations were developed in a period where services of this nature were provided exclusively by local exchange carriers. Certain long distance carriers have disputed the PCS Group's assessment of these charges as well as the corresponding rate at which the charges were determined. In July 2002, the FCC released a ruling affirming that nothing prohibited wireless carriers from imposing access charges for the use of their networks; however, the FCC also stated that inter-exchange carriers could not be unilaterally required to pay these charges without a contractual obligation to do so. The FCC referred the dispute back to the Federal District Court for the Western District of Missouri for a determination whether the PCS Group has stated a claim under Missouri State law. AT&T filed a Notice of Appeal at the DC Circuit Court of Appeals challenging the ruling. In light of this ruling, the PCS Group recorded an additional provision for outstanding receivables related to amounts previously billed and is fully reserved for 2002.

In 2002, the customer churn rate increased to 3.3% from 2.6% in 2001 and 2.8% in 2000. The increase resulted primarily from company-initiated churn largely associated with the deactivations of Clear Pay customers, as well as a slight increase in the voluntary churn rate. Recognizing the impact of increased churn from the Clear Pay program, the PCS Group has initiated more stringent credit checks on potential customers, as well as deposit requirements in many categories. As a result, improvements were noted in the involuntary component of the churn rate by the end of the fourth quarter of 2002. In 2001, the churn rate improved during the first half of the year, reaching as low as 2.2%. This improvement reflected increased percentage of customers under contract, the success of several customer retention initiatives and expanded network coverage. These improvements were offset by an increase in the churn rate for the last half of 2001 resulting from customer fulfillment of contract terms, the softness of the economy, and the Clear Pay program. The PCS Group expects the customer churn rate to steadily improve throughout 2003.

Revenues from sales of handsets and accessories were approximately 10% of net operating revenues in 2002, 12% in 2001 and 14% in 2000. As part of the PCS Group's marketing plans, handsets are usually sold at prices below the PCS Group's cost.

Cost of Services and Products

The PCS Group's costs of services and products mainly include handset and accessory costs, switch and cell site expenses, customer care costs and other network-related costs. These costs increased 9% in 2002 and 34% in 2001. The 2002 increase is primarily due to network support of a larger customer base, expanded market coverage and increased handset unit costs. These increases are somewhat offset by scale benefits resulting from the increased customer base and decreases in customer solutions expense. The 2001 increase reflects significant growth in customers and expanded market coverage, partly offset by a reduction in handset unit costs. Costs of services and products were 47.9% of net operating revenue in 2002 compared to 54.4% in 2001 and 62.2% in 2000.

Selling, General and Administrative Expense

SG&A expense mainly includes marketing costs to promote products and services as well as salary and benefit costs. SG&A expense increased 17% in 2002 and 20% in 2001. The 2002 increase reflects increased marketing and selling costs associated with the PCS Vision launch and increased bad debt expense. The 2001 increases reflect an expanded workforce to support subscriber growth and increased marketing and selling costs.

	2002	2001	2000
Acquisition costs per gross customer addition (CPGA)	$350	$305	$340
Monthly cash costs per user (CCPU)	$ 33	$ 35	$ 37

Cost per Gross Customer Addition

CPGA is a measure of the costs of acquiring a new subscriber, consisting of equipment subsidies, sales and marketing costs, divided by handset activations for new PCS customers. CPGA increased approximately 15% in 2002 compared to a reduction of approximately 10% in 2001. The CPGA increase is primarily attributable to marketing costs and equipment subsidies associated with the launch of PCS Vision, as well as costs being spread across lower gross customer additions. In 2001, lower handset unit costs and scale benefits from greater customer additions contributed to the improvement.

Cash Costs per User

CCPU is a measure of the cash costs to operate the business on a per user basis, consisting of costs of service revenues, service delivery and other general and administrative costs, divided by average subscribers. CCPU decreased approximately 6% in 2002 and 5% in 2001. Improvements realized in 2002 were driven by lower customer solutions costs and network and information technology costs per user partially offset by higher bad debt expense per user. The improvements realized in 2001 were driven by lower network, information technology, and administrative costs partially offset by higher cost of service delivery.

The reserve for bad debt requires management's judgment and is based on customer specific indicators, as well as historical trending, industry norms, regulatory decisions and recognition of current market indicators about general economic conditions. Bad debt expense as a percentage of net revenues was 4.8% in 2002 and 3.9% in 2001 and 2000. Reserve for bad debt as a percent of outstanding accounts receivable was 9.4% in 2002, 9.1% in 2001, and 8.1% in 2000. In the 2002 third quarter, the PCS Group removed cancellation fee and late fee reserves from the allowance for doubtful accounts, as the income impact of these amounts are considered revenue adjustments. Prior periods have been restated to conform to the current presentation. In 2002, bad debt expenses, as well as the reserve, increased due to provisions for write-offs associated with the Clear Pay customers.

Depreciation and Amortization Expense

Estimates and assumptions are used in setting depreciable lives. Assumptions are based on internal studies of use, industry data on lives, recognition of technological advancements and understanding of business strategy. Depreciation and amortization expense consists mainly of depreciation of network assets and amortization of intangible assets. The definite life intangible assets include various customer bases, which became fully amortized in August 2002.

Depreciation expense increased 27% in 2002 and 33% in 2001 mainly reflecting depreciation of the network assets placed in service during 2001 and the first half of 2002. Additionally, the PCS Group increased depreciation of certain network assets in the 2001 first quarter to reflect the accelerated replacement of the assets to accommodate network technology upgrades.

Amortization expense decreased to $4 million in 2002 from $364 million in 2001. Amortization of goodwill and indefinite life intangibles ceased upon adoption of SFAS No. 142 at January 1, 2002. Periodic impairment testing of indefinite life intangibles is now required. This implementation is discussed in Note 4 of the Notes to Consolidated Financial Statements. Intangibles becoming fully amortized in 2001 accounted for $145 million of the decline in 2002 while SFAS No. 142 implementation accounted for the remaining decline in 2002 of $215 million.

Restructuring and Asset Impairment

In 2002, the PCS Group recorded a restructuring charge of $78 million representing the consolidations in Sprint's Network, Information Technology, and Billing and Accounts Receivable organizations, as well as other reductions to create a more competitive cost structure by reducing operating expenses. Additionally, the PCS Group recorded an asset impairment of $42 million representing abandoned network projects.

In 2002, the PCS Group incurred an $18 million charge associated with its closing of five PCS customer solution centers, as well as additional steps to reduce operating costs in the PCS business units.

In 2001, Sprint consolidated and streamlined marketing and network operations, as well as streamlined corporate support functions. This resulted in a charge of $10 million to the PCS Group associated with the severance costs of the work force reductions and termination of contractual obligations. For additional information see Note 3 of the Notes to Consolidated Financial Statements.

Nonoperating Items

Interest Expense

The effective interest rates in the following table reflect interest expense on long-term debt only. Interest costs on short-term borrowings classified as long-term debt, deferred compensation plans and customer deposits have been excluded so as not to distort the effective interest rates on long-term debt.

	2002	2001	2000
Effective interest rate on long-term debt	6.9%	6.7%	6.9%

Sprint's effective interest rate on long-term debt increased in 2002 due to additional fixed-rate debt with higher interest rates. Conversely, the effective interest rate decreased in 2001 due to additional fixed-rate debt with lower interest rates and lower interest rates on variable-rate debt.

Allocation of Group Financing

Financing activities for the groups are managed by Sprint on a centralized basis. Debt incurred by Sprint on behalf of the groups is specifically allocated to and reflected in the financial statements of the applicable group. Interest expense is allocated to the PCS Group based on an interest rate that is substantially equal to the rate it would be able to obtain from third parties as a direct or indirect wholly owned Sprint subsidiary, but without the benefit of any guarantee by Sprint or any member of the FON Group. That interest rate is higher than the rate Sprint obtains on borrowings. The difference between Sprint's actual interest rate and the rate charged to the PCS Group is reflected as a reduction in the FON Group's interest expense and totaled $336 million in 2002, $288 million in 2001 and $237 million in 2000. These amounts are reflected in the "Intergroup interest charge" on the Consolidated Statements of Operations.

The FON Group earned intergroup interest income and the PCS Group incurred intergroup interest expense of $15 million in 2001 and $19 million in 2000 primarily related to the FON Group's ownership of PCS Group debt securities. Sprint redeemed these securities in the 2001 fourth quarter. As a result of this redemption, the FON Group recognized an $11 million pre-tax gain to other non-operating income and the PCS Group recorded a $7 million after-tax extraordinary loss related to an early redemption premium payment made by the PCS Group to the FON Group.

Under Sprint's centralized cash management program, one group may advance funds to the other group. These advances are accounted for as short-term borrowings between the groups and bear interest at a market rate that is substantially equal to the rate that group would be able to obtain from third parties on a short-term basis.

The allocation of group financing activities may change at the discretion of the Sprint board and does not require shareholder approval.

Other Expense, Net

Other expense, net consisted of the following:

	2002	2001	2000
		(millions)	
Dividend and interest income	$ 31	$ 33	$ 30
Equity in net losses of affiliates	(117)	(157)	(248)
Net losses from investments	(258)	(188)	(102)
Gains on sales of other assets	117	10	47
Amortization of debt costs	(36)	(20)	(2)
Losses from disposal of PP&E	(13)	(4)	(11)
Benefit plan curtailment gain	—	120	—
Royalties	9	—	—
Foreign currency translation	7	—	—
Other, net	(5)	13	16
Total	$(265)	$(193)	$(270)

Dividend and interest income for all years reflects dividends earned on cost method investments and interest earned on temporary investments.

Equity in net losses of affiliates in 2002 was driven by the PCS Group's investments in Virgin Mobile, USA (Virgin Mobile) and Pegaso, and the FON Group's investment in Call-Net. In 2001, equity in net losses of affiliates was driven by the PCS Group's investment in Pegaso and the FON Group's investment in Intelig. In 2000, investments accounted for using the equity method also included the FON Group's investments in EarthLink, Inc., and Call-Net. In the first quarter of 2001, Sprint modified its relationship with EarthLink which resulted in its investment in common stock no longer being accounted for using the equity method. In the fourth quarter of 2000, Sprint wrote down its investment in Call-Net and was not required to recognize any related equity in losses in 2001. However, Sprint made an additional investment in Call-Net in the 2002 second quarter and recognized an equal amount of losses associated with the investment. The 2002 equity in net losses of affiliates decreased due to a reduction in equity losses following the write-down of the investment in Intelig and the sale of Pegaso, partially offset by Virgin Mobile and Call-Net losses. The 2001 decrease was due to a reduction in equity losses following the write-down of the investments in Call-Net and Intelig, partially offset by Pegaso losses.

Net losses from investments in 2002 mainly include the write-down of EarthLink preferred shares to market value and the write-down of the investment in Intelig. Net losses from investments in 2001 mainly include a $162 million write-down of an equity investment in Intelig and a $25 million loss on the partial sale of EarthLink shares. The 2000 loss includes an $87 million write-down of an equity investment in Call-Net and a $35 million write-down of warrants held in Purchase Pro.com.

Gains on sales of other assets in 2002 were driven by the sale of Sprint's investment in Pegaso, certain customer contracts and stock received during a company's demutualization. Gains on sales of other assets in 2001 resulted from the sale of PCS customers to a PCS third party affiliate. The 2000 gains include the sale of certain wireless customers and associated network infrastructure and the sale of an investment security.

The benefit plan curtailment gain in 2001 resulted from an amendment of certain medical retirement plan benefits.

Income Taxes

Sprint's consolidated effective tax rates were (9.1)% in 2002, 31.8% in 2001, and 24.0% in 2000. See Note 9 of Notes to Consolidated Financial Statements for information about the differences that caused the effective income tax rates to vary from the statutory federal rate for income taxes related to continuing operations.

Discontinued Operations, Net

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for $2.23 billion in cash. The sale closed on January 3, 2003 and Sprint will recognize a pre-tax gain of $2.14 billion, $1.3 billion after-tax, in the 2003 first quarter.

In the 2000 first quarter, Sprint sold its interest in Global One to France Telecom and Deutsche Telekom AG. Sprint received $1.1 billion in cash and was repaid $276 million for advances for its entire stake in Global One. Sprint recorded an after-tax gain related to the sale of its interest in Global One of $675 million.

Extraordinary Items, Net

In 2002, Sprint repurchased, before scheduled maturities, $67 million of debt allocated to the FON Group. These borrowings had interest rates ranging from 6.0% to 7.125%. This resulted in a $3 million after-tax extraordinary gain for Sprint.

In 2001, Sprint redeemed, before scheduled maturities, $18 million of debt allocated to the FON Group and $558 million of debt allocated to the PCS Group. These borrowings had interest rates ranging from 9.9% to 12.5%. This resulted in a $1 million after-tax extraordinary loss for Sprint.

In 2000, Sprint redeemed, before scheduled maturities, $25 million of debt allocated to the FON Group and $127 million of debt allocated to the PCS Group. These borrowings had interest rates ranging from 7.8% to 9.7%. This resulted in a $4 million after-tax extraordinary loss for Sprint.

Financial Condition

	2002	2001
	(millions)	
FON Group	$23,043	$24,272
PCS Group	23,022	22,190
Intergroup eliminations	(772)	(669)
Consolidated assets	$45,293	$45,793

Sprint's consolidated assets decreased $500 million in 2002. Accounts receivable decreased $596 million due to improved cash collections. Cash and equivalents increased $722 million due to the improved operating cash flows and reduced capital expenditures. Net property, plant and equipment decreased $215 million as capital expenditures were more than offset by depreciation expense and the 2002 asset impairments. Investments in and advances to affiliates decreased $215 million due to sales and dissolutions of investments. The remaining significant change within consolidated assets was the $241 million write-down of our investment in EarthLink.

The rating agencies generally give some form of equity treatment for equity unit notes in determining debt-to-total-capital ratios. The Sprint debt-to-total-capital ratio was 59.7% at year-end 2002 versus 59.9% at year-end 2001, assuming that the Sprint equity unit notes are treated as 80% equity and 20% debt. Accordingly, the debt-to-total-capital ratio for Sprint is calculated defining "debt" as short-term borrowings, long-term debt, capital lease obligations and 20% of the equity unit notes value. Total capital is defined as "debt," plus the remaining 80% of the equity unit notes value, redeemable preferred stock and total shareholders' equity. See "Liquidity and Capital Resources" for more information about changes in Sprint's Consolidated Balance Sheets.

Liquidity and Capital Resources

Sprint's board of directors exercises discretion regarding the liquidity and capital resource needs of the FON Group and the PCS Group. This includes the ability to prioritize the use of capital and debt capacity, to determine cash management policies and to make decisions regarding the timing and amount of capital expenditures. The actions of the Board are subject to its fiduciary duties to all shareholders of Sprint and not just to the holders of a particular class of common stock. Given the Board's discretion in these matters, it may be difficult to assess each group's liquidity and capital resource needs and future prospects based on past performance.

Operating Activities

	2002	2001	2000
		(millions)	
FON Group	$4,176	$4,457	$4,104
PCS Group	2,030	106	(8)
Cash flows provided by operating activities of continuing operations	$6,206	$4,563	$4,096

Operating cash flows increased $1.6 billion in 2002 and $467 million in 2001. The 2002 increase was driven mainly by PCS Group's EBITDA, excluding restructuring and asset impairments, improving $1.37 billion. The FON Group also contributed to the improvement with $509 million in EBITDA growth, excluding restructuring and asset impairments, as cost controls and reductions in work force have mitigated the revenue erosion seen in the global market division. The receipt of $480 million of tax refunds generated by the economic stimulus bill passed in the 2002 first quarter also contributed to the increase. These increases in cash flows were partially offset by higher working capital requirements. The 2001 increase reflects improved operating results in the PCS Group partly offset by a decline in FON Group operating results. The 2001 increase also reflects decreases in working capital requirements in the FON Group partly offset by increases in working capital requirements in the PCS Group. The decrease in FON Group working capital requirements was caused primarily by the reduction in accounts receivable which resulted from the global markets division revenue decline and increased billing adjustments, bad debt and cash collections. Also causing the decrease was accrued restructuring costs not paid at year-end 2001. The increase in PCS Group working capital requirements was caused primarily by the increase in accounts receivable, which resulted mainly from larger revenues associated with subscriber growth.

Investing Activities

	2002	2001	2000
		(millions)	
FON Group	$(1,987)	$(5,036)	$(4,738)
PCS Group	(2,608)	(3,742)	(3,054)
Cash flows used by investing activities of continuing operations	$(4,595)	$(8,778)	$(7,792)

The FON Group's capital expenditures totaled $2.2 billion in 2002, $5.3 billion in 2001, and $4.1 billion in 2000. Global markets division capital expenditures were incurred mainly to enhance network reliability and upgrade capabilities for providing new products and services. The local division incurred capital expenditures to accommodate voice-grade equivalent growth, expand capabilities for providing enhanced services, convert our network from circuit to packet switching and continue the build-out of high-speed DSL services. Other FON Group capital expenditures were incurred mainly for Sprint's World Headquarters Campus. The decline in FON Group capital expenditures in 2002 was driven mainly by the termination of Sprint ION and reduced spending for data-related services. PCS Group capital expenditures, totaling $2.7 billion in 2002, $3.8 billion in 2001 and $3.0 billion in 2000, were incurred to increase capacity and expand coverage. The 2002 and 2001 amounts also include approximately $100 million and $600 million, respectively, of expenditures related to deployment of 3G technology which was launched nationwide in the 2002 third quarter.

In 2002, “Investments in and loans to affiliates, net” represent proceeds of $116 million due to sales and dissolutions of investments. In 2001 and 2000, net investments and loans were $66 million and $889 million, respectively. These amounts were mainly for investments in EarthLink, Virgin Mobile, Intelig, SVP BidCo L.P., and Pegaso. See Note 2 of Notes to Consolidated Financial Statements for more information on investments.

Investing activities also include proceeds from sales of other assets totaling $138 million in 2002, $301 million in 2001 and $258 million in 2000. In 2002, investing activities mainly include proceeds from the sale of the PCS Group’s investment in Pegaso and the FON Group’s sale of certain customer contracts, investment securities and other administrative assets. The 2001 activities mainly include proceeds from sale of PCS customers to an affiliate and certain network and administrative assets. In 2000, investing activities also include $1.4 billion of proceeds from the sale of the FON Group’s interest in Global One.

Financing Activities

	2002	2001	2000
		(millions)	
FON Group	$(1,836)	$ 463	$ (952)
PCS Group	793	3,698	3,163
Cash flows provided (used) by financing activities of continuing operations	$(1,043)	$4,161	$2,211

Financing activities reflect a net debt reduction of $642 million in 2002 compared to a net borrowing of $4.0 billion in 2001, and $2.3 billion in 2000. The reduction in the debt requirements in 2002 is due to Sprint’s continuing operating cash flow improvement and reduced capital expenditures. Financing activities also reflect net proceeds from the issuance of common stock of $3 million in 2002, $608 million in 2001, and $269 million in 2000. Proceeds from these borrowings and common stock issuances were used mainly to fund capital investments and working capital requirements. Sprint paid dividends of $454 million in 2002, $451 million in 2001, and $448 million in 2000.

Also included in financing activities are debt discounts and proceeds from Sprint’s employee stock purchase plan of $50 million in 2002, $13 million in 2001, and $182 million in 2000.

Capital Requirements

Sprint’s 2003 investing activities, mainly consisting of capital expenditures, are expected to total approximately $4.7 billion. FON Group capital expenditures are expected to be $2.3 billion. These expenditures are primarily to support the growth in demand for enterprise services. They also include investments for broadband initiatives and the phased transition from circuit to packet switching. PCS Group capital expenditures are expected to be $2.3 to $2.4 billion. These investments are targeted largely for network capacity and coverage. Sprint continues to review capital expenditure requirements closely and will adjust spending and capital investment in concert with growth. Dividend payments are expected to approximate $463 million in 2003. Sprint expects overall free cash flow in 2003 to be approximately $1.2 billion, including breakeven performance in the PCS Group.

In connection with the PCS Restructuring, Sprint adopted a tax sharing agreement providing for the allocation of income taxes between the FON Group and the PCS Group. That agreement expired with the 2001 tax year and Sprint has adopted a continuation of that tax sharing arrangement except for the elimination of provisions addressing certain types of acquisitions or restructurings, which never became operable under the original arrangement. Sprint expects the FON Group to continue to make significant payments to the PCS Group under this arrangement because of expected PCS Group tax losses in the near future and from using the PCS Group’s tax loss carryforwards. These payments reflect the PCS Group’s incremental cumulative effect on Sprint’s consolidated federal and state tax liability and tax credit position. The PCS Group received payments from the FON Group totaling $360 million in 2002, $292 million in 2001, and $872 million in 2000. See Note 1 of Notes to Consolidated Financial Statements, “Intergroup Transactions and Allocations — Allocation of Federal and State Income Taxes,” for more details.

Liquidity

In recent years, Sprint has used the long-term bond market as well as other financial markets to fund its needs. As a result of its improved liquidity position, Sprint currently does not expect to borrow funds through the capital markets in 2003 to fund capital expenditures and operating and working capital requirements.

In September 2002, Sprint announced that it had reached a definitive agreement to sell its directory publishing business to R.H. Donnelley. The sale was completed on January 3, 2003 and Sprint received after-tax cash proceeds of $2.1 billion.

Sprint has a revolving credit facility with a syndicate of banks totaling $1.5 billion which expires in August 2003. The $1.5 billion facility is unsecured, with no springing liens, and is structured as a 364-day credit line with a subsequent one-year, $1.0 billion term-out option. Sprint has no plans to draw against this facility. Sprint had standby letters of credit serving as a backup to various obligations of approximately $125 million at year-end 2002. Sprint has had no commercial paper outstanding since May 2002.

In June 2002, Sprint closed on a new PCS Group accounts receivable asset securitization facility. This facility provides Sprint with up to $500 million of additional liquidity. The new facility is a three-year program subject to annual renewals and does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and will fluctuate each month. Sprint has not drawn against the facility and it had more than $250 million available as of year-end 2002.

In August 2002, Sprint closed on a new $700 million global markets division accounts receivable asset securitization facility that replaced the previous $1 billion facility. The reduction in size was due primarily to a smaller gross receivable pool for the global markets division at that time versus 1999, when the original facility was established. The new facility is a three-year program subject to annual renewals and does not include any ratings triggers that would allow the lenders involved to terminate the facility in the event of a credit rating downgrade. The maximum amount of funding available is based on numerous factors and will fluctuate each month. As of December 31, 2002, Sprint had $455 million outstanding under the facility which was approximately the total funding available. In February 2003, Sprint prepaid all outstanding borrowings under this facility. The $700 million facility remains in place and funds are available to be redrawn at any time.

The undrawn loan facilities described above have interest rates equal to LIBOR or Prime Rate plus a spread that varies depending on our credit ratings.

Debt maturities during 2003 total approximately $1.4 billion. The closing of the sale of the directory publishing business, the execution of new financing agreements, Sprint's $1.0 billion cash balance at December 31, 2002, and expected free cash flow of $1.2 billion in 2003 more than fund these requirements.

Any borrowings Sprint may incur are ultimately limited by certain debt covenants. Sprint could borrow up to an additional $4.7 billion at year-end 2002 under the most restrictive of its debt covenants. Sprint is currently in compliance with all debt covenants associated with its borrowings.

Sprint also repurchased long-term debt in December 2002 in the amount of $67 million. Sprint continually evaluates various factors and, as a result, may repurchase additional debt in the future.

In March 2002, Sprint issued $5 billion of debt securities through a private placement. These borrowings have interest rates ranging from 7.9% to 8.8% and maturities ranging from 2005 to 2032. The proceeds were allocated 5% to the FON Group and 95% to the PCS Group and were used to extinguish outstanding commercial paper and for general corporate purposes. As a condition to the sale of the securities, Sprint agreed to conduct an exchange offer that allowed the original securities to be exchanged for substantially identical securities registered with the SEC. This exchange offer was completed in June 2002.

In the 2001 fourth quarter, Sprint issued $1.75 billion of debt securities through a private placement. These borrowings have an interest rate of 6.0% and mature in 2007. The proceeds were allocated approximately 60% to the FON Group and 40% to the PCS Group and were used to repay debt and to fund capital investments and working capital requirements. As a condition to the sale of these securities, Sprint agreed to conduct an exchange offer that allowed the original securities to be exchanged for substantially identical securities registered with the SEC. The exchange offer was completed in February 2002.

In the 2001 third quarter, Sprint completed a registered offering of 23.5 million shares of its Series 1 PCS common stock. Net proceeds from the issuance were approximately $561 million after deducting the underwriting discount and other offering expenses. The proceeds were used to repay debt, and to fund capital investments and working capital requirements.

In the 2001 third quarter, Sprint completed a registered offering of 69 million equity units, each with a stated amount of $25. Net proceeds from the issuance were approximately $1.7 billion after deducting the underwriting discount and other offering expenses. The proceeds were allocated to the PCS Group and used to repay debt and to fund capital investments and working capital requirements. See Note 12 of Notes to Consolidated Financial Statements, "Equity Unit Offering," for a more detailed description of the equity units.

In the 2001 first quarter, Sprint issued $2.4 billion of debt securities. Sprint had $2 billion of unissued securities under its existing shelf registration statement with the SEC, and registered an additional $400 million before the issuance. These borrowings have interest rates ranging from 7.1% to 7.6% and mature in 2006 and 2011. The proceeds were allocated to the PCS Group and used to repay debt and to fund capital investments and working capital requirements.

Fitch Ratings (Fitch) currently rates Sprint's long-term senior unsecured debt at BBB with a stable outlook. Fitch rates Sprint's short-term debt at F2.

Standard and Poor's Corporate Ratings (Standard and Poor's) currently rates Sprint's long-term senior unsecured debt at BBB- with a stable outlook. Standard and Poor's rates Sprint's short-term debt at A3.

Moody's Investors Service (Moody's) currently rates Sprint's long-term senior unsecured debt at Baa3 with a negative outlook. Moody's rates Sprint's short-term debt at P3.

Sprint's ability to fund its capital needs is ultimately impacted by the overall capacity and terms of the bank, term-debt and equity markets. There is significant volatility in the markets at this time caused by the economic downturn, recent business failures and reduced confidence in the financial accounting process. Sprint continues to monitor the markets closely and to take steps to maintain as much financial flexibility as possible, while maintaining a reasonable capital structure cost. Sprint currently does not plan to access the markets.

Sprint's contractual obligations, including commitments for future payments under non-cancelable lease arrangements and short- and long- term debt arrangements, are summarized below and are fully disclosed in Notes 10, 11, 12, 13 and 16 to Sprint's Consolidated Financial Statements.

	Payments Due by Period				
	Total	Less than 1 year	1–3 years	4–5 years	After 5 years
			(millions)		
Notes, bonds, debentures and other debt instruments	$19,498	$1,367	$2,553	$2,510	$13,068
Trade receivables securitization	455	455	—	—	—
Equity unit notes	1,725	—	—	1,725	—
Capital lease obligations	339	65	148	113	13
Operating leases	2,899	863	1,188	478	370
Unconditional purchase obligations	1,994	1,575	405	14	—
Fifth series preferred stock	10	10	—	—	—
Total contractual cash obligations	$26,920	$4,335	$4,294	$4,840	$13,451

Off-Balance Sheet Financing

Sprint does not participate in, nor secure, financings for any unconsolidated, special purpose entities.

Regulatory Developments

See “Regulatory Developments” in Part I. of this filing.

Financial Strategies

General Hedging Policies

Sprint selectively enters into interest rate swap and cap agreements to manage its exposure to interest rate changes on its debt. Sprint also enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint seeks to minimize counterparty credit risk through stringent credit approval and review processes, the selection of only the most creditworthy counterparties, continual review and monitoring of all counterparties, and thorough legal review of contracts. Sprint also controls exposure to market risk by regularly monitoring changes in foreign exchange and interest rate positions under normal and stress conditions to ensure they do not exceed established limits.

Sprint’s derivative transactions are used for hedging purposes only and comply with Board-approved policies. Senior management receives frequent status updates of all outstanding derivative positions.

Interest Rate Risk Management

Fair Value Hedges

Sprint may enter into interest rate swap agreements to minimize exposure to interest rate movements and achieve an optimal mixture of floating and fixed-rate debt while minimizing liquidity risk. The interest rate swap agreements designated as fair value hedges effectively convert Sprint’s fixed-rate debt to a floating rate by receiving fixed rate amounts in exchange for floating rate interest payments over the life of the agreement without an exchange of the underlying principal amount. As of December 31, 2002, Sprint had no outstanding fair value hedges.

Cash Flow Hedges

Sprint may enter into interest rate swap agreements designated as cash flow hedges to reduce the impact of interest rate movements on future interest expense by effectively converting a portion of its floating-rate debt to a fixed-rate. As of December 31, 2002, Sprint had no outstanding interest rate cash flow hedges.

Other Derivatives

In certain business transactions, Sprint is granted warrants to purchase the securities of other companies at fixed rates. These warrants are supplemental to the terms of the business transaction and are not designated as hedging instruments.

During 2002, Sprint entered into forward sale contracts with net purchased equity option derivatives to monetize equity securities held as available for sale. The derivatives have been designated as cash flow hedges to reduce the variability in expected cash flows related to the forecasted sale of the underlying equity securities.

Foreign Exchange Risk Management

Sprint’s foreign exchange risk management program focuses on hedging transaction exposure to optimize consolidated cash flow. Sprint’s main transaction exposure results from payments made to and received from overseas telecommunications companies for completing international calls made by Sprint’s domestic customers. These international operations were not material to the consolidated financial position, results of operations or cash flows at year-end 2002. In addition, foreign currency transaction gains and losses were not material to Sprint’s 2002 results of operations. Sprint has not entered into any significant foreign currency forward contracts or other derivative instruments to reduce the effects of adverse fluctuations in foreign exchange rates. As a result, Sprint was not subject to material foreign exchange risk.

Recently Issued Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure." This statement amends SFAS No. 123, "Accounting for Stock-Based Compensation." The provisions of this statement are effective for interim and annual financial statements for fiscal years ending after December 15, 2002. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Also, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Sprint continues to apply APB 25 recognition and measurement principles, but has complied with the new disclosure requirements of this statement. See Note 1 for these disclosures.

Sprint will begin to expense the fair value of stock-based employee compensation beginning in the 2003 first quarter. Sprint will apply the method prescribed in SFAS No. 123, as amended by SFAS No. 148, on all new and separate grants of options made on or after January 1, 2003. The Company estimates that, under these accounting rules, expensing stock options on a prospective basis will result in a charge to earnings of two cents per diluted share for FON and one cent per diluted share for PCS in 2003.

See Note 19 of Notes to Consolidated Financial Statements for a discussion of other recently issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The risk inherent in Sprint's market risk sensitive instruments and positions is the potential loss arising from adverse changes in those factors. Sprint is susceptible to certain risks related to changes in interest rates and foreign currency exchange rate fluctuations. Sprint does not purchase or hold any derivative financial instruments for trading purposes.

Interest Rate Risk

The communications industry is a capital intensive, technology driven business. Sprint is subject to interest rate risk primarily associated with its borrowings. Sprint selectively enters into interest rate swap and cap agreements to manage its exposure to interest rate changes on its debt. Approximately 90% of Sprint's debt at December 31, 2002 is fixed-rate debt. While changes in interest rates impact the fair value of this debt, there is no impact to earnings and cash flows because Sprint intends to hold these obligations to maturity unless market conditions are favorable.

Sprint performs interest rate sensitivity analyses on its variable rate debt. These analyses indicate that a 1% change in interest rates would have a $13 million pre-tax impact on the consolidated statements of operations and cash flows at December 31, 2002. While Sprint's variable-rate debt is subject to earnings and cash flows impacts as interest rates change, it is not subject to changes in fair values.

Sprint also prepared a value-at-risk analysis to assess the worst-case impact of past market movements on Sprint's 2002 debt portfolio. Based on that analysis, which used average interest rates from 1980 to present, Sprint is 95% confident that the fair value of outstanding debt would not increase above Sprint's book value over the next six months.

Foreign Currency Risk

Sprint also enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint uses foreign currency derivatives to hedge its net foreign currency payable related to settlement of international telecommunications access charges. The dollar equivalent of Sprint's net foreign currency payables was $2 million at December 31, 2002. The potential immediate pre-tax loss to Sprint that would result from a hypothetical 10% change in foreign currency exchange rates based on these positions would be approximately $185,000.

Item 8. Financial Statements and Supplementary Data

The information required by Item 8 is incorporated by reference to the section beginning on page F-1.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

No reportable items.

Part III

Item 10. Directors and Executive Officers of the Registrant

Pursuant to Instruction G(3) to Form 10-K, the information relating to Directors of Sprint required by Item 10 is incorporated by reference from Sprint's definitive proxy statement which is to be filed pursuant to Regulation 14A within 120 days after the end of Sprint's fiscal year ended December 31, 2002.

For information pertaining to Executive Officers of Sprint, as required by Instruction 3 of Paragraph (b) of Item 401 of Regulation S-K, refer to the "Executive Officers of the Registrant" section of Part I of this document.

Pursuant to Instruction G(3) to Form 10-K, the information relating to compliance with Section 16(a) required by Item 10 is incorporated by reference from Sprint's definitive proxy statement which is to be filed pursuant to Regulation 14A within 120 days after the end of Sprint's fiscal year ended December 31, 2002.

Item 11. Executive Compensation

Pursuant to Instruction G(3) to Form 10-K, the information required by Item 11 is incorporated by reference from Sprint's definitive proxy statement which is to be filed pursuant to Regulation 14A within 120 days after the end of Sprint's fiscal year ended December 31, 2002.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Pursuant to Instruction G(3) to Form 10-K, the information required by Item 12 is incorporated by reference from Sprint's definitive proxy statement which is to be filed pursuant to Regulation 14A within 120 days after the end of Sprint's fiscal year ended December 31, 2002.

Item 13. Certain Relationships and Related Transactions

Pursuant to Instruction G(3) to Form 10-K, the information required by Item 13 is incorporated by reference from Sprint's definitive proxy statement which is to be filed pursuant to Regulation 14A within 120 days after the end of Sprint's fiscal year ended December 31, 2002.

Item 14. Controls and Procedures

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

In connection with the preparation of this Form 10-K and within 90 days before the filing of the report, Sprint's Chief Executive Officer and Chief Financial Officer directed Sprint's internal auditors to conduct a review of the effectiveness of Sprint's disclosure controls and procedures and report their conclusions. The Chief Executive Officer and Chief Financial Officer also met with other members of management, members of the financial accounting and legal departments, and Sprint's independent auditors to discuss and evaluate Sprint's disclosures and the effectiveness of the disclosure controls and procedures. Based on these discussions and the report of the internal auditors, the Chief Executive Officer and Chief Financial Officer concluded the design and operation of the disclosure controls and procedures were effective and enabled Sprint to disclose all material financial and non-financial information affecting its businesses. No significant changes were made in Sprint's internal controls or in other factors that could significantly affect those controls after the date of the evaluation.

Certifications of the Chief Executive Officer and Chief Financial Officer regarding, among other items, disclosure controls and procedures are included immediately after the Signatures section of this Form 10-K.

Part IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) 1. The consolidated financial statements of Sprint filed as part of this report are listed in the Index to Financial Statements, Financial Statement Schedule and Exhibits.

2. The consolidated financial statement schedule of Sprint filed as part of this report is listed in the Index to Financial Statements, Financial Statement Schedule and Exhibits.

3. The following exhibits are filed as part of this report:

EXHIBITS

(2) Plan of acquisition, reorganization, arrangement, liquidation or succession:

(a) Stock Purchase Agreement, by and between Sprint Corporation, Centel Directories LLC and R.H. Donnelley Corporation, dated as of September 21, 2002 (filed as Exhibit 2 to Sprint Corporation Current Report on Form 8-K dated September 21, 2002 and incorporated herein by reference).

(b) Supplemental Agreement to Stock Purchase Agreement, by and between Sprint Corporation, Centel Directories LLC and R.H. Donnelley Corporation, dated as of December 31, 2002 (filed as Exhibit 2(b) to Sprint Corporation Current Report on Form 8-K dated January 3, 2003 and incorporated herein by reference).

(3) Articles of Incorporation and Bylaws:

(a) Articles of Incorporation, as amended (filed as Exhibit 3(a) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and incorporated herein by reference).

(b) Bylaws, as amended (filed as Exhibit 3.2 to Amendment No. 4 to Sprint Corporation's Registration Statement on Form 8-A relating to Sprint's Series 1 PCS Common Stock, filed April 17, 2002, and incorporated herein by reference).

(4) Instruments defining the Rights of Sprint's Security Holders:

(a) The rights of Sprint's equity security holders are defined in the Fifth, Sixth, Seventh and Eighth Articles of Sprint's Articles of Incorporation. See Exhibit 3(a).

(b) Provisions regarding Stockholders' Meetings are set forth in Article III of the Bylaws. Provisions regarding the Capital Stock Committee are set forth in Article IV, Section 12 of the Bylaws. See Exhibit 3(b).

(c) Rights Agreement dated as of November 23, 1998, between Sprint Corporation and UMB Bank, n.a. (filed as Exhibit 4.1 to Amendment No. 1 to Sprint Corporation's Registration Statement on Form 8-A relating to Sprint's PCS Group Rights, filed November 25, 1998, and incorporated herein by reference).

(d) Tracking Stock Policies of Sprint Corporation, as amended (filed as Exhibit 4(c) to Sprint Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2001 and incorporated herein by reference).

(e) Amended and Restated Standstill Agreement dated November 23, 1998, by and among Sprint Corporation, France Telecom and Deutsche Telekom AG (filed as Exhibit 4E to Post-Effective Amendment No. 2 to Sprint Corporation's Registration Statement on Form S-3 (No. 33-58488) and incorporated herein by reference) as amended by the Master Transfer Agreement dated January 21, 2000 between and among France Telecom, Deutsche Telekom AG, NAB Nordamerika Beteiligungs Holding GmbH, Atlas Telecommunications, S.A., Sprint Corporation, Sprint Global Venture, Inc. and the JV Entities set forth in Schedule II thereto (filed as Exhibit 2 to Sprint Corporation's Current Report on Form 8-K dated January 26, 2000 and incorporated herein by reference).

(f) Indenture, dated as of October 1, 1998, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(b) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, and incorporated herein by reference), as supplemented by the First Supplemental Indenture, dated as of January 15, 1999, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(b) to

Sprint Corporation's Current Report on Form 8-K dated February 2, 1999 and incorporated herein by reference), and as supplemented by the Second Supplemental Indenture dated as of October 15, 2001, among Sprint Capital Corporation, Sprint Corporation and Bank One, N.A. as Trustee (filed as Exhibit 99 to Sprint Corporation's Current Report on Form 8-K/A dated October 17, 2001 and incorporated herein by reference).

(g) Indenture, dated as of October 1, 1998, between Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(a) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998, and incorporated herein by reference), as supplemented by the First Supplemental Indenture, dated as of January 15, 1999, between Sprint Corporation and Bank One, N.A., as Trustee (filed as Exhibit 4(a) to Sprint Corporation's Current Report on Form 8-K dated February 2, 1999 and incorporated herein by reference).

(h) Purchase Contract Agreement, dated as of August 10, 2001, between Sprint Corporation and Bank One, National Association, as purchase contract agent (filed as Exhibit 4(e) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference).

(i) Form of Corporate Units Certificates, including the form of Purchase Contract (included as Exhibit A to the Purchase Contract Agreement filed as Exhibit 4(g)) (filed as Exhibit 4(f) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference).

(j) Pledge Agreement, dated as of August 10, 2001, among Sprint Corporation and Bank One, National Association, as collateral agent and as purchase contract agent (filed as Exhibit 4(g) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference).

(k) Remarketing Agreement, dated as of August 10, 2001, among Sprint Corporation, Sprint Capital Corporation, Bank One, National Association, as purchase contract agent, and UBS Warburg LLC, as remarketing agent (filed as Exhibit 4(h) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference).

(l) Terms of 6% notes due 2006, including form of note (filed as Exhibit 4(i) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001 and incorporated herein by reference).

(10) Material Agreements

(a) Amended and Restated Stockholders' Agreement among France Telecom, Deutsche Telekom AG and Sprint Corporation, dated as of November 23, 1998 (filed as Exhibit 10(c) to Sprint Corporation Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference) as amended by the Master Transfer Agreement dated January 21, 2000 between and among France Telecom, Deutsche Telekom AG, NAB Nordamerika Beteiligungs Holding GmbH, Atlas Telecommunications, S.A., Sprint Corporation, Sprint Global Venture, Inc. and the JV Entities set forth in Schedule II thereto (filed as Exhibit 2 to Sprint Corporation's Current Report on Form 8-K dated January 26, 2000 and incorporated herein by reference).

(b) Amended and Restated Registration Rights Agreement, dated as of November 23, 1998, among Sprint Corporation, France Telecom and Deutsche Telekom AG (filed as Exhibit 10.1 to Amendment No. 1 to Sprint Corporation Registration Statement on Form S-3 (No. 333-64241) and incorporated herein by reference) as amended by the Master Transfer Agreement dated January 21, 2000 between and among France Telecom, Deutsche Telekom AG, NAB Nordamerika Beteiligungs Holding GmbH, Atlas Telecommunications, S.A., Sprint Corporation, Sprint Global Venture, Inc. and the JV Entities set forth in Schedule II thereto (filed as Exhibit 2 to Sprint Corporation's Current Report on Form 8-K dated January 26, 2000 and incorporated herein by reference) and as further amended by the Offering Process Agreement dated as of February 20, 2001 between and among France Telecom, Deutsche Telekom AG, NAB Nordamerika Beteiligungs Holding GmbH and Sprint Corporation (filed as Exhibit 10(b) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

(c) Registration Rights Agreement, dated as of November 23, 1998, among Sprint Corporation, Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. (filed as Exhibit 10.2 to Amendment No. 1 to Sprint Corporation Registration Statement on Form S-3 (No. 333-64241) and incorporated herein by reference).

(d) Standstill Agreements, dated May 26, 1996, between Sprint Corporation and each of Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. (filed as Exhibit 10(g) to Sprint Corporation Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference).

(e) 364-Day Credit Agreement, dated as of August 9, 2002, among Sprint Corporation and Sprint Capital Corporation, as Borrowers, the initial Lenders named therein, as Initial Lenders, Citibank, N.A., as Administrative Agent, Salomon Smith Barney, Inc. and J.P. Morgan Securities, Inc., as joint lead arrangers and as book managers, and J.P. Morgan Chase Bank, as syndication agent, and Bank of America, N.A., Deutsche Bank A.G. New York Branch and UBS AG, Stamford Branch, as documentation agents (filed as Exhibit 10(a) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 and incorporated herein by reference).

(10) Executive Compensation Plans and Arrangements:

(f) 1990 Stock Option Plan, as amended.

(g) 1990 Restricted Stock Plan, as amended.

(h) Executive Deferred Compensation Plan, as amended (filed as Exhibit 10(i) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference). Summary of Amendments to the Executive Deferred Compensation Plan (filed as Exhibit 10(i) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

(i) Management Incentive Stock Option Plan, as amended (filed as Exhibit 99-A to Sprint Corporation's Registration Statement on Form S-8 (No. 333-75664) and incorporated herein by reference).

(j) 1997 Long-Term Stock Incentive Program, as amended (filed as Exhibit 10(k) to Sprint Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2001 and incorporated herein by reference).

(k) Sprint Supplemental Executive Retirement Plan, as amended (filed as Exhibit 10(l) to Sprint Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2001 and incorporated herein by reference).

(l) Amended and Restated Centel Directors Deferred Compensation Plan (filed as Exhibit 10(m) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

(m) Executive Long-Term Incentive Plan (filed as Exhibit 10(j) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).

(n) Executive Management Incentive Plan (filed as Exhibit 10(k) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference).

(o) Long-Term Incentive Compensation Plan, as amended (filed as Exhibit 10(i) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, and incorporated herein by reference).

(p) Management Incentive Plan, as amended (filed as Exhibit 10(r) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

(q) Retirement Plan for Directors, as amended (filed as Exhibit 10(u) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1996 and incorporated herein by reference).

(r) Key Management Benefit Plan, as amended (filed as Exhibit 10(g) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996 and incorporated herein by reference).

(s) Agreements Regarding Special Compensation and Post Employment Restrictive Covenants between Sprint Corporation and certain of its Executive Officers (filed as Exhibit 10(d) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994, Exhibit 10(h) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, and Exhibit 10(w) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

(t) Director's Deferred Fee Plan, as amended (filed as Exhibit 10(v) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

(u) Form of Contingency Employment Agreements between Sprint Corporation and certain of its Executive Officers (filed as Exhibit 10(h) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).

(v) Form of Indemnification Agreements between Sprint Corporation (formerly United Telecommunications, Inc.) and its Directors and Officers (filed as Exhibit 10(s) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 1991, and incorporated herein by reference).

(w) Summary of Executive Officer Benefits and Board of Directors Benefits and Fees.

(x) Special Compensation and Non-Compete Agreement dated as of March 26, 2002 by and between Sprint Corporation and Robert J. Dellinger (filed as Exhibit 10(b) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 and incorporated herein by reference).

(y) Special Incentive Plan (filed as Exhibit 10(g) to Sprint Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 and incorporated herein by reference).

(z) Employment Agreements dated as of February 26, 2001 by and among Sprint Corporation, Sprint/United Management Company and William T. Esrey and Ronald T. LeMay (filed as Exhibit 10(bb) to Sprint Corporation's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

(aa) Executive Agreement dated as of July 30, 2001 by and among Sprint Corporation, Sprint/United Management Company, and Len Lauer (filed as Exhibit 10(bb) to Sprint Corporation's Annual Report on Form 10-K/A for the year ended December 31, 2001 and incorporated herein by reference).

(bb) Special Award Stock Plan.

(12) Computation of Ratio of Earnings to Fixed Charges

(21) Subsidiaries of Registrant

(23) Consent of Independent Auditors

Sprint will furnish to the Securities and Exchange Commission, upon request, a copy of the instruments defining the rights of holders of its long-term debt. The total amount of securities authorized under any of said instruments (other than those listed above) does not exceed 10% of the total assets of Sprint.

(b) Reports on Form 8-K

Sprint filed a Current Report on Form 8-K dated November 14, 2002, in which it reported that Sprint's Chief Executive Officer and Chief Financial Officer filed with the Securities and Exchange Commission statements in compliance with 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 with respect to Sprint's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.

Sprint filed a Current Report on Form 8-K dated January 3, 2003 in which it reported that it had closed the sale of its directory business.

Sprint filed a Current Report on Form 8-K dated February 5, 2003, in which it reported that it had announced fourth quarter 2002 and calendar year 2002 results. The news release regarding fourth quarter 2002 and calendar year 2002 results, which was included as an exhibit to the Current Report, included the following financial information:

Sprint Corporation Consolidated Statements of Operations
Sprint Corporation Consolidated Balance Sheets
Sprint Corporation Condensed Consolidated Cash Flow Information
Sprint Corporation Selected Operating Results
Sprint Corporation Pro Forma Selected Operating Results
Sprint FON Group Summary Financial Information
Sprint Corporation Directory Publishing Business
Sprint Corporation PCS Group Net Customer Additions

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SPRINT CORPORATION
(Registrant)

By: /s/ W. T. Esrey
William T. Esrey
Chairman and Chief Executive Officer

Date: March 7, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 7th day of March, 2003.

By: /s/ W. T. Esrey
William T. Esrey
Chairman and Chief Executive Officer

By: /s/ Robert J. Dellinger
Robert J. Dellinger
Executive Vice President and
Chief Financial Officer

By: /s/ John P. Meyer
John P. Meyer
Senior Vice President and Controller
Principal Accounting Officer

SIGNATURES

SPRINT CORPORATION
(Registrant)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on the 7th day of March, 2003.

/s/ DuBose Ausley	/s/ Linda K. Lorimer
DuBose Ausley, Director	Linda K. Lorimer, Director
/s/ W. T. Esrey	/s/ Charles E. Rice
William T. Esrey, Director	Charles E. Rice, Director
/s/ Irvine O. Hockaday, Jr.	/s/ Louis W. Smith
Irvine O. Hockaday, Jr., Director	Louis W. Smith, Director
/s/ Ronald T. LeMay	/s/ Stewart Turley
Ronald T. LeMay, Director	Stewart Turley, Director

CERTIFICATIONS

I, William T. Esrey, Chairman and Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Sprint Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 3, 2003

By: /s/ W. T. ESREY
William T. Esrey
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Robert J. Dellinger, Executive Vice President and Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Sprint Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 6, 2003

By: /s/ ROBERT J. DELLINGER

Robert J. Dellinger
Executive Vice President and
Chief Financial Officer

Index to Financial Statements, Financial Statement Schedule and Exhibits

MANAGEMENT REPORT

Sprint Corporation's management is responsible for the integrity and objectivity of the information contained in this document. Management is responsible for the consistency of reporting this information and for ensuring that accounting principles generally accepted in the United States are used.

In discharging this responsibility, management maintains a comprehensive system of internal controls and supports an extensive program of internal audits, has made organizational arrangements providing appropriate divisions of responsibility and has established communication programs aimed at assuring that its policies, procedures and principles of business conduct are understood and practiced by its employees.

The financial statements included in this document have been audited by Ernst & Young LLP, independent auditors. Their audits were conducted using auditing standards generally accepted in the United States and their report is included herein.

The Board of Directors' responsibility for these financial statements is pursued mainly through its Audit Committee. The Audit Committee, composed entirely of directors who are not officers or employees of Sprint, meets periodically with the internal auditors and independent auditors, both with and without management present, to assure that their respective responsibilities are being fulfilled. The internal and independent auditors have full access to the Audit Committee to discuss auditing and financial reporting matters.

/s/ W. T. Esrey

William T. Esrey
Chairman and Chief Executive Officer

/s/ Robert J. Dellinger

Robert J. Dellinger
Executive Vice President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Sprint Corporation

We have audited the accompanying consolidated balance sheets of Sprint Corporation (Sprint) as of December 31, 2002 and 2001, and the related consolidated statements of operations, comprehensive income (loss), cash flows and shareholders' equity for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index to Financial Statements, Financial Statement Schedule and Exhibits. These financial statements and the schedule are the responsibility of the management of Sprint. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sprint at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 of the Notes to Consolidated Financial Statements, effective January 1, 2002, Sprint adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

Ernst & Young LLP

Kansas City, Missouri
February 5, 2003

CONSOLIDATED STATEMENTS OF OPERATIONS
(millions)

	Sprint Corporation		
	Consolidated		
Years Ended December 31,	2002	2001	2000
Net Operating Revenues	$26,634	$25,515	$23,145
Operating Expenses			
Costs of services and products	12,031	12,764	11,427
Selling, general and administrative	7,202	7,248	6,862
Depreciation	4,908	4,209	3,530
Amortization	4	382	605
Restructuring and asset impairments	389	1,813	238
Merger related costs	—	—	187
Total operating expenses	24,534	26,416	22,849
Operating Income (Loss)	2,100	(901)	296
Interest expense	(1,406)	(1,180)	(989)
Intergroup interest charge	—	—	—
Other expense, net	(265)	(193)	(270)
Income (loss) from continuing operations before income taxes	429	(2,274)	(963)
Income tax (expense) benefit	39	722	231
Income (Loss) from Continuing Operations	468	(1,552)	(732)
Discontinued operations, net	159	150	831
Extraordinary items, net	3	(1)	(4)
Cumulative effect of changes in accounting principles, net	—	2	(2)
Net Income (Loss)	630	(1,401)	93
Preferred stock dividends (paid) received	(7)	(7)	(7)
Earnings (Loss) Applicable to Common Stock	$ 623	$ (1,408)	$ 86
Diluted Earnings (Loss) per Common Share[(1)]			
Continuing operations			
Discontinued operations			
Extraordinary items			
Total			
Diluted weighted average common shares[(1)]			
Basic Earnings (Loss) per Common Share			
Continuing operations			
Discontinued operations			
Extraordinary items			
Total			
Basic weighted average common shares[(1)]			
DIVIDENDS PER COMMON SHARE			
FON common stock			
Class A common stock			

(1) As the effects of including the incremental shares associated with options and Employees Stock Purchase Plan shares are antidilutive, both basic loss per share and diluted loss per share reflect the same calculation in these consolidated statements of operations for the PCS Group for all periods presented and for the year ended December 31, 2001 for the FON Group.

See accompanying Notes to Consolidated Financial Statements.

Eliminations/Reclassifications			Sprint FON Group			Sprint PCS Group		
2002	2001	2000	2002	2001	2000	2002	2001	2000
$(622)	$(578)	$(416)	$15,182	$16,368	$17,220	$12,074	$ 9,725	$ 6,341
(622)	(578)	(416)	6,870	8,047	7,901	5,783	5,295	3,942
(33)	(11)	—	3,824	4,342	4,436	3,411	2,917	2,426
—	—	—	2,645	2,423	2,191	2,263	1,786	1,339
—	—	—	—	18	67	4	364	538
—	—	—	251	1,803	238	138	10	—
—	—	—	—	—	163	—	—	24
(655)	(589)	(416)	13,590	16,633	14,996	11,599	10,372	8,269
33	11	—	1,592	(265)	2,224	475	(647)	(1,928)
—	15	19	(295)	(344)	(312)	(1,111)	(851)	(696)
—	—	—	336	288	237	(336)	(288)	(237)
(33)	(37)	(19)	(180)	(55)	(240)	(52)	(101)	(11)
—	(11)	—	1,453	(376)	1,909	(1,024)	(1,887)	(2,872)
—	4	—	(407)	80	(773)	446	638	1,004
—	(7)	—	1,046	(296)	1,136	(578)	(1,249)	(1,868)
—	—	—	159	150	831	—	—	—
—	7	—	3	(1)	(1)	—	(7)	(3)
—	—	—	—	—	(2)	—	2	—
—	—	—	1,208	(147)	1,964	(578)	(1,254)	(1,871)
—	—	—	7	7	7	(14)	(14)	(14)
$ —	$ —	$ —	$ 1,215	$ (140)	$ 1,971	$ (592)	$(1,268)	$(1,885)
			$ 1.18	$ (0.33)	$ 1.28	$ (0.58)	$ (1.27)	$ (1.95)
			0.18	0.17	0.93	—	—	—
			—	—	—	—	(0.01)	—
			$ 1.36	$ (0.16)	$ 2.21	$ (0.58)	$ (1.28)	$ (1.95)
			893.3	886.8	892.4	1,015.8	989.7	966.5
			$ 1.18	$ (0.33)	$ 1.30	$ (0.58)	$ (1.27)	$ (1.95)
			0.18	0.17	0.94	—	—	—
			—	—	—	—	(0.01)	—
			$ 1.36	$ (0.16)	$ 2.24	$ (0.58)	$ (1.28)	$ (1.95)
			892.1	886.8	880.9	1,015.8	989.7	966.5
			$ 0.50	$ 0.50	$ 0.50	$ —	$ —	$ —
			$ 0.125	$ 0.125	$ 0.50	$ —	$ —	$ —

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(millions)

	Sprint Corporation		
	Consolidated		
Years Ended December 31,	2002	2001	2000
Net Income (Loss)	$ 630	$(1,401)	$ 93
Other Comprehensive Income (Loss)			
Unrealized holding gains (losses) on securities	(47)	12	(64)
Income tax benefit (expense)	17	(5)	23
Net unrealized holding gains (losses) on securities during the period	(30)	7	(41)
Reclassification adjustments for gains included in net income	(3)	(24)	(15)
Income tax expense	1	9	5
Net reclassification adjustments for gains included in net income	(2)	(15)	(10)
Foreign currency translation adjustments	8	(17)	(9)
Reclassification adjustments for foreign currency translation gains (losses) included in net income (loss)	(7)	31	—
Total foreign currency translation adjustments	1	14	(9)
Unrealized gains (losses) on qualifying cash flow hedges	38	(4)	—
Income tax benefit (expense)	(9)	—	—
Net unrealized holding gains (losses) on qualifying cash flow hedges	29	(4)	—
Additional minimum pension obligation	(1,157)	—	—
Income tax benefit	444	—	—
Net additional minimum pension obligation	(713)	—	—
Cumulative effect of change in accounting principle	—	(9)	—
Total other comprehensive loss	(715)	(7)	(60)
Comprehensive Income (Loss)	$ (85)	$(1,408)	$ 33

See accompanying Notes to Consolidated Financial Statements.

Sprint Corporation								
Eliminations/Reclassifications			Sprint FON Group			Sprint PCS Group		
2002	2001	2000	2002	2001	2000	2002	2001	2000
$ —	$ —	$ —	$1,208	$(147)	$1,964	$(578)	$(1,254)	$(1,871)
—	9	—	(47)	3	(69)	—	—	5
—	(4)	—	17	(1)	25	—	—	(2)
—	5	—	(30)	2	(44)	—	—	3
—	10	—	(3)	(34)	(3)	—	—	(12)
—	(3)	—	1	12	1	—	—	4
—	7	—	(2)	(22)	(2)	—	—	(8)
—	—	—	3	(16)	(12)	5	(1)	3
—	—	—	—	31	—	(7)	—	—
—	—	—	3	15	(12)	(2)	(1)	3
—	—	—	38	(4)	—	—	—	—
—	—	—	(9)	—	—	—	—	—
—	—	—	29	(4)	—	—	—	—
—	—	—	(1,122)	—	—	(35)	—	—
—	—	—	431	—	—	13	—	—
—	—	—	(691)	—	—	(22)	—	—
—	—	—	—	(9)	—	—	—	—
—	12	—	(691)	(18)	(58)	(24)	(1)	(2)
$ —	$ 12	$ —	$ 517	$(165)	$1,906	$(602)	$(1,255)	$(1,873)

CONSOLIDATED BALANCE SHEETS
(millions)

	Sprint Corporation	
	Consolidated	
December 31,	2002	2001
Assets		
Current assets		
Cash and equivalents	$ 1,035	$ 313
Accounts receivable, net of consolidated allowance for doubtful accounts of $414 and $397	2,951	3,547
Inventories	682	690
Deferred tax asset	806	36
Prepaid expenses	360	280
Intergroup receivable	—	—
Other	244	328
Total current assets	6,078	5,194
Assets of discontinued operation	391	377
Property, plant and equipment		
FON Group	35,055	34,072
PCS Group	16,978	14,634
Total property, plant and equipment	52,033	48,706
Accumulated depreciation	(23,288)	(19,746)
Net property, plant and equipment	28,745	28,960
Investments in and advances to affiliates	73	288
Intangibles		
Goodwill	4,401	4,733
Spectrum licenses	4,620	4,995
Other intangibles	26	838
Total intangibles	9,047	10,566
Accumulated amortization	(2)	(1,506)
Net intangibles	9,045	9,060
Other assets	961	1,914
Total	$ 45,293	$ 45,793

See accompanying Notes to Consolidated Financial Statements.

Eliminations/Reclassifications		Sprint FON Group		Sprint PCS Group	
2002	2001	2002	2001	2002	2001
$ —	$ —	$ 641	$ 134	$ 394	$ 179
—	—	1,650	2,156	1,301	1,391
—	—	219	248	463	442
—	—	42	36	764	—
—	—	215	145	145	135
(446)	(342)	446	342	—	—
—	—	114	164	130	164
(446)	(342)	3,327	3,225	3,197	2,311
—	—	391	377	—	—
—	—	35,055	34,072	—	—
—	—	—	—	16,978	14,634
—	—	35,055	34,072	16,978	14,634
(46)	(47)	(18,161)	(16,581)	(5,081)	(3,118)
(46)	(47)	16,894	17,491	11,897	11,516
(280)	(280)	252	417	101	151
—	—	27	27	4,374	4,706
—	—	1,520	1,566	3,100	3,429
—	—	24	46	2	792
—	—	1,571	1,639	7,476	8,927
—	—	(2)	(74)	—	(1,432)
—	—	1,569	1,565	7,476	7,495
—	—	610	1,197	351	717
$(772)	$(669)	$23,043	$24,272	$23,022	$22,190

CONSOLIDATED BALANCE SHEETS (continued)
(millions, except per share data)

	Sprint Corporation	
	Consolidated	
December 31,	2002	2001
Liabilities and Shareholders' Equity		
Current liabilities		
Short-term borrowings and current maturities of long-term debt	$ 1,887	$ 4,401
Accounts payable	2,151	2,895
Accrued interconnection costs	626	588
Accrued taxes	358	456
Advance billings	510	479
Accrued restructuring costs	277	389
Payroll and employee benefits	579	565
Accrued interest	416	309
Intergroup payable	—	—
Other	1,004	1,049
Total current liabilities	7,808	11,131
Liabilities of discontinued operation	299	290
Noncurrent liabilities		
Long-term debt and capital lease obligations	18,405	16,501
Equity unit notes	1,725	1,725
Deferred income taxes and investment tax credits	2,025	1,586
Postretirement and other benefit obligations	1,712	940
Other	769	748
Total noncurrent liabilities	24,636	21,500
Redeemable preferred stock	256	256
Shareholders' equity		
Common stock		
Class A FT, par value $.50 per share, 100.0 shares authorized, 43.1 shares issued and outstanding	22	22
FON, par value $2.00 per share, 4,200.0 shares authorized, 895.1 and 888.8 shares issued and outstanding	1,790	1,778
PCS, par value $1.00 per share, 4,600.0 shares authorized, 999.8 and 986.7 shares issued and outstanding	1,000	987
Capital in excess of par or stated value	9,931	10,076
Retained earnings (deficit)	252	(261)
Accumulated other comprehensive income (loss)	(701)	14
Combined attributed net assets	—	—
Total shareholders' equity	12,294	12,616
Total	$45,293	$45,793

See accompanying Notes to Consolidated Financial Statements.

Eliminations/Reclassifications		Sprint FON Group		Sprint PCS Group	
2002	2001	2002	2001	2002	2001
$ —	$ —	$ 1,234	$ 2,056	$ 653	$ 2,345
—	—	808	1,535	1,343	1,360
—	—	614	569	12	19
—	—	122	227	236	229
—	—	232	247	278	232
—	—	251	389	26	—
—	—	488	445	91	120
—	—	26	47	390	262
(446)	(342)	—	—	446	342
(46)	(47)	545	586	505	510
(492)	(389)	4,320	6,101	3,980	5,419
—	—	299	290	—	—
—	—	2,736	3,258	15,669	13,243
—	—	—	—	1,725	1,725
—	—	1,825	1,585	200	1
—	—	1,677	940	35	—
—	—	362	384	407	364
—	—	6,600	6,167	18,036	15,333
(280)	(280)	10	10	526	526
22	22	—	—	—	—
1,790	1,778	—	—	—	—
1,000	987	—	—	—	—
9,931	10,076	—	—	—	—
252	(261)	—	—	—	—
(701)	14	—	—	—	—
(12,294)	(12,616)	11,814	11,704	480	912
—	—	—	—	—	—
$ (772)	$ (669)	$23,043	$24,272	$23,022	$22,190

CONSOLIDATED STATEMENTS OF CASH FLOWS
(millions)

	Sprint Corporation		
	Consolidated		
Years Ended December 31,	2002	2001	2000
Operating Activities			
Net income (loss)	$ 630	$(1,401)	$ 93
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:			
Discontinued operation, net	(159)	(150)	(831)
Extraordinary items, net	(3)	1	4
Equity in net losses of affiliates	117	175	256
Depreciation and amortization	4,912	4,591	4,135
Deferred income taxes and investment tax credits	556	(687)	(202)
Non-cash portion of restructuring charge	35	59	—
Benefit plan curtailment gain	—	(120)	—
Net losses (gains) on sales of assets	(111)	82	(130)
Net losses on write-down of assets	418	1,491	365
Changes in assets and liabilities:			
Accounts receivable, net	590	265	(531)
Inventories and other current assets	(31)	136	154
Accounts payable and other current liabilities	(741)	274	807
Current tax benefit receivable from the FON Group	—	—	—
Affiliate receivables and payables, net	—	—	—
Noncurrent assets and liabilities, net	(46)	(139)	(40)
Other, net	39	(14)	16
Net cash provided (used) by operating activities of continuing operations	6,206	4,563	4,096
Investing Activities			
Capital expenditures	(4,849)	(9,046)	(7,152)
Investments in and loans to other affiliates, net	116	(66)	(889)
Net proceeds from sales of assets	138	301	258
Other, net	—	33	(9)
Net cash used by investing activities of continuing operations	(4,595)	(8,778)	(7,792)
Financing Activities			
Proceeds from debt	6,061	7,652	3,596
Payments on debt	(6,703)	(5,389)	(1,339)
Proceeds from equity unit notes	—	1,725	—
Proceeds from common stock issued	3	608	269
Proceeds from treasury stock issued	—	3	12
Dividends paid	(454)	(451)	(448)
Treasury stock purchased	—	—	(61)
Other, net	50	13	182
Net cash provided (used) by financing activities of continuing operations	(1,043)	4,161	2,211
Net cash from discontinued operations	154	164	1,568
Increase (Decrease) in Cash and Equivalents	722	110	83
Cash and Equivalents at Beginning of Period	313	203	120
Cash and Equivalents at End of Period	$ 1,035	$ 313	$ 203

See accompanying Notes to Consolidated Financial Statements.

Eliminations/Reclassifications			Sprint FON Group			Sprint PCS Group		
2002	2001	2000	2002	2001	2000	2002	2001	2000
$ —	$ —	$ —	$ 1,208	$ (147)	$ 1,964	$ (578)	$(1,254)	$(1,871)
—	—	—	(159)	(150)	(831)	—	—	—
—	(7)	—	(3)	1	1	—	7	3
—	—	—	13	64	201	104	111	55
—	—	—	2,645	2,441	2,258	2,267	2,150	1,877
—	—	—	660	(230)	389	(104)	(457)	(591)
—	—	—	27	56	—	8	3	—
—	—	—	—	(120)	—	—	—	—
—	—	—	(49)	55	(83)	(62)	27	(47)
—	—	—	375	1,491	365	43	—	—
—	—	—	506	754	(207)	84	(489)	(324)
—	(2)	411	(39)	121	47	8	17	(304)
—	24	(144)	(887)	125	405	146	125	546
—	(26)	(267)	—	—	—	—	26	267
—	—	—	(64)	237	(256)	64	(237)	256
—	1	—	(26)	(194)	(117)	(20)	54	77
—	10	—	(31)	(47)	(32)	70	23	48
—	—	—	4,176	4,457	4,104	2,030	106	(8)
—	—	—	(2,181)	(5,295)	(4,105)	(2,668)	(3,751)	(3,047)
—	—	—	122	(37)	(686)	(6)	(29)	(203)
—	—	—	72	263	51	66	38	207
—	—	—	—	33	2	—	—	(11)
—	—	—	(1,987)	(5,036)	(4,738)	(2,608)	(3,742)	(3,054)
—	—	—	1,325	2,625	344	4,736	5,027	3,252
—	—	—	(2,678)	(1,604)	(932)	(4,025)	(3,785)	(407)
—	—	—	—	—	—	—	1,725	—
—	—	—	2	21	148	1	587	121
—	—	—	—	3	12	—	—	—
—	—	—	(440)	(437)	(433)	(14)	(14)	(15)
—	—	—	—	—	(61)	—	—	—
—	—	—	(45)	(145)	(30)	95	158	212
—	—	—	(1,836)	463	(952)	793	3,698	3,163
—	—	—	154	164	1,568	—	—	—
—	—	—	507	48	(18)	215	62	101
—	—	—	134	86	104	179	117	16
$ —	$ —	$ —	$ 641	$ 134	$ 86	$ 394	$ 179	$ 117

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(millions)

	Class A FT Common Stock	Class A DT Common Stock	FON Common Stock	PCS Common Stock
Beginning 2000 balance	$108	$ 108	$1,576	$ 910
Net income (loss)	—	—	—	—
FON common stock dividends	—	—	—	—
Class A common stock dividends	—	—	—	—
PCS preferred stock dividends	—	—	—	—
FON Series 1 common stock issued	—	—	22	—
PCS Series 1 common stock issued	—	—	—	23
Treasury stock purchased	—	—	—	—
Treasury stock issued	—	—	—	—
Tax benefit from stock compensation	—	—	—	—
Intergroup stock compensation	—	—	—	—
Other, net	—	—	—	—
Ending 2000 balance	108	108	1,598	933
Net loss	—	—	—	—
FON common stock dividends	—	—	—	—
Class A common stock dividends	—	—	—	—
PCS preferred stock dividends	—	—	—	—
Conversion of common stock underlying Class A common stock	(86)	(108)	172	22
FON Series 1 common stock issued	—	—	8	—
PCS Series 1 common stock issued	—	—	—	32
Treasury stock issued	—	—	—	—
Fair value of contract adjustment payment liability	—	—	—	—
Tax benefit from stock compensation	—	—	—	—
Intergroup stock compensation	—	—	—	—
Other, net	—	—	—	—
Ending 2001 balance	22	—	1,778	987
Net income (loss)	—	—	—	—
FON common stock dividends	—	—	—	—
PCS preferred stock dividends	—	—	—	—
FON Series 1 common stock issued	—	—	12	—
PCS Series 1 common stock issued	—	—	—	13
Intergroup stock compensation	—	—	—	—
Additional minimum pension liability	—	—	—	—
Other, net	—	—	—	—
Ending 2002 balance	$ 22	$ —	$1,790	$1,000
Shares Outstanding				
Beginning 2000 balance	43.1	43.1	788.0	910.4
FON Series 1 common stock issued	—	—	10.8	—
PCS Series 1 common stock issued	—	—	—	22.7
Treasury stock purchased	—	—	(2.0)	—
Treasury stock issued	—	—	1.6	—
Ending 2000 balance	43.1	43.1	798.4	933.1
Conversion of common stock underlying Class A common stock	—	—	86.2	21.6
Cancellation of Class A DT common stock	—	(43.1)	—	—
FON Series 1 common stock issued	—	—	3.8	—
PCS Series 1 common stock issued	—	—	—	32.0
Treasury stock issued	—	—	0.4	—
Ending 2001 balance	43.1	—	888.8	986.7
FON Series 1 common stock issued	—	—	6.3	—
PCS Series 1 common stock issued	—	—	—	13.1
Ending 2002 balance	43.1	—	895.1	999.8

See accompanying Notes to Consolidated Financial Statements.

Capital In Excess of Par or Stated Value	Retained Earnings (Deficit)	Treasury Stock	Other	Consolidated Total	Eliminations	Combined Attributed Net Assets	
						Sprint FON Group	Sprint PCS Group
$ 8,569	$ 1,961	$ (2)	$ 83	$13,313	$ 5	$10,514	$2,794
—	93	—	—	93	—	1,964	(1,871)
—	(398)	—	—	(398)	—	(398)	—
—	(44)	—	—	(44)	—	(44)	—
—	(7)	—	—	(7)	—	7	(14)
180	—	—	—	202	—	202	—
207	—	—	—	230	—	—	230
—	—	(61)	—	(61)	—	(61)	—
—	(29)	53	—	24	—	24	—
424	—	—	—	424	—	276	148
—	—	—	—	—	—	(80)	80
—	2	—	(62)	(60)	2	(61)	(1)
9,380	1,578	(10)	21	13,716	7	12,343	1,366
—	(1,401)	—	—	(1,401)	—	(147)	(1,254)
—	(433)	—	—	(433)	—	(433)	—
—	(11)	—	—	(11)	—	(11)	—
—	(7)	—	—	(7)	—	7	(14)
—	—	—	—	—	—	—	—
78	—	—	—	86	—	86	—
671	—	—	—	703	—	—	703
—	(3)	10	—	7	—	7	—
(53)	—	—	—	(53)	—	—	(53)
17	—	—	—	17	—	9	8
—	—	—	—	—	—	(160)	160
(17)	16	—	(7)	(8)	(7)	3	(4)
10,076	(261)	—	14	12,616	—	11,704	912
—	630	—	—	630	—	1,208	(578)
(334)	(113)	—	—	(447)	—	(447)	—
(7)	—	—	—	(7)	—	7	(14)
60	—	—	—	72	—	72	—
89	—	—	—	102	—	—	102
—	—	—	—	—	—	(73)	73
—	—	—	(713)	(713)	—	(691)	(22)
47	(4)	—	(2)	41	—	34	7
$ 9,931	$ 252	$ —	$(701)	$12,294	$ —	$11,814	$ 480

1. Summary of Significant Accounting Policies

Tracking Stock Formation

In November 1998, Sprint's shareholders approved the allocation of all of Sprint's assets and liabilities into two groups, the FON Group and the PCS Group, as well as the creation of the FON stock and the PCS stock. In addition, Sprint purchased the remaining ownership interests in Sprint Spectrum Holding Company, L.P. and PhillieCo, L.P. (together, Sprint PCS), other than a minority interest in Cox Communications PCS, L.P. (Cox PCS). Sprint acquired these ownership interests from Tele-Communications, Inc., Comcast Corporation and Cox Communications, Inc. (the Cable Partners). In exchange, Sprint issued the Cable Partners special low-vote PCS shares and warrants to acquire additional PCS shares. Sprint also issued the Cable Partners shares of a new series of preferred stock convertible into PCS shares. The purchase of the Cable Partners' interests is referred to as the PCS Restructuring. In the 1999 second quarter, Sprint acquired the remaining minority interest in Cox PCS.

Also in November 1998, Sprint reclassified each of its publicly traded common shares into one share of FON stock and ½ share of PCS stock. This recapitalization was tax-free to shareholders. In addition, the Class A common shares owned by France Telecom (FT) and Deutsche Telekom AG (DT) were reclassified into shares representing both FON stock and PCS stock. These transactions are referred to as the Recapitalization.

In connection with the PCS Restructuring, FT and DT purchased 5.1 million additional PCS shares (pre-split basis).

FT no longer holds FON shares and DT no longer holds either FON or PCS shares.

FON common stock and PCS common stock are intended to reflect the financial results and economic value of the FON and PCS Groups. However, they are classes of common stock of Sprint, not of the group they are intended to track. Accordingly, FON and PCS shareholders are subject to the risks related to an equity investment in Sprint and all of Sprint's businesses, assets and liabilities. Shares of FON common stock and PCS common stock do not represent a direct legal interest in the assets and liabilities allocated to either group, but rather represent a direct equity interest in our assets and liabilities as a whole. Sprint's Board may, subject to the restrictions in Sprint's articles of incorporation, change the allocation of the assets and liabilities that comprise each of the FON Group and the PCS Group without shareholder approval.

Board Discretion Regarding Tracking Stocks

Sprint's Board has the discretion to, among other things, make operating and financial decisions that could favor one group over the other and, subject to the restrictions in Sprint's articles of incorporation, to change the allocation of the assets and liabilities that comprise each of the FON Group and the PCS Group without shareholder approval. Under the applicable corporate law, Sprint's Board owes its fiduciary duties to all of Sprint's shareholders and there is no board of directors that owes separate duties to the holders of either the FON stock or the PCS stock. The Tracking Stock Policies provide that the Board, in resolving material matters in which the holders of FON stock and PCS stock have potentially divergent interests, will act in the best interests of Sprint and all of its common shareholders after giving fair consideration to the potentially divergent interests of the holders of the separate classes of Sprint common stock. These policies may be changed by the Board without shareholder approval. Given the Board's discretion in these matters, it may be difficult to assess the future prospects of each group based on past performance.

Basis of Consolidation and Presentation

The consolidated financial statements include the accounts of Sprint, its wholly owned subsidiaries and subsidiaries it controls. Investments in entities in which Sprint exercises significant influence, but does not control, are accounted for using the equity method (see Note 2).

The consolidated financial statements are prepared using accounting principles generally accepted in the United States. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Certain prior-year amounts have been reclassified to conform to the current-year presentation. These reclassifications had no effect on the results of operations or shareholders' equity as previously reported.

Classification of Operations

Sprint's business is divided into three lines of business: the global markets division, the local division, and the PCS wireless telephony products and services business.

Global Markets Division

The global markets division provides a broad suite of communications services targeted to domestic business and residential customers, multinational corporations and other communications companies. These services include domestic and international voice; data communications using various protocols such as Internet Protocol and frame relay (a data service that transfers packets of data over Sprint's network), and managed network services. In addition, the global markets division provides web and applications hosting, consulting services, colocation services and international data communications.

The global markets division also includes the operating results of the cable TV service operations of the broadband fixed wireless companies. In 2001, Sprint announced it would halt further deployment of Multipoint Multichannel Distribution Services (MMDS) services using current direct sight access technology. Current customers continue to receive service. Sprint is pursuing alternative strategies with respect to the spectrum leases and licenses.

This division also includes the FON Group's investments in EarthLink, Inc., an Internet service provider; Call-Net, a long distance provider in Canada; Intelig Telecommunicacoes Ltda., a long distance provider in Brazil; and certain other telecommunications investments and ventures.

Local Division

The local division consists mainly of regulated local phone companies serving approximately 8.1 million access lines in 18 states. The local division provides local voice and data services, including Digital Subscriber Line (DSL), for customers within its franchise territories, access by phone customers and other carriers to the local division's local network, nationwide long distance services to residential customers located within its franchise territories, sales of telecommunications equipment, and other services within specified calling areas to residential and business customers. DSL enables high speed transmission of data over existing copper telephone lines.

Sprint PCS Group

The PCS Group includes Sprint's wireless PCS operations. At year-end 2002, the PCS Group, together with third party affiliates, operated PCS systems in over 300 metropolitan markets, including the 100 largest U.S. metropolitan areas. The PCS Group has licenses to serve the entire U.S. population, including Puerto Rico and the U.S. Virgin Islands. The service offered by the PCS Group and its third party affiliates now covers more than a quarter billion people. The PCS Group provides nationwide service through a combination of:

- operating its own digital network in major U.S. metropolitan areas using code division multiple access technology (CDMA), which is a digital spread-spectrum wireless technology that allows a large number of users to access a single frequency band by assigning a code to all speech bits, sending a scrambled transmission of the encoded speech over the air and reassembling the speech into its original format,
- affiliating with other companies that use CDMA, mainly in and around smaller U.S. metropolitan areas,
- roaming on other providers' analog cellular networks using multi-mode and multi-band handsets, and
- roaming on other providers' digital networks that use CDMA.

The PCS Group supplements its own network through affiliation arrangements with other companies that use CDMA. Under these arrangements, these companies offer PCS services under the Sprint brand name on CDMA networks built and operated at their own expense. Several of these affiliates are experiencing financial difficulties, are evaluating restructuring activities and could face bankruptcy. In February 2003, one affiliate filed for bankruptcy protection.

The PCS Group also includes its investment in Virgin Mobile, USA, a joint venture to market wireless services. This investment is accounted for using the equity method.

The PCS Group also provides PCS services to companies that resell PCS services to their customers on a retail basis under their own brand. These companies bear the costs of acquisition, billing and customer service.

Intergroup Transactions and Allocations

Intergroup Transactions

The PCS Group uses the long distance operation of the FON Group as its interexchange carrier and purchases wholesale long distance for resale to its customers. Additionally, the FON Group provides the PCS Group with Caller ID services and various other goods and services. Charges to the PCS Group for these items totaled $672 million in 2002, $570 million in 2001, and $392 million in 2000. Also included in these amounts are charges for goods capitalized by the PCS Group. These capitalized charges totaled $4 million in 2002, $12 million in 2001, and $15 million in 2000. The service charges less capitalized charges are included in the FON Group's net operating revenues and in the PCS Group's costs of services and products.

The PCS Group provides the FON Group with access to its network and telemarketing and various other services. Charges to the FON Group for these items totaled $20 million in 2001 and $39 million in 2000. In 2002, the PCS Group credited the FON Group for $46 million. This credit is primarily related to proceedings initiated by the Federal Communications Commission (FCC) in 2001 to consider a number of issues regarding compensation arrangements between carriers that exchange local and long distance traffic, including the issue of whether wireless carriers should be allowed to charge long distance carriers for terminating long distance calls to their wireless customers.

The FON Group charges the PCS Group a return on investment or capital carrying charge for the use of corporate owned capital assets. Charges to the PCS Group for this item totaled $33 million in 2002 and $11 million in 2001. These amounts are included in the FON Group's other income and the PCS Group's operating expenses.

Allocation of Shared Services

Sprint directly assigns, where possible, certain general and administrative costs to the FON Group and the PCS Group based on their actual use of those services. Where direct assignment of costs is not possible, or practical, Sprint uses other indirect methods, including time studies, to estimate the allocation of costs to each group. Cost allocation methods other than time studies include factors (general, marketing or headcount) derived from the operating unit's relative share of the predefined category referenced (e.g. headcount). Sprint believes that the costs allocated are comparable to the costs that would be incurred if the groups would have been operating on a stand-alone basis.

The FON Group provides facilities, information services and certain other services to the PCS Group. Charges to the PCS Group for these services totaled $359 million in 2002, $236 million in 2001 and $150 million in 2000. Also included in these amounts are charges that were capitalized by the PCS Group. These capitalized charges totaled $20 million in 2002, $19 million in 2001 and zero in 2000. The service charges less capitalized charges are included in the PCS Group's operating expenses.

Costs for shared services totaled approximately $568 million in 2002, $542 million in 2001 and $605 million in 2000. The percentage of these costs allocated to the PCS Group was approximately 31% in 2002, 23% in 2001, and 15% in 2000 with the balance allocated to the FON Group. The allocation of shared services may change at the discretion of Sprint's Board and does not require shareholder approval.

Allocation of Group Financing

Financing activities for the groups are managed by Sprint on a centralized basis. Debt incurred by Sprint on behalf of the groups is specifically allocated to and reflected in the financial statements of the applicable group. Interest expense is allocated to the PCS Group based on an interest rate that is substantially equal to the rate it would be able to obtain from third parties as a wholly owned Sprint subsidiary, but without the benefit of any guarantee by Sprint or any member of the FON Group. That interest rate is higher than the rate Sprint obtains on borrowings. The difference between Sprint's actual interest rate and the rate charged to the PCS Group is reflected as a reduction in the FON Group's interest expense and totaled $336 million in 2002, $288 million in 2001 and $237 million in 2000. These amounts are reflected in the "Intergroup interest charge" on the Consolidated Statements of Operations.

The FON Group earned intergroup interest income and the PCS Group incurred intergroup interest expense of $15 million in 2001 and $19 million in 2000 primarily related to the FON Group's ownership of PCS Group debt securities. Sprint redeemed these securities in the 2001 fourth quarter. As a result of this redemption, the FON Group recognized an $11 million pre-tax gain to "Other expense, net" and the PCS Group recorded a $7 million after-tax extraordinary loss.

Under Sprint's centralized cash management program, one group may advance funds to the other group. These advances are accounted for as short-term borrowings between the groups and bear interest at a market rate that is substantially equal to the rate that group would be able to obtain from third parties on a short-term basis.

The allocation of group financing activities may change at the discretion of Sprint's Board and does not require shareholder approval.

Allocation of Federal and State Income Taxes

Sprint files a consolidated federal income tax return and certain state income tax returns which include FON Group and PCS Group results. Sprint adopted a tax sharing agreement which provided for the allocation of income taxes between the two groups. The FON Group's income taxes are calculated as if it files returns which exclude the PCS Group. The PCS Group's income taxes reflect the PCS Group's incremental cumulative impact on Sprint's consolidated income taxes. Intergroup tax payments are satisfied on the date Sprint's related tax payment is due to or the refund is received from the applicable tax authority.

The original tax sharing agreement applied to tax years ending on or before December 31, 2001. In December 2001, Sprint adopted a continuation of this tax sharing arrangement except for the elimination of certain provisions addressing certain types of acquisitions or restructurings, which never became operable under the original agreement.

Income Taxes

Sprint records deferred income taxes based on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Revenue Recognition

Sprint recognizes operating revenues as services are rendered or as products are delivered to customers. Service activation and certain installation fees are deferred and amortized over the average life of the service.

Advertising Expense

Sprint recognizes advertising expense as incurred. These expenses include production, media and other promotional and sponsorship costs. Advertising expenses totaled $863 million in 2002, and $1.1 billion in 2001 and 2000.

Cash and Equivalents

Cash equivalents generally include highly liquid investments with original maturities of three months or less. They are stated at cost, which approximates market value. Sprint uses controlled disbursement banking arrangements as part of its cash management program. Outstanding checks which were included in accounts payable totaled $192 million at year-end 2002 and $550 million at year-end 2001. Sprint had sufficient funds available to fund the outstanding checks when they were presented for payment.

Investments in Equity Securities

Investments in marketable equity securities are classified as available for sale and reported at fair value (estimated based on quoted market prices). Gross unrealized holding gains and losses are reflected in the Consolidated Balance Sheets as adjustments to "Shareholders' equity—Accumulated other comprehensive income," net of related income taxes. Impairment losses on investments in equity securities are recorded to "Other expense, net" in the Consolidated Statements of Operations when an investment's market value declines below Sprint's cost basis on an other than temporary basis.

Inventories

Inventories for the FON Group are stated at the lower of cost (principally first-in, first-out method) or market value. Inventories for the PCS Group are stated at the lower of cost (principally first-in, first-out method) or replacement value.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Generally, ordinary asset retirements and disposals are charged against accumulated depreciation with no gain or loss recognized. The cost of property, plant and equipment is generally depreciated on a straight-line basis over estimated economic useful lives. Repair and maintenance costs are expensed as incurred.

	December 31,	
	2002	2001
	(millions)	
FON Group		
Global markets division	$14,495	$14,393
Local division	18,343	17,676
Other	2,217	2,003
Total FON Group	35,055	34,072
PCS Group	16,978	14,634
Total property, plant and equipment	$52,033	$48,706

Capitalized Interest

Capitalized interest totaled $118 million in 2002, $174 million in 2001 and $175 million in 2000. Capitalized interest for the FON Group totaled $18 million in 2002, $30 million in 2001 and $22 million in 2000. Capitalized interest for the PCS Group totaled $100 million in 2002, $144 million in 2001 and $153 million in 2000. Capitalized interest is incurred in connection with the PCS Group's and the FON Group's construction of capital assets.

Goodwill and Other Intangibles

Effective January 1, 2002, Sprint adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Upon adoption of this statement, amortization of goodwill and indefinite life intangibles ceased, and accumulated amortization as of December 31, 2001 reduced the carrying value of these assets. See Note 4 for additional information regarding SFAS No. 142 and the treatment of goodwill and other intangibles.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired in business combinations accounted for as purchases. The book value of goodwill was $4.4 billion at year-end 2002 and 2001. Sprint evaluates goodwill for impairment on an annual basis and whenever events or circumstances indicate that these assets might be impaired. Sprint determines impairment by comparing the net assets of each reporting unit (identified as Sprint's operating segments) to the respective fair value. In the event a unit's net assets exceed its fair value, an implied fair value of goodwill must be determined by assigning the unit's fair value to each asset and liability of the unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is measured by the difference between the goodwill carrying value and the implied fair value.

Indefinite Life Intangibles

Sprint identified spectrum licenses and Sprint's trademark as indefinite life intangibles. The PCS Group acquired spectrum licenses from the FCC to operate as a PCS service provider. Additionally, the PCS Group incurred costs related to microwave relocation in constructing the PCS network. The global markets division acquired spectrum licenses when the broadband fixed wireless companies were acquired in 1999. The book value of indefinite life intangibles was $4.6 billion at year-end 2002 and 2001. Sprint evaluates the recoverability of indefinite lived intangible assets on an annual basis and whenever events or circumstances indicate that these assets might be impaired. Sprint determines impairment by comparing an asset's respective carrying value to estimates of fair value using the best information available, which requires the use of estimates, judgments and projections. In the event impairment exists, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset.

Definite Life Intangibles

Definite life intangibles include patents and the value associated with the PCS Group customer base through acquisition. Sprint evaluates the recoverability of definite life intangible assets when events or circumstances indicate that these assets might be impaired. Sprint determines impairment by comparing an asset's respective carrying value to estimates of the sum of the future cash flows expected to result from the Company's asset, undiscounted and without interest charges. If the carrying amount is less than the recoverable amount, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the asset. Definite life intangibles are amortized over their useful lives, which at year-end 2002 averaged 10 years. Amortization on these assets totaled $4 million in 2002, $148 million in 2001 and $317 million in 2000. The intangible associated with the PCS customer base of approximately $746 million became fully amortized in 2002, at which time the accumulated amortization reduced the carrying value of this asset.

Earnings per Share

EPS is computed individually for the FON Group and PCS Group. As a part of the Recapitalization, each Class A common share owned by FT and DT was reclassified such that each share represented a right to one share of FON stock and ½ share of PCS stock. In order to give effect to the FT and DT interests when determining earnings per share, the number of shares of FON stock and PCS stock represented by the shares of Class A common stock are included in the calculation of the weighted average FON and PCS common stock outstanding.

The FON Group's convertible preferred dividends totaled $1 million in 2000 and dilutive securities (mainly options) totaled 1.2 million shares in 2002 and 11.5 million shares in 2000. In 2001, dilutive securities did not have a dilutive effect on loss per share because the FON Group incurred a net loss. Dilutive securities for the PCS Group mainly include options, warrants, convertible preferred stock and equity units. These securities did not have a dilutive effect on loss per share because the PCS Group incurred net losses for 2002, 2001 and 2000. As a result, diluted loss per share equaled basic loss per share.

Stock-based Compensation

At December 31, 2002, Sprint had three stock-based employee compensation plans, which are described more fully in Note 15. Sprint accounts for those plans under the intrinsic value recognition and measurement principles of APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related interpretations. Based on the additional disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure," the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation." Sprint intends to begin expensing stock-based compensation in 2003. See Note 19 for additional information.

Sprint FON Group Years ended December 31,	2002	2001	2000
		(millions)	
Net income (loss), as reported	$1,208	$ (147)	$1,964
Add: Stock-based employee compensation expense included in reported net income (loss), net of related tax effects	3	1	19
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(91)	(145)	(315)
Pro forma net income (loss)	$1,120	$ (291)	$1,668
Earnings (loss) per common share:			
Basic—as reported	$ 1.36	$(0.16)	$ 2.24
Basic—pro forma	$ 1.26	$(0.32)	$ 1.90
Diluted—as reported	$ 1.36	$(0.16)	$ 2.21
Diluted—pro forma	$ 1.26	$(0.32)	$ 1.88

Sprint PCS Group Years ended December 31,	2002	2001	2000
		(millions)	
Net loss, as reported	$ (578)	$(1,254)	$(1,871)
Add: Stock-based employee compensation expense included in reported net loss, net of related tax effects	2	—	10
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(127)	(206)	(274)
Pro forma net loss	$ (703)	$(1,460)	$(2,135)
Loss per common share:			
Basic and diluted—as reported	$(0.58)	$ (1.28)	$ (1.95)
Basic and diluted—pro forma	$(0.71)	$ (1.49)	$ (2.22)

2. Investments

Investments in Securities

The cost of investments in marketable securities, which are included in "Other assets" in the Consolidated Balance Sheet, was $95 million and $35 million at year-end 2002 and 2001, respectively. Accumulated unrealized holding losses were $20 million, gross and $12 million, net of income taxes and accumulated unrealized holding gains were $10 million, gross and $6 million, net of taxes, at year-end 2002. Comparatively, at year-end 2001, the accumulated unrealized holding gains were $40 million, gross and $26 million, net of income taxes. Both gains and losses are included in "Accumulated other comprehensive income" in the Sprint Consolidated Balance Sheets.

Sprint's cost method investment in EarthLink preferred shares, which are included in "Other assets" on the Consolidated Balance Sheet, was $116 million and $410 million at year-end 2002 and 2001, respectively. In the 2002 second quarter, Sprint completed an analysis of the valuation of this investment which resulted in a write-down of $241 million to market value. This charge is included in "Other expense, net" in Sprint's Consolidated Statements of Operations.

During 2002, Sprint converted 9 million shares of EarthLink Series A Convertible Preferred Stock into 8.8 million shares of EarthLink common stock. In the 2001 fourth quarter, Sprint converted 3.1 million shares of EarthLink Series A Convertible Preferred Stock into 3 million shares of EarthLink common stock.

In the 2001 third quarter, Sprint sold 12.5 million of its common shares in EarthLink for $155 million and converted and sold 6.2 million shares of its Series B Convertible Preferred Stock in EarthLink for $73 million. The net loss on the sales was $25 million and is included in "Other expense, net" in Sprint's Consolidated Statements of Operations.

In the 2001 first quarter, Sprint modified its relationship with EarthLink which resulted in its investment in common stock no longer being accounted for using the equity method.

In the 2000 fourth quarter, Sprint recorded a write-down of securities with a cost basis of $48 million due to a decline in market value that was considered other than temporary. The $48 million charge was included in "Other expense, net" in Sprint's Consolidated Statements of Operations.

During 2000, Sprint used equity securities with a cost basis of $94 million to retire debt instruments (see Note 11). Sprint recorded a $45 million gain associated with the transaction which was included in "Other expense, net" in Sprint's Consolidated Statements of Operations.

Investments in and Advances to Affiliates

At year-end 2002, investments accounted for using the equity method consisted primarily of the PCS Group's investment in Virgin Mobile, USA.

At year-end 2001, investments accounted for using the equity method consisted of the FON Group's various investments and the PCS Group's investments in Pegaso Telecomunicaciones, S.A. de C.V. (Pegaso), SVC BidCo L.P. (BidCo), and Virgin Mobile, USA.

At year-end 2000, investments accounted for using the equity method consisted of the FON Group's investments in Intelig, EarthLink and other investments and the PCS Group's investment in Pegaso and BidCo.

During 2002, the PCS Group's investment in BidCo was dissolved. In the 2002 fourth quarter, Sprint received $5 million, its final share of the FCC's return of deposit for licenses in the NextWave spectrum auction after receiving $38 million in the 2002 second quarter representing its share of 85% of the deposit for licenses. At dissolution a $5 million loss was recognized.

In the fourth quarter of 2002, Sprint liquidated a partnership and received cash proceeds of $148 million. Associated with this transaction, Sprint extinguished a $150 million borrowing from the partnership. Sprint recorded a $1 million loss on the investment.

In the third quarter of 2002, the PCS Group sold its investment in Pegaso to Telefonica Moviles. Sprint also reached an agreement with Pegaso and the other shareholders of Pegaso for payment in connection with the cancellation of the Company's Services Contract. Sprint's book investment in Pegaso was zero due to previous recognition of its share of losses. Sprint received $28 million from Telefonica Moviles in the third quarter, and in October 2002 received an additional final payment, net of foreign withholding tax, of $35 million for its investment in Pegaso.

In the second quarter of 2002, Call-Net, a Canadian long-distance provider, finalized a comprehensive recapitalization proposal that altered the FON Group's existing ownership in this investment, which has been carried at zero value since the 2000 fourth quarter. Sprint invested approximately $16 million in new Call-Net shares as part of this recapitalization. Since this is an equity method investment, Sprint recognized previously unrecognized losses in the amount of this additional investment. Additionally, Sprint and Call-Net agreed to a new ten year branding and technology services agreement for which Sprint receives royalties.

In the 2000 fourth quarter, Sprint completed an analysis of the valuation of its equity method investments in response to changes in the telecommunications industry. The analysis resulted in an $87 million charge for the write-down of its investment in Call-Net which was included in "Other expense, net" in Sprint's Consolidated Statements of Operations.

In the second quarter of 2002, a new agreement was entered into with the Virgin Group for funding of Virgin Mobile, USA. Under the terms of the agreement, Sprint will fund up to $150 million, with the majority in the form of discounted network services and the remainder in cash, and the Virgin Group will fund up to $150 million in cash. As of December 31, 2002, Sprint had satisfied nearly 100% of its cash funding requirement and approximately 10% of the network services contribution. Virgin Mobile, USA launched services in June 2002. The original joint venture was entered into in the 2001 fourth quarter.

In the 2001 third quarter, Sprint completed an analysis of the valuation of its investment in Intelig that resulted in a $157 million write-down. This charge was included in "Other expense, net" in Sprint's Consolidated Statement of Operations.

Combined, unaudited, summarized financial information (100% basis) of entities accounted for using the equity method was as follows:

	2002	2001	2000
		(millions)	
Results of operations			
Net operating revenues	$ 164	$ 581	$ 2,195
Operating loss	$(210)	$ (418)	$ (826)
Net loss	$(306)	$ (608)	$(1,062)
Financial position			
Current assets	$ 27	$ 502	$ 1,470
Noncurrent assets	13	1,522	2,900
Total	$ 40	$2,024	$ 4,370
Current liabilities	$ 61	$ 661	$ 1,102
Noncurrent liabilities	—	600	533
Partners' capital	130	—	—
Owners' equity	(151)	763	2,735
Total	$ 40	$2,024	$ 4,370

3. Restructuring and Asset Impairment

Restructuring Activity

In the 2002 fourth quarter, Sprint announced a consolidation in its Network, Information Technology, and Billing and Accounts Receivable organizations, as well as in other areas of the Company, in the on-going effort to streamline operations and maintain a competitive cost structure (One Sprint Consolidation). These decisions resulted in a $146 million pre-tax charge consisting primarily of severance costs associated with work force reductions. The charge for severance costs totaled $58 million, and the remaining $88 million was accrued for other exit costs associated with the restructuring. The severance charge is associated with the involuntary employee separation of approximately 2,100 employees. As of December 31, 2002, approximately 250 of the employee separations had been completed. Sprint expects to pay the majority of severance and other exit costs in the next 12 months.

In the 2002 fourth quarter, the PCS group announced it would reduce operating expenses through a work force reduction (PCS Consolidation). This action is expected to create a more competitive cost structure for the business. This decision resulted in a $43 million pre-tax charge consisting primarily of severance costs associated with work force reductions. The charge for severance costs totaled $25 million, and the remaining $18 million was accrued for other exit costs associated with the restructuring. The severance charge is associated with the involuntary employee separation of approximately 1,600 employees. As of December 31, 2002, approximately 1,000 of the employee separations had been completed. Sprint expects to pay the majority of severance and other exit costs in the next 12 months.

In the 2002 third quarter, Sprint announced a restructuring integrating its E|Solutions' web hosting sales, mobile computing consulting, marketing, and product sales support capabilities into Sprint Business while integrating its customer service operations into Network Services. Additionally, Sprint announced that its global markets division would discontinue offering and supporting facilities-based Digital Subscriber Line (DSL) services to customers (collectively, the Global Markets Division Consolidation). These decisions resulted in a $202 million pre-tax charge consisting of asset write-offs, severance costs associated with work force reductions, and termination of real estate leases and other contractual obligations. The charge for asset impairments was $142 million, severance costs totaled $22 million, and the remaining $38 million was accrued for other exit costs associated with the restructuring. The severance charge is associated with the involuntary employee separation of approximately 1,100 employees. As of September 30, 2002, substantially all of the employee separations had been completed. Sprint expects to pay the majority of severance and other exit costs by the third quarter of 2003.

In the 2002 first quarter, the PCS Group announced plans to close five PCS customer solution centers, as well as additional steps to reduce operating costs in its network, sales and distribution, and customer solutions business units (PCS Customer Service Center Closures). These decisions resulted in a $23 million pre-tax restructuring charge consisting of severance costs associated with work force reductions and other exit costs, primarily for the termination of real estate leases. The charge for severance costs was $13 million with the remaining $10 million being for other exit costs. The severance charge is associated with the involuntary employee separation of approximately 2,600 employees. As of September 30, 2002, substantially all of the employee separations had been completed. In the 2002 third quarter, Sprint performed an analysis to finalize the restructuring estimates recorded in the 2002 first quarter. This analysis resulted in a reserve reduction of $6 million primarily associated with real estate lease terminations.

In the 2001 fourth quarter, Sprint terminated its efforts to provide its Sprint ION consumer and business offerings and announced plans to reduce operating costs in the business units that comprise its FON Group. These efforts included consolidation and streamlining of marketing and network operations, as well as streamlining corporate support functions (Sprint ION Termination). Operating losses generated by ION were $11 million in 2002 and approximately $500 million in both 2001 and 2000. These decisions resulted in a $1,813 million pre-tax charge consisting of asset write-offs, severance costs associated with work force reductions, and termination of supplier agreements, real estate leases, and other contractual obligations. The charge for asset impairments was $1,327 million, severance costs totaled $231 million, and the remaining $256 million was accrued for other exit costs associated with the restructuring. The severance charge is associated with the involuntary employee separation of approximately 6,000 employees. As of September 30, 2002, substantially all of the employee separations had been completed. In the 2002 third quarter, Sprint performed an analysis to finalize the restructuring estimates recorded in the 2001 fourth quarter. This analysis resulted in a reserve reduction in the third quarter of 2002 of $42 million primarily associated with exit costs and a $34 million reduction associated with the asset impairment charge.

This activity is summarized as follows:

	December 31, 2001 Liability Balance	2002 Activity Restructuring Total Charge	Cash Payments	Non-cash/ Adjustments	December 31, 2002 Liability Balance
			(millions)		
Restructuring Events—2002					
One Sprint Consolidation					
Severance	$—	$ 58	$—	$—	$ 58
Other exit costs	—	88	—	(37)	51
PCS Consolidation					
Severance	—	25	3	—	22
Other exit costs	—	18	—	(2)	16
Global Markets Division Consolidation					
Severance	—	22	14	—	8
Other exit costs	—	38	8	—	30
PCS Customer Service Center Closures					
Severance	—	13	13	—	—
Other exit costs	—	10	2	(6)	2
Restructuring Events—2001					
Sprint ION Termination					
Severance	160	—	136	19	43
Other exit costs	230	—	112	(71)	47
Total	$390	$272	$288	$(97)	$277

In 2001, activity related to the Sprint ION Termination restructuring included severance cash expenditures of $31 million, additional pension obligations of $40 million, other exit costs expenditures of $7 million and $19 million of non-cash other exit costs.

Other Asset Impairments

In the 2002 fourth quarter, Sprint recorded charges for asset impairment of $56 million. The FON Group recorded a network asset impairment related to the global markets division of $14 million. The PCS Group recorded an asset impairment of $42 million representing abandoned network projects.

In the 2000 fourth quarter, Sprint completed its analysis of the valuation of various FON Group assets resulting from its reassessment of the FON Group's business strategies in response to recent changes within the overall telecommunications industry. This analysis resulted in a $238 million pre-tax charge, primarily related to the impairment of goodwill associated with the global markets division's Paranet operations.

4. Goodwill and Other Intangible Assets

Sprint adopted SFAS No. 142, "Goodwill and Other Intangible Assets" on January 1, 2002. This standard prescribes the accounting treatment for both identifiable intangibles and goodwill after initial recognition. Upon adoption of the standard, amortization of goodwill and indefinite life intangibles ceased and accumulated amortization as of December 31, 2001 reduced the carrying value of these assets. Periodic impairment testing of these assets is now required. Definite life intangibles continue to be amortized over their useful lives. Sprint identified spectrum licenses, which include related microwave relocation costs, and its trademark as indefinite life intangibles. Concurrent with adoption, and again in the 2002 fourth quarter, Sprint evaluated for impairment its goodwill and indefinite life intangibles in accordance with the standard's guidance and determined these assets were not impaired.

The following pro forma table adjusts net income (loss) and basic and diluted earnings (loss) per share in 2001 and 2000 to exclude amortization, net of any related tax effects, on goodwill and indefinite lived intangibles.

	Sprint Corporation			FON Group			PCS Group		
Years Ended December 31,	2002	2001	2000	2002	2001	2000	2002	2001	2000
	(millions, except per share amounts)								
Reported net income (loss)	$630	$(1,401)	$ 93	$1,208	$ (147)	$1,964	$ (578)	$(1,254)	$(1,871)
Add back:									
Goodwill amortization	—	126	150	—	1	26	—	125	124
Spectrum licenses amortization	—	69	76	—	16	23	—	53	53
Adjusted net income (loss)	$630	$(1,206)	$319	$1,208	$ (130)	$2,013	$ (578)	$(1,076)	$(1,694)
Preferred stock dividends (paid) received	(7)	(7)	(7)	7	7	7	(14)	(14)	(14)
Adjusted earnings (loss) applicable to common stock	$623	$(1,213)	$312	$1,215	$ (123)	$2,020	$ (592)	$(1,090)	$(1,708)
Diluted earnings (loss) per share									
Reported diluted earnings (loss) per share				$ 1.36	$(0.16)	$ 2.21	$ (0.58)	$ (1.28)	$ (1.95)
Add back:									
Goodwill amortization				—	—	0.03	—	0.13	0.13
Spectrum licenses amortization				—	0.02	0.02	—	0.05	0.05
Adjusted diluted earnings (loss) per share				$ 1.36	$(0.14)	$ 2.26	$ (0.58)	$ (1.10)	$ (1.77)
Diluted weighted average shares outstanding				893.3	886.8	892.4	1,015.8	989.7	966.5
Basic earnings (loss) per share									
Reported basic earnings (loss) per share				$ 1.36	$(0.16)	$ 2.24	$ (0.58)	$ (1.28)	$ (1.95)
Add back:									
Goodwill amortization				—	—	0.03	—	0.13	0.13
Spectrum licenses amortization				—	0.02	0.02	—	0.05	0.05
Adjusted basic earnings (loss) per share				$ 1.36	$(0.14)	$ 2.29	$ (0.58)	$ (1.10)	$ (1.77)
Basic weighted average shares outstanding				892.1	886.8	880.9	1,015.8	989.7	966.5

5. Merger Termination

On July 13, 2000, Sprint and WorldCom, Inc. announced that the boards of directors of both companies terminated their merger agreement, previously announced in 1999, as a result of regulatory opposition to the merger. In the 2000 second quarter, Sprint recognized a pre-tax charge of $187 million for costs associated with the merger. The FON Group recognized $163 million while the PCS Group recognized $24 million.

6. Discontinued Operations

In the 2002 third quarter, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley for $2.23 billion in cash. The sale closed on January 3, 2003 and Sprint will recognize a pre-tax gain of $2.14 billion, $1.3 billion after-tax, in the 2003 first quarter. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," Sprint has presented the assets, liabilities and results of operations of the directory publishing business as a discontinued operation in the consolidated financial statements. Summary financial information is as follows:

	2002	2001
	(millions)	
Assets of discontinued operation:		
Accounts receivable, net	$277	$260
Prepaids	99	109
Other assets	15	8
Total assets of discontinued operation	$391	$377
Liabilities of discontinued operation:		
Advance billings and other	$299	$290

	2002	2001	2000
		(millions)	
Net operating revenues	$546	$556	$459
Income before income taxes	$255	$249	$263

In the 2000 first quarter, Sprint sold its interest in Global One to France Telecom and Deutsche Telekom AG. Sprint received $1.1 billion in cash and was repaid $276 million for advances for its entire stake in Global One. As a result of Sprint's sale of its interest in Global One, Sprint's after-tax gain on the sale of $675 million has been reported with discontinued operations in 2000.

7. Cumulative Effect of Changes in Accounting Principles

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 became effective for Sprint on January 1, 2001 and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities and requires recognition of all derivatives on the balance sheet at fair value, regardless of the hedging relationship designation. Accounting for the changes in the fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of the relationships designated are based on the exposures hedged. Changes in fair value of derivatives designated as fair value hedges are recognized in earnings along with fair value changes of the hedged item. Changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings. Changes in fair value of derivative instruments that do not qualify for hedge relationship designation are recognized in earnings.

Upon adoption of SFAS No. 133, Sprint recorded a cumulative adjustment to net income of $2 million (net of tax of $1 million) and a cumulative reduction in other comprehensive income of $9 million. The $2 million cumulative adjustment was due to recognizing the fair value of the stock warrants held by the PCS Group that are not designated as hedging instruments and is recorded in "Cumulative effect of changes in accounting principles, net" in Sprint's Consolidated Statements of Operations. The total fair value of the stock warrants held by the FON Group on the date of adoption was not material and required no transition adjustment to earnings. The reduction in other comprehensive income results from recognizing the fair value of cash flow hedges held by the FON Group and is recorded in "Cumulative effect of change in accounting principle" in Sprint's Consolidated Statements of Comprehensive Income (Loss). The net derivative losses included in accumulated other comprehensive income as of December 31, 2001 were reclassified into earnings in the 2002 second quarter.

Sprint implemented SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," during the fourth quarter of 2000, effective as of the beginning of that year. This bulletin requires activation and installation fee revenues that do not represent a separate earnings process to be deferred and recognized over the estimated service period. Associated incremental direct costs may also be deferred, but only to the extent of revenues subject to deferral. The FON Group recorded a $2 million charge for the cumulative effect of change in accounting principle in 2000.

8. Employee Benefit Plans

Defined Benefit Pension Plan

Most FON Group and PCS Group employees are covered by a noncontributory defined benefit pension plan. Benefits for plan participants belonging to unions are based on negotiated schedules. For non-union participants, pension benefits are based on years of service and the participants' compensation.

Sprint's policy is to make plan contributions equal to an actuarially determined amount consistent with federal tax regulations. The funding objective is to accumulate funds at a relatively stable rate over the participants' working lives so benefits are fully funded at retirement.

The following table shows the changes in the projected benefit obligation:

	2002	2001
	(millions)	
Beginning balance	$3,005	$2,634
Service cost	103	92
Interest cost	221	209
Amendments	14	12
Termination benefits	10	40
Actuarial loss	344	162
Benefits paid	(161)	(144)
Ending balance	$3,536	$3,005

The following table shows the changes in plan assets:

	2002	2001
	(millions)	
Beginning balance	$2,996	$3,376
Actual loss on plan assets	(387)	(236)
Benefits paid	(161)	(144)
Ending balance	$2,448	$2,996

At year-end, the funded status and amounts recognized in the Consolidated Balance Sheets for the plan were as follows:

	2002	2001
	(millions)	
Projected benefit obligation in excess of plan assets	$(1,088)	$ (9)
Unrecognized net losses	1,445	381
Unrecognized prior service cost	95	95
Unamortized transition asset	(7)	(24)
Net amount recognized	$ 445	$443

Amounts recognized in the Consolidated Balance Sheets consist of:

	2002	2001
	(millions)	
Prepaid pension cost	$ —	$443
Pension benefit obligations	(807)	—
Intangible asset	95	—
Accumulated other comprehensive income	1,157	—
Net amount recognized	$ 445	$443

Amounts included for the plan in the Consolidated Balance Sheets include accrued pension expense of $718 million at year-end 2002 and prepaid pension expense of $474 million at year-end 2001 for the FON Group, and accrued pension expense of $89 million at year-end 2002 and $31 million at year-end 2001 for the PCS Group.

In accordance with SFAS No. 87, the Company recorded an additional minimum pension liability of $1,252 million representing the excess of the unfunded accumulated benefit obligation over plan assets and accrued pension costs. The additional minimum pension liability was $1,217 million for the FON Group and $35 million for the PCS Group at December 31, 2002. An intangible asset equal to the unrecognized prior service costs of $95 million was established for the FON Group. The remaining $1,122 million for the FON Group and $35 million for the PCS Group, totaling $1,157 million for Sprint, resulted in a charge to equity, net of taxes, of $691 million for the FON Group and $22 million for the PCS Group, totaling $713 million for Sprint, at December 31, 2002.

The net pension credit consisted of the following:

	2002	2001	2000
		(millions)	
Service cost—benefits earned during the year	$ 103	$ 92	$ 77
Interest on projected benefit obligation	221	209	194
Expected return on plan assets	(331)	(353)	(336)
Amortization of unrecognized transition asset	(17)	(23)	(25)
Recognition of prior service cost	14	13	12
Recognition of actuarial gains	(2)	(26)	(37)
Special early retirement benefits associated with restructuring	10	40	–
Net pension credit	$ (2)	$ (48)	$ (115)
Discount rate	7.50%	8.00%	8.25%
Expected long-term rate of return on plan assets	9.50%	10.00%	10.00%
Expected blended rate of future pay raises	4.25%	4.50%	5.25%

Net periodic pension income for the FON Group was $26 million in 2002, $66 million in 2001, and $122 million in 2000. Net periodic pension expense for the PCS Group was $24 million in 2002, $18 million in 2001, and $7 million in 2000.

Weighted average assumptions as of December 31 consisted of the following:

	2002	2001	2000
Discount rate	6.75%	7.50%	8.00%
Expected long-term rate of return on plan assets	9.00%	9.50%	10.00%
Expected blended rate of future pay raises	4.25%	4.25%	4.50%

Defined Contribution Plans

Sprint sponsors defined contribution employee savings plans covering most FON Group and PCS Group employees. Participants may contribute portions of their pay to the plans. For union employees, Sprint matches contributions based on negotiated amounts. Sprint matches contributions of non-union employees in FON stock and PCS stock. The matching is equal to 50% of participants' contributions up to 6% of their pay. In addition, Sprint may, at the discretion of its Board of Directors, provide additional matching contributions based on the performance of FON stock and PCS stock compared to other telecommunications companies' stock. Sprint's matching contributions were $105 million in 2002 and $103 million in 2001 and 2000. The FON Group recorded expenses of $83 million in 2002, $85 million in 2001 and $86 million in 2000 for Sprint's matching contributions, and the PCS Group recorded expenses of $22 million in 2002, $18 million in 2001 and $17 million in 2000. At year-end 2002, the plans held 42 million FON shares with a market value of $608 million and dividends reinvested into the plan of $20 million. At year-end 2002, the plans held 52 million PCS shares with a market value of $227 million.

Postretirement Benefits

Sprint provides postretirement benefits (mainly medical and life insurance) to most FON Group and PCS Group employees. Employees who retired before certain dates are eligible for benefits at no cost, or at a reduced cost. Employees who retire after certain dates are eligible for benefits on a shared-cost basis. Sprint funds the accrued costs as benefits are paid.

In the 2001 third quarter, Sprint adopted amendments to two postretirement benefit plans. As a result of the amendments, the life insurance benefit is eliminated for employees retiring after 2003 and the postretirement medical insurance plan was replaced with a Sprint-funded account to be managed by the employee. The plan amendment to the Sprint retiree medical insurance plan reduced the accumulated postretirement benefit obligation and reduced employee benefits attributed to employee service already rendered. Sprint recognized a curtailment gain from this amendment of $120 million, $75 million after tax.

The following table shows the changes in the accumulated postretirement benefit obligation:

	2002	2001
	(millions)	
Beginning balance	$ 878	$ 910
Service cost	16	18
Interest cost	62	68
Amendments	—	(230)
Actuarial losses	178	166
Benefits paid	(57)	(54)
Ending balance	$1,077	$ 878

Amounts included in the Consolidated Balance Sheets at year-end were as follows:

	2002	2001
	(millions)	
Accumulated postretirement benefit obligation	$1,077	$ 878
Plan assets	(35)	(39)
Unrecognized transition obligation	10	11
Unrecognized prior service benefit	170	177
Unrecognized net loss	(317)	(97)
Accrued postretirement benefits cost	$ 905	$ 930
Discount rate	6.75%	7.50%

The amounts of accrued postretirement benefit costs included in the Consolidated Balance Sheets are $902 million at year-end 2002 and $927 million at year-end 2001 for the FON Group, and $3 million at year-end 2002 and 2001 for the PCS Group.

The assumed 2003 annual health care cost trend rate is 9.0% gradually decreasing to an ultimate level of 5% by 2011. A 1% increase in the rates would have increased the 2002 accumulated postretirement benefit obligation by an estimated $100 million. A 1% decrease would have reduced the obligation by an estimated $83 million.

The net postretirement benefits cost consisted of the following:

	2002	2001	2000
		(millions)	
Service cost—benefits earned during the year	$ 16	$ 18	$ 17
Interest on accumulated postretirement benefit obligation	62	68	71
Expected return on assets	(3)	(4)	(3)
Recognition of transition obligation	(1)	(1)	(1)
Recognition of prior service cost	(58)	(33)	(8)
Recognition of actuarial gains	14	(2)	(14)
Net periodic postretirement benefits cost	$ 30	$ 46	$ 62
Curtailment gain	$ —	$(120)	$ —
Discount rate	7.50%	8.00%	8.25%

The FON Group recorded net periodic postretirement benefit expense of $29 million in 2002, $45 million in 2001, and $62 million in 2000. The PCS Group recorded net periodic postretirement benefit expense of $1 million in 2002 and in 2001, and $0.2 million in 2000.

For measurement purposes, the assumed 2002 weighted average annual health care cost trend rates were 8.5% before Medicare eligibility and 9.0% after Medicare eligibility. Both rates gradually decrease to an ultimate level of

5.0% by 2010. A 1.0% increase in the rates would have increased the 2002 postretirement benefits service and interest costs by an estimated $6 million. A 1.0% decrease would have reduced the 2002 postretirement benefits service and interest costs by an estimated $5 million.

9. Income Taxes

Income tax expense (benefit) allocated to continuing operations consists of the following:

2002	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
		(millions)	
Current income tax expense (benefit)			
Federal	$(600)	$(244)	$(356)
State	(3)	(9)	6
Total current	(603)	(253)	(350)
Deferred income tax expense (benefit)			
Federal	544	602	(58)
State	12	58	(46)
Total deferred	556	660	(104)
Foreign income tax expense	8	—	8
Total	$ (39)	$ 407	$(446)

2001	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
		(millions)	
Current income tax expense (benefit)			
Federal	$ (92)	$ 100	$(188)
State	57	50	7
Total current	(35)	150	(181)
Deferred income tax benefit			
Federal	(552)	(182)	(370)
State	(135)	(48)	(87)
Total deferred	(687)	(230)	(457)
Total	$(722)	$ (80)	$(638)

2000	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
		(millions)	
Current income tax expense (benefit)			
Federal	$ (63)	$342	$ (405)
State	34	42	(8)
Total current	(29)	384	(413)
Deferred income tax expense (benefit)			
Federal	(171)	340	(511)
State	(31)	49	(80)
Total deferred	(202)	389	(591)
Total	$(231)	$773	$(1,004)

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

2002	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
		(millions)	
Income tax expense (benefit) at the federal statutory rate	$ 150	$ 508	$(358)
Effect of:			
State income taxes, net of federal income tax effect	6	32	(26)
Equity in losses of foreign joint ventures	(55)	2	(57)
Decrease in valuation allowance for previous investment write downs	(130)	(130)	—
Other, net	(10)	(5)	(5)
Income tax expense (benefit)	$ (39)	$ 407	$(446)
Effective income tax rate	(9.1)%	28.0%	43.6%

2001	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
		(millions)	
Income tax benefit at the federal statutory rate	$(796)	$(132)	$(660)
Effect of:			
State income taxes, net of federal income tax effect	(51)	1	(52)
Equity in losses of foreign joint ventures	40	1	39
Write down of equity method investment	57	57	—
Goodwill amortization	44	6	38
Other, net	(16)	(13)	(3)
Income tax benefit	$(722)	$ (80)	$(638)
Effective income tax rate	31.8%	21.3%	33.8%

2000	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
		(millions)	
Income tax expense (benefit) at the federal statutory rate	$(337)	$ 668	$(1,005)
Effect of:			
State income taxes, net of federal income tax effect	3	60	(57)
Equity in losses of foreign joint ventures	48	25	23
Write down of equity method investment	30	30	—
Goodwill amortization	52	14	38
Other, net	(27)	(24)	(3)
Income tax expense (benefit)	$(231)	$ 773	$(1,004)
Effective income tax rate	24.0%	40.5%	35.0%

Income tax expense (benefit) allocated to other items was as follows:

2002	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
	(millions)		
Discontinued operations	$ 97	$ 97	$ —
Extraordinary items	1	1	—
Additional minimum pension liability[1]	(444)	(431)	(13)
Losses on securities [1]	(18)	(18)	—
Gains on qualifying cash flow hedges [1]	9	9	—
Stock ownership, purchase and option arrangements[2]	(1)	(2)	1

2001	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
	(millions)		
Discontinued operations	$ 98	$ 98	$ —
Extraordinary items	(1)	—	(1)
Losses on securities [1]	(4)	(11)	—
Stock ownership, purchase and option arrangements[2]	(17)	(9)	(8)

2000	Sprint Corporation Consolidated	Sprint FON Group	Sprint PCS Group
	(millions)		
Discontinued operations	$ 475	$ 475	$ —
Extraordinary items	(3)	(1)	(2)
Losses on securities [1]	(28)	(26)	(2)
Stock ownership, purchase and option arrangements[2]	(424)	(276)	(148)

[1] *These amounts have been recorded directly to “Shareholders’ equity—Accumulated other comprehensive income (loss)” in the Consolidated Balance Sheets.*

[2] *These amounts have been recorded directly to “Shareholders’ equity— Capital in excess of par or stated value” in the Consolidated Balance Sheets.*

Sprint recognizes deferred income taxes for the temporary differences between the carrying amounts of its assets and liabilities for financial statement purposes and their tax bases. The sources of the differences that give rise to the deferred income tax assets and liabilities at year-end 2002 and 2001, along with the income tax effect of each, were as follows:

	Sprint Corporation Consolidated 2002 Deferred Income Tax		Sprint FON Group 2002 Deferred Income Tax		Sprint PCS Group 2002 Deferred Income Tax	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
			(millions)			
Property, plant and equipment	$ —	$4,465	$ —	$2,344	$ —	$2,121
Intangibles	—	936	—	465	—	471
Postretirement and other benefits	810	—	797	—	13	—
Reserves and allowances	248	—	55	—	193	—
Unrealized holding gains on investments	—	6	—	6	—	—
Operating loss carryforwards	3,196	—	271	—	2,925	—
Tax credit carryforwards	288	—	—	—	288	—
Other, net	219	—	126	—	93	—
	4,761	5,407	1,249	2,815	3,512	2,592
Less valuation allowance	573	—	217	—	356	—
Total	$4,188	$5,407	$1,032	$2,815	$3,156	$2,592

	Sprint Corporation Consolidated 2001 Deferred Income Tax		Sprint FON Group 2001 Deferred Income Tax		Sprint PCS Group 2001 Deferred Income Tax	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
			(millions)			
Property, plant and equipment	$ —	$3,302	$—	$1,696	$ —	$1,606
Intangibles	—	868	—	464	—	404
Postretirement and other benefits	375	—	375	—	—	—
Reserves and allowances	349	—	243	—	106	—
Unrealized holding gains on investments	—	15	—	15	—	—
Operating loss carryforwards	2,685	—	246	—	2,439	—
Tax credit carryforwards	176	—	—	—	176	—
Other, net	181	—	115	—	66	—
	3,766	4,185	979	2,175	2,787	2,010
Less valuation allowance	686	—	353	—	333	—
Total	$3,080	$4,185	$626	$2,175	$2,454	$2,010

Management believes it is more likely than not that these deferred income tax assets, net of the valuation allowance, will be realized based on current income tax laws and expectations of future taxable income stemming from the reversal of existing deferred tax liabilities or ordinary operations. Uncertainties surrounding income tax law changes, shifts in operations between state taxing jurisdictions and future operating income levels may, however, affect the ultimate realization of all or some of these deferred income tax assets.

The valuation allowance related to deferred income tax assets decreased $113 million in 2002 and increased $88 million in 2001.

In 2002, Sprint reached a definitive agreement to sell its directory publishing business to R.H. Donnelley. Due to the anticipated gain on the sale, Sprint recognized $292 million of tax benefits in the third quarter of 2002 on previously recorded investment losses.

The foreign component of income (loss) from continuing operations totaled $(273) million, $(234) million, and $(236) million in 2002, 2001 and 2000, respectively.

In 1999, Sprint acquired approximately $193 million of potential tax benefits related to net operating loss carryforwards in the acquisitions of the broadband fixed wireless companies. In 1998, Sprint acquired approximately $229 million of potential tax benefits related to net operating loss carryforwards in the PCS Restructuring. The benefits from the acquisitions and PCS Restructuring are subject to certain realization restrictions under various tax laws. A valuation allowance was provided for the total of these benefits. If these benefits are subsequently recognized, they will reduce goodwill or intangibles resulting from the application of the purchase method of accounting for these transactions.

In connection with the PCS Restructuring, the PCS Group is required to reimburse the FON Group and the Cable Partners for net operating loss and tax credit carryforward benefits generated before the PCS Restructuring if realization by the PCS Group produces a cash benefit that would not otherwise have been realized. The reimbursement will equal 60% of the net cash benefit received by the PCS Group and will be made to the FON Group in cash and to the Cable Partners in shares of Series 2 PCS stock. The carryforward benefits subject to this requirement total $259 million, which includes the $229 million acquired in the PCS Restructuring.

At year-end 2002, Sprint had federal operating loss carryforwards of approximately $7.4 billion and state operating loss carryforwards of approximately $12.3 billion. Related to these loss carryforwards are federal tax benefits of $2.6 billion and state tax benefits of $858 million. In addition, Sprint had available, for income tax purposes, federal alternative minimum tax net operating loss carryforwards of $5.6 billion and state alternative minimum tax net operating loss carryforwards of $1.4 billion. The loss carryforwards expire in varying amounts through 2022.

10. Short-term Borrowings and Current Maturities of Long-term Debt

Sprint's consolidated short-term borrowings and current maturities of long-term debt at year-end were as follows:

	2002			2001		
	FON Group	PCS Group	Consolidated	FON Group	PCS Group	Consolidated
			(millions)			
Current maturities of long-term debt	$ 779	$653	$1,432	$1,258	$ 1,310	$ 2,568
Short-term borrowings						
Trade receivables securitization[(1)]	455	—	455	—	—	—
Notes payable and commercial paper[(2)]	—	—	—	1,118	2,715	3,833
	1,234	653	1,887	2,376	4,025	6,401
Less short-term borrowings reclassed to long-term debt	—	—	—	(320)	(1,680)	(2,000)
Short-term borrowings and current maturities of long-term debt	$1,234	$653	$1,887	$2,056	$ 2,345	$ 4,401

(1) These borrowings were incurred under a financing agreement, entered into in 2002. To secure repayment of the loans, the lenders have been granted a security interest in certain FON Group trade accounts receivable. Sprint's weighted average interest rate related to these borrowings was 2.5% for the year-ended 2002.

(2) Notes payable had a weighted average interest rate of 2.7% at year-end 2001. Commercial paper had a weighted average interest rate of 3.2% at year-end 2001.

At year-end 2002, Sprint had no notes payable or commercial paper outstanding. Sprint had bank notes payable totaling $635 million and commercial paper borrowings totaling $3.2 billion at year-end 2001.

In August 2002, Sprint closed on a new $700 million global markets division accounts receivable asset securitization facility that replaced the previous $1 billion facility. The reduction in size was due primarily to a smaller gross receivable pool for the global markets division at that time versus 1999 when the original facility was established. The new facility is a three-year program subject to annual renewals. As of December 31, 2002, Sprint had drawn $455 million from this facility which was collateralized by approximately $1.5 billion of gross receivables.

In August 2002, Sprint closed on a new $1.5 billion revolving bank credit facility. The facility is unsecured, with no springing liens, and is structured as a 364-day credit line with a subsequent one-year, $1.0 billion term out option. This new facility replaced an existing $2 billion facility that would have expired in August 2003. In previous periods, the unused $2 billion facility supported Sprint's reclassification of short-term borrowings to long-term debt. At the end of 2001, Sprint had reclassified $2 billion of commercial paper borrowings and other bank notes to long-term debt. At the end of December 2002, Sprint had short-term borrowings of $455 million related to the previously noted global markets division asset securitization facility.

In June 2002, Sprint closed on a new PCS Group accounts receivable asset securitization facility. This facility provides Sprint with up to $500 million of additional liquidity. This is a three-year facility, subject to annual renewals. To date, Sprint has not drawn against the facility. At December 31, 2002, the facility was collateralized by $1.1 billion of gross receivables.

At year-end 2002, Sprint had total unused lines of credit of $1.8 billion. In addition, Sprint had standby letters of credit serving as backup to various obligations of approximately $125 million at year-end 2002.

11. Long-term Debt and Capital Lease Obligations

Sprint's consolidated long-term debt and capital lease obligations at year-end was as follows:

		2002			2001		
	Maturing	FON Group	PCS Group	Consolidated	FON Group	PCS Group	Consolidated
				(millions)			
Senior notes							
5.7% to 9.5%[1]	2002 to 2032	$1,709	$16,032	$17,741	$1,672	$12,545	$14,217
Debentures and notes							
6.1% to 9.3%	2003 to 2022	500	—	500	500	—	500
First mortgage bonds							
6.3% to 9.8%	2002 to 2025	866	—	866	1,064	—	1,064
Trade receivables securitization							
Variable rates[2]	2002	—	—	—	820	—	820
Capital lease obligations							
1.7% to 11.2%	2002 to 2008	49	290	339	55	324	379
Other	2002 to 2007	391	—	391	85	4	89
		3,515	16,322	19,837	4,196	12,873	17,069
Add short-term borrowings reclassed to long-term debt		—	—	—	320	1,680	2,000
Less current maturities of long-term debt		(779)	(653)	(1,432)	(1,258)	(1,310)	(2,568)
Long-term debt and capital lease obligations		$2,736	$15,669	$18,405	$3,258	$13,243	$16,501

(1) *These borrowings were incurred by Sprint and allocated to the applicable group. Sprint's weighted average effective interest rate related to these borrowings was 7.3% for the year-ended 2002 and 6.9% for the year-ended 2001. The weighted average effective interest rate related to the borrowings allocated to the PCS Group was approximately 9.1% for the year-ended 2002 and 8.7% for the year-ended 2001. See Note 1 for a more detailed description of how Sprint allocates financing to each of the groups.*

(2) *These borrowings were incurred under a financing agreement entered into in 1999. To secure repayment of the loans, the lenders were granted a security interest in certain FON Group trade accounts receivable. Sprint's weighted average interest rate related to these borrowings was 4.5% for the year-ended 2001. A new financing agreement was executed in August 2002. The new agreement is included in short-term borrowings.*

Scheduled principal payments during each of the next five years are as follows:

	Sprint FON Group	Sprint PCS Group	Consolidated
		(millions)	
2003	$ 779	$ 653	$1,432
2004[1]	38	1,472	1,510
2005	172	1,019	1,191
2006	9	842	851
2007	1,022	750	1,772

[1] *This includes a $300 million loan with Export Development Canada (EDC) due in 2004. EDC is a Canadian "Crown" corporation devoted exclusively to providing financial services to support Canadian exporters. Sprint has historically made significant purchases from Canadian-based companies and we anticipate this loan will be renewed.*

Included in the above schedule are payments to be made in connection with various capital lease obligations. A substantial portion of these payments will be in Japanese yen and Sprint already satisfied this obligation by depositing the present value of the future yen payment obligations at various banks. These amounts are included on the Consolidated Balance Sheet in "Other Assets." Based on December 31, 2002 outstanding balances, total payments included in the above schedule are $1 million in 2003, $24 million in 2004, $51 million in 2005, $96 million in 2006, and $6 million in 2007.

In December 2002, Sprint repaid $150 million of notes payable relating to a revolving credit facility. Sprint made a $150 million investment in the entity that provided this credit at the time it was formed in 1997. Sprint liquidated this investment and received a cash distribution approximating its original investment.

In December 2002, Sprint repaid, before scheduled maturities, $67 million of its long-term unsecured debt allocated to the FON Group. These borrowings had interest rates ranging from 6.0% to 7.125% and maturities ranging from 2006 to 2008. This resulted in a $3 million after-tax extraordinary gain for Sprint.

In March 2002, Sprint issued $5 billion of debt securities through a private placement. These borrowings have interest rates ranging from 7.9% to 8.8% and maturities ranging from 2005 to 2032. The proceeds were allocated 5% to the FON Group and 95% to the PCS Group and were used to repay debt and for general corporate purposes. As a condition to the sale of the securities, Sprint conducted an exchange offer that allowed the original securities to be exchanged for substantially identical securities registered with the Securities and Exchange Commission (SEC). This exchange offer was completed in June 2002.

In the 2001 fourth quarter, Sprint issued $1.75 billion of debt securities through a private placement. These borrowings have an interest rate of 6.0% and mature in 2007. The proceeds were allocated approximately 60% to the FON Group and 40% to the PCS Group and were used to repay debt and to fund capital investments and working capital requirements. As a condition to the sale of the securities, Sprint conducted an exchange offer that allowed the original securities to be exchanged for substantially identical securities registered with the SEC. The exchange offer terminated in February 2002.

In the 2001 fourth quarter, Sprint redeemed, before scheduled maturities, $558 million of senior notes and senior discount notes of the PCS Group. These notes had interest rates ranging from 11.0% to 12.5%. This resulted in an after-tax extraordinary loss for Sprint of less than $1 million.

In the 2001 first quarter, Sprint repaid, before scheduled maturities, $18 million of first mortgage bonds allocated to the FON Group. These bonds had an interest rate of 9.9%. This resulted in a $1 million after-tax extraordinary loss for Sprint.

In the 2001 first quarter, Sprint issued $2.4 billion of debt securities. These borrowings have interest rates ranging from 7.1% to 7.6% and mature in 2006 and 2011. The proceeds were allocated to the PCS Group and used to repay debt and to fund capital investments and working capital requirements.

In the 2000 fourth quarter, Sprint redeemed, before scheduled maturities, $25 million of debt allocated to the FON Group. These borrowings had a weighted average interest rate of 9.6%. This resulted in a $1 million after-tax extraordinary loss for Sprint.

In the 2000 second quarter, Sprint issued $1.25 billion of debt securities. These borrowings matured in 2002 and had interest rates ranging from 6.9% to 7.6%. The proceeds were allocated to the PCS Group and used to repay debt and to fund capital investments and working capital requirements.

In the 2000 first quarter, Sprint exchanged 6.6 million common shares of SBC Communications, Inc. for certain notes payable allocated to the FON Group. The notes had a market value of $275 million on the maturity date. The notes had an interest rate of 8.3%.

In the 2000 first quarter, Sprint repaid, before scheduled maturities, $127 million of notes payable allocated to the PCS Group. These notes had an interest rate of 7.8%. This resulted in a $3 million after-tax extraordinary loss for Sprint.

Other

Substantially all of Sprint's senior notes, including the senior notes issued in connection with Sprint's equity units, have been issued by Sprint Capital Corporation, a wholly-owned finance subsidiary, and have been fully and unconditionally guaranteed by Sprint, the parent corporation.

The indentures and financing agreements of certain other of Sprint's subsidiaries contain provisions limiting cash dividend payments on subsidiary common stock held by Sprint. As a result, $545 million of those subsidiaries' $1.9 billion total retained earnings were restricted at year-end 2002. The flow of cash in the form of advances from the subsidiaries to Sprint is generally not restricted.

Sprint gross property, plant and equipment totaling $16.1 billion was either pledged as security for first mortgage bonds and certain notes or is restricted for use as mortgaged property.

Sprint has complied with all restrictive and financial covenants relating to its debt arrangements at year-end 2002.

12. Equity Unit Offering

In the 2001 third quarter, Sprint completed a registered offering of 69 million equity units, each with a stated amount of $25. Net proceeds from the issuance were approximately $1.7 billion after deducting the underwriting discount and other offering expenses. The proceeds were allocated to the PCS Group and used to repay debt and to fund capital investments and working capital requirements.

Each equity unit initially consists of a corporate unit. Each corporate unit consists of a purchase contract and $25 principal amount of senior notes (Notes) of Sprint's wholly owned subsidiary, Sprint Capital Corporation. The corporate unit may be converted by the holder into a treasury unit consisting of the purchase contract and a treasury portfolio of zero-coupon U.S. treasury securities by substituting the treasury securities for the Notes. The holder of the equity unit owns the underlying Notes or treasury portfolio, but pledges the Notes or portfolio to Sprint to secure its obligations under the purchase contract.

Purchase Contract

As a component of the equity unit, the purchase contract obligates the holder to purchase, and obligates Sprint to sell, on August 17, 2004, a variable number of newly issued shares of PCS common stock ranging from approximately 58 million to 70 million shares depending on the market price of PCS common stock. At current market prices, Sprint would be obligated to issue the maximum number of shares. Sprint will make quarterly contract adjustment payments of 1.125% on the $25 stated amount per year until the purchase contract is settled, although it has the right to defer these payments until August 17, 2004. The fair value of this obligation is classified as an other liability on the Consolidated Balance Sheets.

These contingently issuable shares have not been included in the diluted earnings per share calculation because their effect is currently antidilutive.

Notes

The Notes initially bear interest, payable quarterly in arrears, at the rate of 6% per annum. Sprint is obligated to remarket the Notes in 2004, at which time the interest rate will be reset. The Notes mature August 17, 2006.

The corporate units are listed on the New York Stock Exchange under the symbol “SDE.”

13. Redeemable Preferred Stock

The redeemable preferred stock outstanding, at year-end, is as follows:

	2002	2001
	(millions, except per share and share data)	
Seventh series preferred stock—stated value $1,000 per share, 246,766 shares, voting, cumulative $6.73 quarterly dividend rate	$246	$246
Fifth series preferred stock—stated value $100,000 per share, 95 shares—voting, cumulative 6% annual dividend rate	10	10
	$256	$256

Seventh Series Preferred Stock

As part of the PCS Restructuring, Sprint issued to the Cable Partners a new series of convertible preferred stock currently convertible into approximately 65 PCS shares for each Seventh series share. If not converted by the holder or earlier redeemed by Sprint, the Seventh series preferred stock will become mandatorily redeemable on the tenth anniversary of the PCS Restructuring in 2008.

Fifth Series Preferred Stock

Sprint's Fifth series preferred stock must be repurchased or redeemed in full in 2003. Sprint and the holder of the Fifth series preferred stock have agreed that Sprint will repurchase the outstanding shares on March 14, 2003 for the repurchase price of $100,000 per share plus accrued dividends.

14. Common Stock

In the 2001 fourth quarter, 0.4 million shares of PCS common stock underlying Class A DT common stock were converted into shares of Series 1 PCS common stock. After this conversion, the Class A DT shares were cancelled.

In the 2001 third quarter, Sprint completed a registered offering of 23.5 million shares of its Series 1 PCS common stock. Net proceeds from the issuance were approximately $561 million after deducting the underwriting discount and other offering expenses. The proceeds were used to repay debt, and to fund capital investments and working capital requirements.

In conjunction with the above offering, DT sold 57 million shares of PCS common stock. Sprint did not receive any of the proceeds from the sale of shares by DT. Upon the sale, 21.2 million shares of PCS common stock underlying Class A DT common stock and 35.8 million shares of Series 3 PCS common stock were converted into shares of Series 1 PCS common stock.

In the 2001 second quarter, Sprint completed a registered offering on behalf of FT and DT in which they sold 174.8 million shares of FON common stock. Sprint did not receive any proceeds from this offering. Upon the sale, 86.2 million shares of FON common stock underlying Class A common stock and 88.6 million shares of Series 3 FON common stock were converted into shares of Series 1 FON common stock.

Classes of Common Stock

Series 1 FON common stock—Designated for general public—At the end of 2002, authorized shares totaled 2.5 billion, issued and outstanding shares totaled 895.1 million.

Series 1 PCS common stock—Designated for general public—At the end of 2002, authorized shares totaled 3.0 billion, issued and outstanding shares totaled 684.7 million.

Series 2 FON common stock—Designated for Cable Partners—At the end of 2002, authorized shares totaled 500 million. There have been no shares issued.

Series 2 PCS common stock—Designated for Cable Partners—At the end of 2002, authorized shares totaled 1.0 billion, issued and outstanding shares totaled 280.7 million.

Series 3 FON common stock—Designated for FT and DT—At the end of 2002, authorized shares totaled 1.2 billion. There are no outstanding shares.

Series 3 PCS common stock—Designated for FT and DT—At the end of 2002, authorized shares totaled 600 million, issued and outstanding shares totaled 34.4 million, all of which are owned by FT.

Class A FT common stock—At the end of 2002, authorized shares totaled 100 million, issued and outstanding shares totaled 43.1 million. Each share represents the right to 50% of a share of Series 1 PCS common stock.

Common Stock Reserved for Future Grants

At year-end 2002, common stock reserved for future grants under stock option plans and the employees stock purchase plan or for future issuances under various other arrangements was as follows:

Sprint FON Group

	Shares
	(millions)
Employees Stock Purchase Plan	4.3
Employee savings plans	4.9
Automatic Dividend Reinvestment Plan	2.3
Officer and key employees' and directors' stock options	11.5
Other	1.3
	24.3

Sprint PCS Group

	Shares
	(millions)
Employees Stock Purchase Plan	—
Employee savings plans	6.6
Officer and key employees' and directors' stock options	13.7
Warrants issued to Cable Partners	24.9
Conversion of preferred stock and other	17.0
Purchase contract underlying Equity Unit Notes	70.4
	132.6

Shareholder Rights Plan

Under Sprint's Shareholder Rights Plan, one half of a preferred stock purchase right is attached to each share of FON stock and PCS stock and one preferred stock purchase right is attached to each share of Class A common stock. The rights may be redeemed by Sprint at $0.01 per right and will expire in June 2007, unless extended. The rights are exercisable only if certain takeover events occur and are entitled to the following:

- Each FON stock right entitles the holder to purchase 1/1,000 of a share (Unit) of a no par Preferred Stock-Sixth Series at $275 per Unit.

- Each PCS stock right entitles the holder to purchase a Unit of a no par Preferred Stock-Eighth Series at $150 per Unit.

- Each Class A right entitles the holder to purchase 1/4 Unit of Preferred Stock-Eighth Series at $37.50 per 1/4 Unit.

Preferred Stock-Sixth Series is voting, cumulative and accrues dividends on a quarterly basis generally equal to the greater of $100 per share or 2,000 times the total per share amount of all FON common stock dividends. Preferred Stock-Eighth Series has the same features as the Sixth Series, but applies to PCS shares. No Preferred Stock-Sixth Series or Preferred Stock-Eighth Series were issued or outstanding at year-end 2002 or 2001.

15. Stock-based Compensation

After the 1999 FON and 2000 PCS stock splits, the number of shares and the related exercise prices of outstanding options and Employees Stock Purchase Plan (ESPP) share elections were adjusted to maintain the total intrinsic value of the options and the value of share elections.

During 2002, the FON Group paid $73 million to the PCS Group to compensate for the net amount of PCS stock-based compensation granted to FON Group employees less FON stock-based compensation granted to PCS Group employees. The FON Group paid the PCS Group $160 million in 2001 and $80 million in 2000 for stock-based compensation. The value paid for stock-based compensation is determined at the time of the grants.

During 2000, options and restricted stock outstanding for more than one year at the date of shareholder approval of Sprint's proposed merger with WorldCom became fully vested as of that date.

During 2000, the Sprint Board of Directors approved an Exchange Program to give Sprint employees an election to cancel stock options granted to them in 2000 in exchange for an equal number of new options to be granted in the future with generally more extended vesting schedules. No members of Sprint's Board of Directors were eligible for the Exchange Program. Under the terms of the Exchange Program, 16.2 million FON options and 13.1 million PCS options were cancelled on November 10, 2000. The new options were granted on May 11, 2001, and the exercise price was the market price on that date. A total of 15.7 million FON options and 12.4 million PCS options were granted.

Management Incentive Stock Option Plan

Under the Management Incentive Stock Option Plan (MISOP), Sprint grants stock options to employees who are eligible to receive annual incentive compensation. Eligible employees may elect to receive stock options in lieu of a portion of their target incentive under Sprint's annual incentive compensation plans. The options generally become exercisable on December 31 of the year granted and have a maximum term of 10 years. Under the MISOP, Sprint also grants stock options to executives in lieu of long-term incentive compensation (LTIP-MISOP options). The LTIP-MISOP options generally become exercisable on the third December 31 following the grant date and have a maximum term of 10 years. MISOP options are granted with exercise prices equal to the market price of the underlying common stock on the grant date. At year-end 2002, this plan authorized options to buy approximately 42.4 million FON shares and approximately 32.3 million PCS shares, many of which have been granted. The authorized number of shares was increased by approximately 8.0 million FON shares and 8.7 million PCS shares on January 1, 2003.

Stock Option Plan

Under Sprint's 1990 Stock Option Plan (SOP), Sprint grants stock options to directors and employees. The options generally become exercisable at the rate of 25% per year, beginning one year from the grant date, and have a maximum term of 10 years. SOP options are granted with exercise prices equal to the market price of the underlying common stock on the grant date. At year-end 2002, this plan authorized options to buy approximately 67.4 million FON shares and approximately 54.0 million PCS shares, many of which have been granted.

In early 2001, Sprint entered into new employment contracts with Mr. Esrey and Mr. LeMay designed to insure their long-term employment with Sprint, to provide competitive compensation, and to link their compensation to shareholder value. The employment contracts combine, supercede, and amend several earlier agreements between Sprint and each of Messrs. Esrey and LeMay. In return for these agreements, Sprint granted stock options with extended vesting schedules (Employment) to Mr. Esrey and Mr. LeMay.

In 2000, Sprint granted special stock options (Retention) to executives who agreed to defer the benefit of the accelerated vesting of stock options until the close or cancellation of the proposed WorldCom merger. The agreement was designed to retain these executives following Sprint's special meeting of shareholders in connection with the proposed WorldCom merger. In addition, Sprint granted a portion of the annual option grants (Accelerated) normally expected to be made in early 2001 to officers and key employees. The granting of these options was accelerated to help retain employees.

In 1997, Sprint granted performance-based stock options to Mr. Esrey and Mr. LeMay. The FON Group expensed $5 million in 2000 and the PCS Group expensed $3 million in 2000 related to these performance-based stock options. The 2000 amounts reflect expense through the date of the shareholder approval of the proposed WorldCom merger. At that time, all of these options became vested. An additional $29 million of expense related to these options was included in "Merger related costs" in Sprint's 2000 Consolidated Statements of Operations.

Employees Stock Purchase Plan

Under Sprint's ESPP, employees may elect to purchase FON common stock or PCS common stock at a price equal to 85% of the market value on the grant or exercise date, whichever is less. At year-end 2002, this plan authorized for purchase approximately 7.8 million FON shares and approximately 8.7 million PCS shares. Elections have been made by employees participating in the 2002 offering under the ESPP to purchase, in 2003, approximately 3.4 million of the FON shares and all of the PCS shares.

Fair Value Disclosures

The following tables reflect the weighted average fair value per option granted, as well as the significant weighted average assumptions used in determining those fair values using the Black-Scholes pricing model.

In 2001, two SOP grants are presented. This is a result of the Exchange Program. Those individuals that did not accept (or were excluded from) the Exchange Program were granted 2001 SOP options in January, while those that accepted the Exchange Program were granted both the 2000 and 2001 SOP options in May in accordance with the terms of the offer.

FON Common Stock

2002	SOP	MISOP
Fair value on grant date	$ 3.47	$ 4.05
Risk-free interest rate	4.3%	4.3%
Expected volatility	35.2%	35.2%
Expected dividend yield	3.9%	3.5%
Expected life (years)	6	6

2001	MISOP	SOP (Jan)
Fair value on grant date	$ 7.11	$ 8.78
Risk-free interest rate	4.9%	4.9%
Expected volatility	33.7%	32.6%
Expected dividend yield	2.3%	1.9%
Expected life (years)	6	6

2001	SOP (May)	Employment
Fair value on grant date	$ 7.11	$ 7.46
Risk-free interest rate	4.9%	4.8%
Expected volatility	33.7%	33.5%
Expected dividend yield	2.3%	2.2%
Expected life (years)	6	6

2000	MISOP	SOP
Fair value on grant date	$24.24	$23.86
Risk-free interest rate	6.8%	6.1%
Expected volatility	26.7%	26.6%
Expected dividend yield	0.8%	0.8%
Expected life (years)	6	6

2000	Accelerated	Retention
Fair value on grant date	$13.77	$22.92
Risk-free interest rate	6.1%	6.6%
Expected volatility	33.2%	26.7%
Expected dividend yield	1.4%	0.8%
Expected life (years)	6	6

PCS Common Stock

2002	SOP	MISOP
Fair value on grant date	$ 5.99	$ 8.25
Risk-free interest rate	4.3%	4.3%
Expected volatility	72.9%	71.5%
Expected dividend yield	—	—
Expected life (years)	6	6

2001	MISOP	SOP (Jan)
Fair value on grant date	$16.91	$18.50
Risk-free interest rate	4.9%	4.9%
Expected volatility	74.3%	75.4%
Expected dividend yield	—	—
Expected life (years)	6	6

2001	SOP (May)	Employment
Fair value on grant date	$16.91	$17.52
Risk-free interest rate	4.9%	4.8%
Expected volatility	74.3%	75.5%
Expected dividend yield	—	—
Expected life (years)	6	6

2000	MISOP	SOP
Fair value on grant date	$33.06	$33.93
Risk-free interest rate	6.8%	6.1%
Expected volatility	63.2%	67.7%
Expected dividend yield	—	—
Expected life (years)	6	6

2000	Accelerated	Retention
Fair value on grant date	$35.30	$34.83
Risk-free interest rate	6.1%	6.6%
Expected volatility	63.8%	63.2%
Expected dividend yield	—	—
Expected life (years)	6	6

Employees Stock Purchase Plan

During the 2002 ESPP offering, FON Group and PCS Group employees elected to purchase 4.2 million FON and 8.7 million PCS shares. Using the Black-Scholes pricing model, the weighted average fair value was $1.89 per share for each FON election and $1.45 per share for each PCS election.

During the 2001 ESPP offering, FON Group and PCS Group employees elected to purchase 2.0 million FON and 5.5 million PCS shares. Using the Black-Scholes pricing model, the weighted average fair value was $4.37 per share for each FON election and $7.92 per share for each PCS election.

During the 2000 ESPP offering, FON Group and PCS Group employees elected to purchase 2.3 million FON and 5.4 million PCS shares. Using the Black-Scholes pricing model, the weighted average fair value was $12.99 per share for each FON election and $20.68 per share for each PCS election.

Stock Options

Activity under the SOP and MISOP was as follows:

FON Common Stock

	Sprint FON Shares	Weighted Average per Share Exercise Price
	(millions)	
Outstanding, year-end 1999	52.0	$29.48
Granted	24.3	58.61
Exercised	(11.5)	26.32
Forfeited/Expired	(20.0)	58.48
Outstanding, year-end 2000	44.8	33.12
Granted	43.8	25.06
Exercised	(0.8)	14.10
Forfeited/Expired	(7.6)	43.49
Outstanding, year-end 2001	80.2	27.95
Granted	24.2	13.70
Exercised	(0.2)	11.76
Forfeited/Expired	(5.4)	22.80
Outstanding year-end 2002	98.8	$24.78

PCS Common Stock

	Sprint PCS Shares	Weighted Average per Share Exercise Price
	(millions)	
Outstanding, year-end 1999	39.8	$11.64
Granted	19.1	52.68
Exercised	(16.2)	10.84
Forfeited/Expired	(15.8)	52.08
Outstanding, year-end 2000	26.9	17.43
Granted	35.3	26.01
Exercised	(2.7)	9.75
Forfeited/Expired	(3.4)	43.17
Outstanding, year-end 2001	56.1	21.70
Granted	22.8	10.66
Exercised	(0.3)	5.83
Forfeited/Expired	(5.8)	19.93
Outstanding, year-end 2002	72.8	$18.44

The following tables summarize outstanding and exercisable options at year-end 2002:

FON Common Stock

Range of Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
	(millions)	*(years)*	
$10.00 – $14.99	24.1	8.7	$13.54
15.00 – 19.99	6.0	4.1	18.33
20.00 – 29.99	48.6	7.0	22.93
30.00 – 39.99	13.5	5.9	38.52
40.00 – 49.99	2.3	3.9	44.64
50.00 – 59.99	0.6	3.4	53.51
60.00 – 69.99	3.3	5.8	64.69
70.00 – 79.99	0.4	3.7	74.07

Range of Exercise Prices	Options Exercisable Number Exercisable	Weighted Average Exercise Price
	(millions)	
$10.00 – $14.99	12.4	$14.05
15.00 – 19.99	5.6	18.40
20.00 – 29.99	33.6	23.11
30.00 – 39.99	13.2	38.57
40.00 – 49.99	2.3	44.64
50.00 – 59.99	0.6	53.51
60.00 – 69.99	2.8	64.44
70.00 – 79.99	0.4	74.07

PCS Common Stock

Range of Exercise Prices	Options Outstanding Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
	(millions)	*(years)*	
$ 2.00 – $ 5.99	8.1	4.3	$ 4.74
6.00 – 9.99	13.1	8.7	8.78
10.00 – 19.99	17.6	7.5	14.05
20.00 – 29.99	30.3	7.9	24.78
30.00 – 39.99	0.2	4.4	32.91
40.00 – 49.99	0.4	4.2	46.43
50.00 – 59.99	2.7	6.3	53.17
60.00 – 69.99	0.4	5.3	62.82

Range of Exercise Prices	Options Exercisable Number Exercisable	Weighted Average Exercise Price
	(millions)	
$ 2.00 – $ 5.99	8.0	$ 4.74
6.00 – 9.99	1.6	7.91
10.00 – 19.99	17.2	14.11
20.00 – 29.99	17.2	24.67
30.00 – 39.99	0.2	32.91
40.00 – 49.99	0.4	46.45
50.00 – 59.99	2.2	53.29
60.00 – 69.99	0.4	62.82

16. Commitments and Contingencies

Litigation, Claims and Assessments

On September 30, 2002, the U.S. District Court for the District of Kansas granted in substantial part the motion of defendants Sprint and certain of its directors and officers to dismiss a purported class action lawsuit alleging violation of the federal securities laws that was initially filed in June 2001 by New England Healthcare Employees Pension Fund and other institutional shareholders. The allegations that were not dismissed assert that defendants knew in April 2000 that Sprint's proposed merger with WorldCom would be rejected by regulatory authorities but failed to publicly disclose that information. The plaintiffs seek damages in an unspecified amount.

In December 2000, Amalgamated Bank, an institutional shareholder, filed a derivative action purportedly on behalf of Sprint against certain of its current and former officers and directors in the Jackson County, Missouri, Circuit Court. The complaint alleges that the individual defendants breached their fiduciary duties to Sprint and were unjustly enriched by making undisclosed amendments to Sprint's stock option plans, by failing to disclose certain information concerning regulatory approval of the proposed merger of Sprint and WorldCom, and by overstating Sprint's earnings for the first quarter of 2000. The plaintiff seeks damages, to be paid to Sprint, in an unspecified amount.

In July 2002, the Federal Communications Commission released a declaratory ruling in a matter referred to it by the federal district court for the Western District of Missouri in Sprint's suit against AT&T Corp. for the collection of terminating access charges. The FCC ruled that although nothing prohibited wireless carriers from charging for access to their networks, interexchange carriers were not required to pay such charges absent a contractual obligation to do so. The FCC referred the matter back to the Western District of Missouri. This decision has been appealed to the D.C. Circuit Court of Appeals. Management believes adequate provisions have been recorded in the PCS Group's results of operations.

A number of putative class action cases that allege Sprint failed to obtain easements from property owners during the installation of its fiber optic network are in process, some of them seeking certification as nationwide classes. Settlement negotiations directed to a nationwide, industry-wide settlement of these claims have resulted in an agreement, not yet approved by the Court. Sprint recorded a charge for estimated settlement costs of $24 million in the fourth quarter of 2001.

Various other suits arising in the ordinary course of business are pending against Sprint.

While it is not possible to determine the ultimate disposition of each of these proceedings, Sprint believes that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the financial condition or results of operations of Sprint, the FON Group or the PCS Group.

Commitments

The PCS Group has purchase commitments with various vendors to purchase handsets and other equipment through 2007. Outstanding commitments at year-end 2002 were approximately $1.5 billion. Outstanding commitments at year-end 2001 were approximately $2 billion.

The FON Group has purchase commitments with various vendors for network equipment through 2005. Outstanding commitments at year-end 2002 were approximately $460 million. Outstanding commitments at year-end 2001 were approximately $489 million.

Operating Leases

Sprint's minimum rental commitments at year-end 2002 for all noncancelable operating leases, consisting mainly of leases for data processing equipment, real estate, cell and switch sites, and office space, are as follows:

	(millions)
2003	$ 863
2004	696
2005	492
2006	324
2007	154
Thereafter	370

Sprint's gross rental expense totaled $1.3 billion in 2002, $1.2 billion in 2001, and $1.0 billion in 2000. Rental commitments for subleases, contingent rentals and executory costs were not significant. The table excludes renewal options related to certain cell and switch site leases. These renewal options, which are subject to escalation clauses, generally have five-year terms and may be exercised from time to time.

17. Financial Instruments

Fair Value of Financial Instruments

Sprint estimates the fair value of its financial instruments using available market information and appropriate valuation methodologies. As a result, the following estimates do not necessarily represent the values Sprint could realize in a current market exchange. These amounts have not been comprehensively revalued for purposes of these financial statements since December 31, 2002. Therefore, estimates of fair value after year-end 2002 may differ significantly from the amounts presented below.

The carrying amounts and estimated fair values of Sprint's financial instruments at year-end were as follows:

	2002	
	Carrying Amount	Estimated Fair Value
	(millions)	
Cash and equivalents	$ 1,035	$ 1,035
Investments in securities	201	182
Japanese yen[1]	157	157
Total debt	20,292	19,242
Equity units[2]	1,756	504
Redeemable preferred stock	256	206

(1) Yen are held on deposit to satisfy certain capital lease obligations. See Note 11 for additional information.

(2) Equity units include senior notes of $1.725 billion and the purchase contract adjustment payment liability of $31 million. See Note 12 for more information on equity units.

	2001	
	Carrying Amount	Estimated Fair Value
	(millions)	
Cash and equivalents	$ 313	$ 313
Investments in securities	486	390
Japanese yen[(1)]	140	140
Total debt	20,902	20,664
Equity units[(2)]	1,774	1,753
Redeemable preferred stock	256	431

(1) Yen are held on deposit to satisfy certain capital lease obligations. See Note 11 for additional information.

(2) Equity units include senior notes of $1.725 billion and the purchase contract adjustment payment liability of $49 million. See Note 12 for more information on equity units.

The carrying amounts of Sprint's cash and equivalents approximate fair value at year-end 2002 and 2001. The estimated fair value of investments in securities was based on quoted market prices. The estimated fair value of long-term debt was based on quoted market prices for publicly traded issues. The estimated fair value of equity units was based on quoted market prices. The estimated fair value of all other issues was based on either the Black-Scholes pricing model, the present value of estimated future cash flows using a discount rate based on the risks involved, or quoted market prices when available.

Accounting for Derivative Instruments

Accounting Standard

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement became effective for Sprint on January 1, 2001 and establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities and requires recognition of all derivatives on the balance sheet at fair value, regardless of the hedging relationship designation. Accounting for the changes in the fair value of the derivative instruments depends on whether the derivatives qualify as hedge relationships and the types of the relationships designated are based on the exposures hedged. Changes in fair value of derivatives designated as fair value hedges are recognized in earnings along with fair value changes of the hedged item. Changes in fair value of derivatives designated as cash flow hedges are recorded in other comprehensive income and are recognized in earnings when the hedged item affects earnings. Changes in fair value of derivative instruments that do not qualify for hedge relationship designation are recognized in earnings.

Risk Management Policies

Sprint selectively enters into interest rate swap and cap agreements to manage its exposure to interest rate changes on its debt. Sprint also enters into forward contracts and options in foreign currencies to reduce the impact of changes in foreign exchange rates. Sprint's derivative transactions are used principally for hedging purposes and comply with Board-approved policies.

Sprint enters into interest rate swap agreements to minimize exposure to interest rate movements and achieve an optimal mixture of floating and fixed-rate debt while minimizing liquidity risk. The interest rate swap agreements designated as fair value hedges effectively convert Sprint's fixed-rate debt to a floating rate through the receipt of fixed-rate amounts in exchange for floating-rate interest payments over the life of the agreement without an exchange of the underlying principal amount.

Sprint enters into interest rate swap agreements designated as cash flow hedges to reduce the impact of interest rate movements on future interest expense by effectively converting a portion of its floating-rate debt to a fixed rate.

In certain business transactions, Sprint is granted warrants to purchase the securities of other companies at fixed rates. These warrants are supplemental to the terms of the business transactions and are not designated as hedging instruments.

Sprint's foreign exchange risk management program focuses on reducing transaction exposure to optimize consolidated cash flow. Sprint's primary transaction exposure results from net payments made to overseas telecommunications companies for completing international calls made by Sprint's domestic customers. Forward contracts, which function as natural hedges, are used to offset the impact of foreign currency fluctuations in these payments.

Derivative Accounting under the Standard

Sprint's derivative instruments include interest rate swaps, stock warrants, net purchased equity options embedded in forward sale contracts, credit forward contracts, and foreign currency forward contracts. Sprint's derivative transactions are used principally for hedging purposes and comply with Board-approved policies. Senior finance management receives frequent status updates of all outstanding derivative positions.

Interest Rate Swaps

The interest rate swaps met all the required criteria under derivative accounting rules for the assumption of perfect effectiveness resulting in no recognition of changes in their fair value in earnings upon adoption or during the life of the swap. Sprint held both cash flow hedges and fair value hedges in interest rate swaps for some of the periods presented. Sprint no longer holds any interest rate swaps.

In 2001, upon adoption of SFAS No. 133, Sprint recorded a cumulative reduction in other comprehensive income of $9 million. This reduction results from recognizing the fair value of interest rate swap cash flow hedges and is recorded in "Cumulative effect of change in accounting principle" in Sprint's Consolidated Statements of Comprehensive Income (Loss). The net derivative losses included in other accumulated comprehensive income as of December 31, 2001 were reclassified into earnings as they matured during 2002.

Sprint recorded a $12 million pre-tax increase to other comprehensive income for the year ended December 31, 2002, resulting from gains on cash flow hedges. The change in other comprehensive income is included in "Net unrealized gains (losses) on qualifying cash flow hedges" on the Consolidated Statements of Comprehensive Income (Loss).

Sprint recorded a $4 million reduction in other comprehensive income for the year ended December 31, 2001, as a result of losses on cash flow hedges.

Stock Warrants

The stock warrants are not designated as hedging instruments and changes in the fair value of these derivative instruments are recognized in earnings during the period of change.

Sprint recorded net derivative losses in earnings of $3 million after tax for the year ended December 31, 2002 due to changes in the fair value of the stock warrants.

Sprint recorded net derivative gains in earnings of $2 million after tax for the year ended December 31, 2001 due to changes in the fair value of the stock warrants.

In 2001, upon adoption of SFAS No. 133, Sprint recorded a cumulative adjustment to net income of $2 million (net of tax of $1 million). The $2 million cumulative adjustment was due to recognizing the fair value of the stock warrants that are not designated as hedging instruments and is recorded in "Cumulative effect of changes in accounting principles, net" in Sprint's Consolidated Statements of Operations.

Net Purchased Equity Options

The net purchased equity options are designated as cash flow hedges and changes in value are recognized in other comprehensive loss.

Sprint recorded a $17 million after tax increase for the year ended December 31, 2002 resulting from gains on these cash flow hedges. There were no net purchased equity options held for the year ended December 31, 2001. The changes in other comprehensive income are included in "Net unrealized gains (losses) on qualifying cash flow hedges" on the Consolidated Statements of Comprehensive Income (Loss).

Credit Forward Contracts

Sprint held fair value hedges in credit forward contracts during 2002 to hedge changes in fair value of certain debt issues. Because of the high correlation between the credit forward contracts and debt issues being hedged, fluctuations in the value of the credit forward contracts are generally offset by changes in the fair value of the debt issues. The difference between the change in fair value of the credit forward contracts and the underlying debt issues was nominal.

Foreign Currency Contracts

Foreign currency forward contracts held during the period were not designated as hedges and changes in the fair value of these derivative instruments are recognized in earnings during the period of change.

Sprint had outstanding open forward contracts to buy various foreign currencies of $2 million at year-end 2002, $3 million at year-end 2001 and $26 million at year-end 2000. The forward contracts open at year-end 2002, 2001 and 2000 all had original maturities of six months or less. The net gain or loss recorded to reflect the fair value of these contracts is recorded in the period incurred. Including hedge costs, net losses of $0.3 million and $0.8 million were recorded in 2002 and 2001, and a net gain of $0.4 million was recorded in 2000.

Concentrations of Credit Risk

Sprint's accounts receivable are not subject to any concentration of credit risk. Sprint controls credit risk of its interest rate swap agreements and foreign currency contracts through credit approvals, dollar exposure limits and internal monitoring procedures. In the event of nonperformance by the counterparties, Sprint's accounting loss would be limited to the net amount it would be entitled to receive under the terms of the applicable interest rate swap agreement or foreign currency contract. However, Sprint does not anticipate nonperformance by any of the counterparties to these agreements.

18. Additional Financial Information

Segment Information

Sprint is divided into three main lines of business: the global markets division, the local division, and the PCS wireless telephony products and services business, also known as the PCS Group. Other consists primarily of wholesale distribution of telecommunications products.

Sprint manages its segments to the operating income (loss) level of reporting. Items below operating income (loss) are held at a corporate level and only attributed to the FON Group and PCS Group. The reconciliation from operating income to net income is shown on the face of the Consolidated Statements of Operations in the consolidation information.

Sprint generally accounts for transactions between segments based on fully distributed costs, which Sprint believes approximate fair value.

Segment financial information was as follows:

	Global Markets Division[1]	Local Division	Other	PCS Group[1]	Corporate and Eliminations[2]	Consolidated
				(millions)		
2002						
Net operating revenues	$ 8,943	$6,212	$ 863	$12,074	$(1,458)	$26,634
Affiliated revenues	660	285	559	(46)	(1,458)	—
Depreciation and amortization	1,479	1,157	24	2,267	(15)	4,912
Restructuring and asset impairments[3]	194	56	1	138	—	389
Operating expenses	9,143	4,382	886	11,599	(1,476)	24,534
Operating income (loss)	(200)	1,830	(23)	475	18	2,100
Operating margin	NM	29.5%	NM	3.9%	NM	7.9%
Capital expenditures	733	1,286	8	2,668	154	4,849
Total assets	10,830	8,507	733	23,022	2,201	45,293
2001						
Net operating revenues	$ 9,916	$6,247	$1,206	$ 9,725	$(1,579)	$25,515
Affiliated revenues	581	283	695	20	(1,579)	—
Depreciation and amortization	1,318	1,120	12	2,150	(9)	4,591
Restructuring and asset impairments[3]	1,688	109	6	10	—	1,813
Operating expenses	11,965	4,464	1,172	10,372	(1,557)	26,416
Operating income (loss)	(2,049)	1,783	34	(647)	(22)	(901)
Operating margin	NM	28.5%	2.8%	NM	NM	NM
Capital expenditures	3,580	1,337	111	3,751	267	9,046
Total assets	12,265	9,343	719	22,190	1,276	45,793
2000						
Net operating revenues	$10,528	$6,155	$1,468	$ 6,341	$(1,347)	$23,145
Affiliated revenues	424	190	694	39	(1,347)	—
Depreciation and amortization	1,121	1,139	7	1,877	(9)	4,135
Merger related costs[4]	—	—	—	24	163	187
Asset impairment[3]	238	—	—	—	—	238
Operating expenses	9,943	4,392	1,393	8,269	(1,148)	22,849
Operating income (loss)	585	1,763	75	(1,928)	(199)	296
Operating margin	5.6%	28.6%	5.1%	NM	NM	1.3%
Capital expenditures	2,294	1,421	8	3,047	382	7,152
Total assets	12,114	9,219	845	19,763	1,127	43,068

NM = Not meaningful

(1) *Affiliate revenues in 2002 are net of the adjustment for wireless access revenue previously recorded between the global markets division and the PCS Group.*

(2) *Revenues eliminated in consolidation consist primarily of local access charged to the global markets division by the local division, equipment purchases from the product distribution business, interexchange services provided to the local division, long distance services provided to the PCS Group for resale to PCS customers and for internal business use, caller ID services provided by the local division to the PCS Group, handset purchases from the PCS Group and access to the PCS network. Corporate capital expenditures were incurred mainly for Sprint's World Headquarters Campus.*

(3) *See Note 3 of Notes to Consolidated Financial Statements for additional information.*

(4) *In the 2000 second quarter, Sprint recognized a pre-tax charge associated with the terminated WorldCom merger.*

In 2002 and 2001, more than 94% of Sprint's revenues were from equipment and services provided within the United States. In 2000, equipment and services provided within the United States generated more than 95% of Sprint's revenues.

More than 98% of Sprint's property, plant, and equipment is in the United States.

Equipment sales to one retail chain and the subsequent service revenues generated by sales to its customers represent approximately 22% of the PCS Group's net operating revenues in 2002 and 24% in 2001 and 2000.

Net operating revenues by product and services were as follows:

	Global Markets Division(1)	Local Division	Other	PCS Group	Eliminations(2)	Consolidated
				(millions)		
2002						
Voice	$ 5,768	$ —	$ —	$ —	$ (660)	$ 5,108
Data	1,847	—	—	—	—	1,847
Internet	1,009	—	—	—	—	1,009
Local service	—	3,054	—	—	(3)	3,051
Network access	—	2,025	—	—	(213)	1,812
Long distance	—	628	—	—	—	628
Product distribution	—	—	863	—	(559)	304
Wireless services	—	—	—	12,074	46	12,120
Other	319	505	—	—	(69)	755
Total net operating revenues	$ 8,943	$6,212	$ 863	$12,074	$(1,458)	$26,634
2001						
Voice	$ 6,610	$ —	$ —	$ —	$ (581)	$ 6,029
Data	1,857	—	—	—	—	1,857
Internet	964	—	—	—	—	964
Local service	—	2,939	—	—	(4)	2,935
Network access	—	2,032	—	—	(220)	1,812
Long distance	—	731	—	—	—	731
Product distribution	—	—	1,206	—	(695)	511
Wireless services	—	—	—	9,725	(20)	9,705
Other	485	545	—	—	(59)	971
Total net operating revenues	$ 9,916	$6,247	$1,206	$ 9,725	$(1,579)	$25,515
2000						
Voice	$ 7,068	$ —	$ —	$ —	$ (424)	$ 6,644
Data	1,742	—	—	—	—	1,742
Internet	809	—	—	—	—	809
Local service	—	2,846	—	—	(2)	2,844
Network access	—	1,987	—	—	(138)	1,849
Long distance	—	717	—	—	—	717
Product distribution	—	—	1,468	—	(694)	774
Wireless services	—	—	—	6,341	(39)	6,302
Other	909	605	—	—	(50)	1,464
Total net operating revenues	$10,528	$6,155	$1,468	$ 6,341	$(1,347)	$23,145

(1) *Beginning in 2002, equipment revenue for all periods presented is reported as part of Other revenues. This reclassification had no impact on total net operating revenues.*

(2) *Revenues eliminated in consolidation consist primarily of local access charged to the global markets division by the local division, equipment purchases from the product distribution business, interexchange services provided to the local division, long distance services provided to the PCS Group for resale to PCS customers and for internal business use, caller ID services provided by the local division to the PCS Group, handset purchases from the PCS Group and access to the PCS network.*

Supplemental Cash Flows Information

Sprint's cash paid (received) for interest and income taxes was as follows:

	2002	2001	2000
		(millions)	
Interest (net of capitalized interest)	$1,298	$1,112	$1,006
Income taxes	$ (446)	$ 12	$ (386)

Sprint's noncash activities included the following:

	2002	2001	2000
		(millions)	
Common stock issued under Sprint's employee benefit stock plans	$169	$189	$255
Fair value of purchase contract adjustment payment liability	$—	$ 53	$—
Contribution to equity investment	$ 33	$ 43	$—
Tax benefit from stock options exercised	$ 1	$ 17	$424
Stock received for stock options exercised	$—	$ 4	$ 69
Extinguishment of debt	$ 3	$—	$275

19. Recently Issued Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations". This standard provides accounting guidance for legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and (or) normal operation of that asset. According to the standard, the fair value of an asset retirement obligation (ARO liability) should be recognized in the period in which (1) a legal obligation to retire a long-lived asset exists and (2) the fair value of the obligation based on retirement cost and settlement date is reasonably estimable. Upon initial recognition of the ARO liability, the related asset retirement cost should be capitalized by increasing the carrying amount of the related long-lived asset. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002. Sprint will adopt this standard effective January 1, 2003.

Sprint's network is primarily located on leased property. In the FON Group, a majority of the leased property has no requirement for remediation at retirement. The remainder of the FON Group's leased property and predominately all of the PCS Group's leased property does have remediation requirements. These leases do not have termination date certainty, and are a necessary component of infrastructure required to maintain FCC licensing. For that reason, Sprint's obligations do not meet the ARO liability recognition criteria established in the standard at this time. Accordingly, Sprint will not record an ARO liability for either FON Group or PCS Group upon adoption of this standard.

In the FON Group, the local division historically accrued costs of removal in its depreciation reserves consistent with regulatory requirements and industry practice. These costs of removal do not meet the SFAS No. 143 definition of an ARO liability. Upon adoption of SFAS No. 143, the FON Group expects to record a reduction in its historical depreciation reserves of approximately $420 million to remove the accumulated excess cost of removal, resulting in a cumulative effect of change in accounting principle credit in the Consolidated Statements of Operations of $270 million, net of tax. The ongoing impact of this accounting change, based on recent retirement experience, is expected to increase FON Group's net income through reduced depreciation expense by less than $15 million annually. The PCS Group will have no effect for adoption of this standard.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment to FASB Statement No. 13, and Technical Corrections." The provisions related to SFAS No. 4 are effective for fiscal years beginning after May 15, 2002. The provisions related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. All other provisions of this statement are effective for financial statements issued on or after May 15, 2002. The rescission of SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and SFAS No. 64, "Extinguishment of Debt to Satisfy Sinking-Fund Requirements," requires that gains and losses from the extinguishment of debt be reported in other income or expense. The gains and losses would be reported as extraordinary items only if they are unusual in nature and occur infrequently. The amendment to

SFAS No. 13, “Accounting for Leases,” requires that modifications to capital leases that give rise to operating lease classification be treated as a sale-leaseback. As provided above, Sprint will timely adopt this statement. The rescission of Statement No. 4 will be adopted on January 1, 2003.

In June 2002, the FASB issued SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities,” which is effective for financial statements where exit or disposal activities are initiated after December 31, 2002. This statement nullifies EITF Issue 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity,” which allowed recognition of a liability for exit and disposal activities upon management’s intent to exit or dispose of an activity. This statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Sprint will adopt this statement for exit or disposal activities initiated after December 31, 2002.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” This statement amends SFAS No. 123, “Accounting for Stock-Based Compensation.” The provisions of this statement are effective for interim and annual financial statements for fiscal years ending after December 15, 2002. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. Also, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Sprint continues to apply APB 25 recognition and measurement principles, but has complied with the new disclosure requirements of this statement. See Note 1 for these disclosures.

Sprint will begin to expense the fair value of stock-based employee compensation beginning in the 2003 first quarter. Sprint will apply the method prescribed in SFAS No. 123, as amended by SFAS No. 148, on all new and separate grants of options made on or after January 1, 2003.

In November 2002, the Emerging Issues Task Force (EITF) of the FASB reached a consensus on EITF No. 00-21, “Accounting for Revenue Arrangements with Multiple Element Deliverables.” The issue addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a package, and the consideration will be measured and allocated to the separate units based on their relative fair values. This consensus guidance will be applicable to agreements entered into in quarters beginning after June 15, 2003. Sprint will adopt this new accounting effective July 1, 2003. The Company is currently evaluating the impact of this change.

20. Quarterly Financial Data (Unaudited)

2002	Quarter 1st	2nd	3rd	4th
	(millions, except per share data)			
Net operating revenues	$6,625	$6,690	$6,787	$ 6,532
Operating income	517	671	524	388
Income (Loss) from continuing operations	99	(105)	477	(3)
Net income (loss)	139	(67)	519	39
Earnings (Loss) per common share from continuing operations[(1)]				
FON common stock				
Diluted and Basic	0.27	0.07	0.54	0.28
PCS common stock				
Diluted and Basic	(0.15)	(0.17)	(0.01)	(0.25)

2001	Quarter 1st	2nd	3rd	4th
	(millions, except per share data)			
Net operating revenues	$6,119	$6,306	$6,574	$ 6,516
Operating income (loss)	191	370	248	(1,710)
Income (Loss) from continuing operations	(114)	6	(172)	(1,272)
Net income (loss)	(76)	43	(134)	(1,234)
Earnings (Loss) per common share from continuing operations[(1)]				
FON common stock				
Diluted and Basic	0.32	0.29	0.13	(1.06)
PCS common stock				
Diluted and Basic	(0.40)	(0.26)	(0.29)	(0.32)

[(1)] *As the effects of including the incremental shares associated with options and ESPP shares are antidilutive, both basic earnings per share and diluted earnings per share reflect the same calculation for FON reported in the fourth quarter 2001 and for all PCS reported periods.*

These amounts have been restated to reflect results of Sprint's directory publishing business, which was sold in January 2003, as a discontinued operation.

21. Subsequent Events (Unaudited)

Sale of Directory Publishing Business

In January 2003, Sprint closed the sale of its directory publishing business, Sprint Publishing & Advertising, to R.H. Donnelley for approximately $2.23 billion in cash with a pre-tax gain of $2.14 billion. The sale yielded after-tax cash proceeds of approximately $2.1 billion.

Dividend Declaration

In February 2003, Sprint's Board of Directors declared dividends of 12.5 cents on the FON common stock. Dividends will be paid March 31, 2003.

Accounts Receivable Securitization Facility

In February 2003, the outstanding balance of $455 million under the global markets division accounts receivable asset securitization facility was prepaid. The $700 million facility remains in place and funds are available to be redrawn at any time.

SPRINT CORPORATION

SCHEDULE II—CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2002, 2001, and 2000

		Additions (Deductions)			
	Balance Beginning of Year	Charged to Income	Charged to Other Accounts	Other Deductions	Balance End of Year
			(millions)		
2002					
Allowance for doubtful accounts	$397	$1,055	$191	$(1,229)(1)	$414
Valuation allowance—deferred income tax assets	$686	$ (113)	—	—	$573
2001					
Allowance for doubtful accounts	$352	$ 913	$ 70	$ (938)(1)	$397
Valuation allowance—deferred income tax assets	$598	$ 88	$—	$ —	$686
2000					
Allowance for doubtful accounts	$272	$ 624	$ 8	$ (552)(1)	$352
Valuation allowance—deferred income tax assets	$480	$ 115	$ 3	$ —	$598

(1) *Accounts written off, net of recoveries.*

Certain prior-year amounts have been reclassified to conform to the current year presentation. All prior period amounts have been restated to reflect the results of Sprint's directory publishing business, which was sold January 2003, as a discontinued operation.