

NATIONAL PRESS CLUB LUNCHEON WITH DAN HESSE

SUBJECT:

MODERATOR: SYLVIA SMITH, PRESIDENT, NATIONAL PRESS CLUB

LOCATION: NATIONAL PRESS CLUB BALLROOM, WASHINGTON, D.C.

TIME: 1:00 P.M. EDT

DATE: FRIDAY, OCTOBER 24, 2008

(C) COPYRIGHT 2008, NATIONAL PRESS CLUB, 529 14TH STREET, WASHINGTON, DC - 20045, USA. ALL RIGHTS RESERVED. ANY REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION IS EXPRESSLY PROHIBITED.

UNAUTHORIZED REPRODUCTION, REDISTRIBUTION OR RETRANSMISSION CONSTITUTES A MISAPPROPRIATION UNDER APPLICABLE UNFAIR COMPETITION LAW, AND THE NATIONAL PRESS CLUB. RESERVES THE RIGHT TO PURSUE ALL REMEDIES AVAILABLE TO IT IN RESPECT TO SUCH MISAPPROPRIATION.

FOR INFORMATION ON BECOMING A MEMBER OF THE NATIONAL PRESS CLUB, PLEASE CALL 202-662-7505.

DONNA LEINWAND: (Sounds gavel.) Good afternoon and welcome to the National Press Club for our speaker luncheon. My name is Donna Leinwand, and I'm a reporter for *USA Today*, and vice president of the National Press Club.

We're the world's leading professional organization for journalists and on behalf of our 3,500 members worldwide, I'd like to welcome our speaker and our guests in the audience today. I'd also like to welcome those who are watching on C-SPAN and listening on XM Satellite Radio.

We're celebrating our 100th anniversary this year, and we've rededicated ourselves to the future of journalism through innovative programming, journalism education, and fostering a free press worldwide. For more information about the Press Club, please visit our website at www.press.org.

We're looking forward to today's speech, and afterwards, I'll ask as many questions as time permits. Please hold your applause during the speech so that we have as much time for as many questions as possible.

For our broadcast audience, I'd like to explain that if you hear applause, it may be from the guests and members of the general public who attend our luncheons, and not necessarily from the working press.

I'd now like to introduce our head table guests and ask them to stand briefly when their names are called. From you're right, Ken Mellgren, manager affiliate relations and new product development for Associate Press Broadcast; Alison Fitzgerald, economic reporter for Bloomberg; Paul Sherman, publisher and editor-in-chief, *Potomac Tech Wire*; Wilson Dizard, correspondent for *Government Computer News*; Amol Sharma, guest of the speaker and telecommunications reporter for *The Wall Street Journal*; Ronald Baygents, Washington correspondent for the Kuwait News Agency, and member of the Speakers Committee; Cecilia Kang, guest of the speaker and telecommunications reporter for *The Washington Post*.

And skipping over myself, we have Angela Greiling-Keane, chair of the Speakers Committee and a reporter for Bloomberg News. Skipping over the speaker for a moment, we have Lori Russo, organizer of the luncheon and vice president of Stanton Communications; Kim Dixon, a correspondent for Reuters; Andrew Kreig, research fellow, George Mason Law School, information economy project and former president for Wireless Communications Association; Steve Karesh, program director, Sirius XM Radio; and Patrice Hill, business reporter for *The Washington Times*. (Applause.)

Less than a year ago in December, 2007, today's speaker took the helm at wireless carrier, Sprint Nextel. At the time, the company was faltering. As subscribers dropped their service, the company's stock price fell and the Sprint Nextel merger appeared doomed. Analysts and industry watchers questioned Sprint's multi-billion dollar investment in a massive wireless data network.

The new CEO immediately made waves, cutting 4,000 employees and consolidating Sprint's headquarters to Overland Park, Kansas. He continues to make news as he concludes his first year as CEO, most recently with the launch of WiMax, the nation's first commercial mobile broadband network, and as the new pitchman in Sprint's print and television commercials.

Our speaker will talk about the future of the wireless industry. And given his resume, I think we'll all be very interested in what he has to say. Prior to his appointment as Sprint CEO, he was chairman and CEO of Embarq Communications, a \$6 billion dollar spin-off of Sprint. He spent 23 years at AT&T, including three years as president and CEO of AT&T Wireless Services, which, at the time, was the largest wireless operator in the country.

He holds a master of science degree from the Massachusetts Institute of Technology, where he was awarded the Brooks Thesis Prize for writing the outstanding masters thesis from all masters programs at MIT's Sloan School of Management. He also holds an MBA from Cornell University and a BA from the

University of Notre Dame. He recently was named the most influential person in mobile technology by *Laptop Magazine*, and one of the top five most powerful people in wireless by *FierceWireless*. Please join me in welcoming CEO of Sprint Nextel, Dan Hesse. (Applause.)

MR. DAN HESSE: Thanks for the applause and thanks for the kind introduction, Donna. I really appreciate you getting me out of Missouri. It's one of those battleground or swing states. You know, the TV is just constantly, nothing but advertisements. And it's really depressing, you know? I'm really worried that any of these people could possibly be running the country or the state in which I live in. I think I'm-- You know, if I believed half what I saw on TV, I'd go for anarchy. You know, they're almost as bad as, you know, what you read about corporate CEOs these days.

But, you know, on the subject of anarchy, Winston Churchill once said that, you know, democracy is the worst form of government, except every other kind of government that's been tried from time to time. You know, I think we just need to get by a lot of the finger pointing, because we really do have a crisis on our hands. One Wall Street trader was recently quoted as saying, "You know, this financial meltdown, it's really terrible. It's even worse than a divorce. I've lost half my wealth and I've still got my wife." (Laughter.) Anyway. I don't know. That was pretty good. C'mon. I hope Diane's not watching.

I'm going to talk about wireless. And actually this past week, I had a chance to be in Chicago for what was called the cellular 25, which was the 25th anniversary of the very first wireless call made in the city of Chicago, made in The United States, actually made anywhere, which was made in Chicago. And it was an occasion as momentous as the 'Come here, Watson' call with Alexander Graham Bell a long time ago.

Networks back then were analog. It's what we call first generation. I'm going to talk a little bit about the generations, first, second, third, and fourth, and kind of explain what they are. Because you see a lot of that, and that's when you see the 'G' – 3G, 4G, you know, later on. But mobile phones back then really were car phones. They were big and heavy, about the size of a briefcase.

The number of wireless customers in 1985, which is only 23 years ago, was about 200,000 in the U.S. Flash forward before we get there to the early '90s. Price plans in the early '90s, you could get 25, 30, even a whopping 50 minutes a month on your wireless plan. And then of course everything over that was a pretty steep charge. You could actually start, take the phone with you. Voice quality was marginal, but phones, you know, were now a svelte two pounds. Battery life was about 30 minutes.

In the mid-'90s, networks began to evolve into what we call the second generation, when digital was introduced. GSN, CDMA are some of the second generation acronyms that you hear. What they enabled was text messaging. Subscribership in 1994 in this country grew about 19 million.

But wireless growth slowed a little thereafter, around '96 or so, really began to taper off. I mean, it was still growing, but the rate of growth was slowing and slowing measurably. And it's not surprising. The real killer app of mobile phones is mobility, yet the industry severely penalized those who wanted to be mobile as actually taking the phone with you, with what were very expensive and very complicated roaming charges.

So taking advantage of the second generation digital technology, and the economic and technical benefits that came from it, AT&T launched something called digital one-rate, actually almost exactly ten years ago, in May of 1998. And the wireless industry began to enter a new phase of growth. Worry-free wireless began where you can call whoever you want to call, wherever you are, not worry about it, just make the call. That kind of worry-free wireless really had an impact on the growth of the industry in this country.

It's something we kind of take for granted today, but it was a very radical idea back then. In this century, the third generation, or what's called 3G, has emerged, which offers high speed data, which is bringing on a whole bunch of new applications. So now the phone is much more than being just about voice, and even much more about, more than just voice and text.

Today, there are 262 million wireless users in the U.S. This translates to about 85%, what we call 85% penetration. Globally (this is what's really stunning) there's 6.6 billion people in the world. There's 3.3 billion active cell phones, 50% penetration, 3.3 billion. And they're being activated at the rate of about a thousand every minute.

Now, the movement of traffic off of wire-line networks to wireless networks really began actually around that time, digital one-rate. If you remember airports back then, what did you see? Walls of pay phones, and people standing in line behind these walls of pay phones. They pretty much don't exist anymore. Or what business travelers took with them are calling cards. You go into your hotel room and if you didn't want to pay the rate the hotel was going to charge you, use the calling card.

Those have largely disappeared. So now what we're seeing in terms of that continued evolution of traffic off of wire-line onto wireless is consumers are beginning to cut the cord and have wireless as their only phone. I think in the economic slowdown, that we're going to see this could potentially accelerate.

Last year, wireless voice revenues exceeded wire-line revenues, wire-line local and wire-line long distance revenues in this country by a substantial amount. But as critical an application as voice is, it offers limited growth potential in this country where the penetration is so high. We expect wireless voice to grow revenue-wise, roughly 3% per year. However, as cellphones evolve past really voice into becoming a Web portal and capable of doing, you know, so many more things – taking and sending high resolution pictures, emailing, surfing the Internet, GPS navigation, what have you – there's opportunity for a whole lot more.

Take Internet browsing via wireless device – it's showing robust growth. In June of 2008, 21 million U.S. mobile subscribers accessed search, an increase of 68% in just one year. Social networking is also driving the usage of the Internet on mobile phones. Time spent, you know, searching the Web or browsing the Web is up to four and a half hours a month, the most popular sites being sites like Craigslist, Facebook, eBay, and MySpace.

Over five million people in the month of April use their mobile phones to shop online or take part in an auction. That's a 75% increase in just one year. Today, wireless data revenue in the U.S. has reached \$27 billion dollars, and is projected to grow at 34% per year. Globally, consumer spending on mobile data services is expected to pass a quarter of a trillion dollars by 2012.

For businesses, the current penetration of wireless data use, obviously wireless voice use is very, very high. Wireless data use is about 40%. Businesses that use the functionality of their mobile devices, such as GPS and location-based applications, inventory tracking, payment transfers, and access to corporate email systems, are saving this economy billions of dollars every year via increased productivity. As the number one provider of wireless to business in the U.S., Sprint watches these trends very closely.

Over the next ten years, it's estimated that the productivity gains from business use of wireless broadband services will generate almost \$860 billion dollars in additional market value. And god knows our portfolios need it. To put this into context, the total budget of the U.S. Department of Health and Human Services this year, including Medicare and Medicaid, is about \$737 billion. So it's a big number.

Over time, as it's happened in the computer industry and with the Internet, additional productivity benefits will emerge, especially as network speeds increase. Today, the vast majority of our network has been upgraded to 3G technology which gives customers a wireless data experience comparable to basic home DSL speeds. As a reference point, our 3G network has about four times the

geographic coverage in The United States as AT&T's. Through Sprint's mobile broadband network, customers can quickly download large email files on their phone or computer while in a taxi, finish and send a sales report before the plane takes off, or check inventory levels at the customer site.

Data can also be fun. You can download music while you're on the treadmill. You can skip the music and go right to live TV. So there's a lot of great apps. And this is just the beginning. Sprint's making the leap to an even faster, more robust network, what we call fourth generation. With 4G offering multi-megabit downlink and uplink speeds, customers can be unleashed from their data connection at home or at work and really experience true broadband.

And it's not just wireless phones that can access the 4G network. Through a new embedded chip model, millions of consumer electronic devices can be WiMax enabled. Examples include camcorders, digital cameras, gaming stations, navigation equipment, vending machines, and cars. And manufacturers are contemplating completely new categories of devices for WiMax. The one that's being looked at are entertainment devices, you know, somewhere between, if you will, the cellphone and the laptop. Maybe not as large, heavy, or as expensive as a laptop, but with a larger screen for viewing, because video is going to be one of the killer apps on 4G.

Potential impacts of this new fourth generation technology are great. And there's been a lot of debate, which I'm sure a lot of you have read about competing 4G technologies, WiMax or LTD. Both are similar, what are called OFDM transmission technologies. Sprint chose WiMax. WiMax is available now and our customers want 4G now.

Twenty-six days ago, Sprint announced our first 4G commercial deployment in Baltimore. The Baltimore launch shows that 4G's here, and that the speeds are real. A tester with *PC Magazine* stated, and I'll quote, "I saw download speeds averaging 3.6 megabits per second with my fastest test at a blazing 7.1 megabits per second. That's faster than my home cable connection." Another tester with *Info Week* magazine was able to watch *The Simpsons* on high resolution full screen with no buffering while riding down the street in a car with his wife at 35 miles an hour.

Perhaps though as revolutionary as the speeds are the changes that this will bring in terms of the business model in telecom and in wireless, where we are going to be, if you will, disentangling the sale of the device from the sale of the service. We will rely on a new distribution strategy which really follows the consumer electronics model, allowing customers, again, to buy them separately, that is, the device and the service. And customers can opt for a day pass or by the month.

To expedite the build-out of 4G, we announced plans to combine our WiMax assets with the assets of a company called Clearwire. And (Knocking.) knock on wood, we hope that combination will close and get approved. And then once it does, Sprint will be the only national mobile carrier selling 4G services in the U.S. via an arrangement with Clearwire.

Also in the fourth quarter, Sprint plans to launch a dual mode 3G/4G air card. So where there's 4G service, your laptop, if you will, with this air card can operate at those blazing 4G speeds. And when you, for example, might leave Baltimore or a city with 4G, your laptop would downshift to 3G, as kind of strange as that might sound, downshifting to 3G. But that's where we are already today.

Other markets where we plan to launch WiMax soon are here in Washington, D.C., and in Chicago. And then coming soon thereafter, hopefully Dallas/Ft. Worth, Boston, Providence, and Philadelphia. By 2010, we expect WiMax service, 4G, to serve approximately 140 million people nationwide.

Let me give you a couple of examples of what 4G can do for you. Let's say you're a businessperson. You're with a client in their offices. You're asked a question. You say, "Geez, if I only had access to that video presentation which is back at my office on the server, I could answer all of their questions." You could access that server from your mobile laptop and download that video presentation in seconds. You know, you wouldn't be-- Probably dating myself — you remember the FedEx commercial, you know, years ago, where the guy was standing in front of a view graph machine. Remember those, when you were doing the shadow puppets, or what have you? I mean, you'd get it right away. You could even link the office in via a videocast right to your PC, so if there are experts, or what have you, back at the office.

On the consumer side, you know, imagine you're hitting the road with the kids. You know, you're in the SUV. They're starting to get restless in the backseat. And you say, "Look — put a DVD in." They say, "We've seen them all." You can, with the WiMax chips embedded in cars-- and that's the plan-- you could download a movie in seconds. You know, even today, let's say your spouse is next to you and she forget her book, or he, or wants something to read. You know, even with the 3G network, you know, you can download newspapers, books, and what have you, via devices, cool devices, like the Amazon Kindle, which is powered by the Spring 3G network today.

So 4G is going to bring many new possibilities. And again, we're the only company that'll be bringing 4G to this market, to the U.S., in the near term. As wireless enters a new age with really great potential, it's also an age of increasing

complexity, worry, and possibilities for more customer dissatisfaction. You know, today's smart phones are really powerful. As a matter of fact, you know, the typical smart phone today has more power in it, more processing power, than the North American Air Defense Command did in 1965.

It's no wonder that in last year's holiday season, the most returned electronic device in America was the smart phone or the PDA. And the number one reason given was, it was just too complicated to set up. Customers, they want a worry-free experience. That's what they wanted with digital one-rate ten years ago. They just don't want to have to worry about it. They want things simple. They want, you know, simplicity, usability, personalization, value. And they want good, friendly service.

So if, like, ten years ago, we can bring this, you know, simplicity and usability, you know, to data, data really offers a great growth opportunity for the wireless industry in this country.

Our journey to revolutionize the wireless data experience began with something called simply everything, which quite frankly, had some similarities to digital one-rate. And it is, knock yourself out, use your phone, kind of that Swiss Army knife, for everything it can do, and don't worry about it. So if you want to go watch TV on your device, if you want to surf the Web, if you want to text, if you want to send pictures, it's all included. We were the first to offer one flat fee for everything, not just voice, but for everything, all your data capabilities. So you don't have to worry about the meter running.

We made rate plans simple, but that wasn't enough. The devices themselves have to be simpler to use. The Samsung Instinct is an example. The iPhone's an example. But for those who don't want to spend the money for kind of the high-end smart phones or PDAs, what we did recently at Sprint is we brought out something called One Click or what are called mid-tier devices that make even on mid-tier or lower-priced devices it very simple to surf the Web and get to a variety of different kind of data applications. Say One Click, it's very much like a speed dialer on your phone, just one button and you can go right to it.

Actually *Forbes* this week released their list of top ten phones for Christmas. And I'm pleased that three Sprint devices, new ones with One Click, each won in their categories with the Rant for messaging, the Lotus for fashion, and the High Note for music. Three other Sprint phones, smart phones, won in three categories as well — the Palm Central for color, the HDC Touch for touch, and the HDC Touch Pro, which is the phone I use. It's my choice for touch, plus a full screen, or full keyboard. So we had the most device wins of any carrier. I thought I would throw that out as long as I had the opportunity to.

But we also went beyond devices. We really needed to in data. And our research told us that we needed to. And we've done a lot of research and a lot of segmentation work, some of it scientific, some of it not so scientific. And we introduced something called Ready Now about a month ago. And what that means is, you can walk into a Sprint store and the rep there will completely customize your phone the way you want it. There's a list you can pick of about 25 different-- everything from, how do I pair my Blue Tooth with my cellphone? How do I set up my voicemail box? How do I do email? How do I text? How do I get the GPS navigation? Boy, I'd like to get the Sprint TV. How about that NASCAR application, the NFL application? Whatever it is, they'll not only teach you how to do each thing, but they will set up your phone so, you know, you'll walk out an expert.

So that is really a-- You know, it sounds, "Boy, that's not such a big deal." But that is a radical departure from what is done in wireless in the U.S. today. It is very different than what you will get anywhere else.

Nearly 93% of Ready Now customers have rated the service, not just satisfying, but very satisfying. And we're also seeing (remember last year) a substantially reduced rate of returns and exchanges on these smart phones.

So in conclusion, the wireless industry is not standing still. Advancements in network technology, devices, applications, they're evolving at astonishing speeds. Sprint plans to revolutionize the wireless industry by being at the forefront of delivering advanced technologies like 4G, but also by welcoming customers into this new wireless data revolution, what has historically, or at least so far from what we can tell from what a lot of customers are telling us, a bit intimidating, a bit complex.

And we're doing this by radically transforming the customer experience for these new applications in America. Even though cellular communications was invented in America, it was invented by AT&T Bell Laboratories, and even though the first cellular call took place in Chicago 25 years ago, the U.S. really has generally been a follower, not a leader, in wireless. Quoting again from Winston Churchill: "The Americans will always do the right thing after trying all other alternatives." (Laughter.) You know, Sprint, you know, we're not waiting for the alternatives to be developed. There is an alternative that's working now. That's WiMax. We chose it. We're moving forward. As we say, *carpe diem*, seize the day. Sprint intends on making America an innovator again in wireless. So thanks for allowing me to join you today. And tonight it's back to Missouri to watch more of those depressing commercials, so. Thanks very much. (Applause.)

MS. LEINWAND: Okay, we're going to start with some questions. But let me apologize in advance. I'm a crime reporter and there's a lot of acronyms in

here that I've never even heard of, so. Please bear with me if I have no idea what I'm saying.

The Dow is down about 266 points this afternoon. Global markets plummeted overnight. Companies and governments around the world are saying this week, economic conditions will be much worse than previously expected. What's your view on how the economy will affect Sprint through 2009? And how has your view changed at all this week?

MR. HESSE: Well, it's a good question. First of all, you know, I'll take it from an industry perspective, because that's an important-- it's important to think about when I talk about the implications for Sprint. We're fortunate to be in the wireless industry. I think the economy, as severe as the issues are, are going to affect every industry, but clearly some industries more than others.

I wouldn't want to be selling automobiles. I wouldn't want to be in the restaurant business. I wouldn't want to be a banker. And quite frankly, had this happened in the telecom industry five, eight, ten years ago, I think wireless would have been viewed by lots of customers as a luxury, not a necessity. I think today, you know, wireless has become such a staple that we're not expecting it to have a dramatic impact on the wireless industry. The way we're looking at it, and looking at it very closely is, you know, I think it'll mean fewer customers will upgrade to, you know, new phones. They might look to economize a little bit. So instead of that, you know, \$69 dollar plan, they might be looking at the \$49 dollar plan. We'll have to watch, you know, payment closely. And, you know, I think from Sprint's point of view, early in the year, we decided to raise our credit score substantially. And our prime mix now is higher than it's ever been. It's over 80% of our customers are now prime. So that's much less of an issue for us. We took steps early.

We're also a free cash flow positive company. And that's really the key today. When I talk to other friends, cohorts and what have you that are running companies, the real issue is not being able to borrow. And if you're in a position where you don't have to borrow, you're okay. So for us right now, as long as we-- And I sent a letter to our employees a few weeks ago. We have more money coming in than we have going out. And as long as that continues to be the case, we're going to be okay.

So in terms of kind of business and consumer, we haven't really seen much impact, but a little bit of impact or slowing on the consumer side. We've seen a little bit more on the business side, because as companies downsize and lay off people, there's just fewer steps(?), if you will. So if a company, you know, lays off a thousand people or two thousand people, there could be fewer wireless devices. But there could also be a lag where some of those devices that were

previously on the business side may come back on the consumer side, as that, let's say, unemployed person wants to have a wireless device.

So net/net, it's a very serious situation. We take it very seriously. We started to take steps early at Sprint. We feel confident that we can get through whatever the economic situation or troubles are, as long as we have a good cash position, as long as we continue to have a good cash position and really look at it from the point of view of how much money we have in the bank, and remain a free cash flow positive company.

MS. LEINWAND: How do you think the telecommunications industry in general will fare?

MR. HESSE: I alluded to this a little bit earlier. There are different segments of the telecom industry, three large buckets. Each will be relatively harder hit. I think the wireless carriers will be in the best position, will be impacted the least because of the necessity of wireless. And we have, if you will, kind of a recurring revenue model where customers, you know, are buying service, month over month. You don't have the, if you will, the fits and starts that you do in an equipment environment.

After that in terms of impact, I would say the wire-line carriers, I think lot of people clearly keep their landlines, but more people than normally would will start to think about, "Can I afford to have both wireless and landline?" And to get back to the comment I made earlier, I think if it was five or eight years ago, a majority of them, if they looked at the luxury, might have said the luxury is wireless. And I think today, the majority will say the luxury is wire-line. So I think wire-line carriers will be impacted more than wireless.

The companies that I think will have the toughest time will be the equipment providers because even though all of us are always looking at upgrading our networks and what have you, investing in our networks, and will continue to do that, you'll see Cap-Ex spending probably among the wireless carriers begin to pull back a little bit. And so, you know, it would be nice to do it, you know, say, to do it in the beginning of '09. But I can probably wait six months, or I can probably wait nine months, and it's not going to affect customer service. You know, those businesses-- Because I had the opportunity of running one as part of my AT&T education. They sent me over to run the international division of what became-- you know, of AT&T Network Systems, which became Lucent. You went from this recurring revenue model of the service industry to the equipment business where it's-- you know, you can have-- business can go up very quickly and go down very quickly. I think they will struggle a little bit in this environment.

MS. LEINWAND: What prompted Sprint's decision to end termination fees for customers who dropped their contracts early? What impact will that have on revenue?

MR. HESSE: You know, what we announced is that we will be, not dropping early termination fees, but pro-rating them over time. You know, as many of you know, the price that you pay for a phone is a fraction of what we, the carrier, paid for that phone. As a matter of fact, it was in AT&T's earnings release this week. They are subsidizing the iPhone alone to the tune of about \$10 million dollars a day, okay? *A day*. So it's a big number in terms of subsidy.

So the way that wireless carriers get that-- if you will, get that subsidy back-- And it's different models, different parts of the world. So if you went to Europe, you'd think nothing of spending five or six or seven hundred dollars for a cellphone. And you can take it with you to whatever carrier you want to. The American model is a little different.

So what we have announced that we will do-- And we would have done it by now, but we just put a new billing system in. It needs a new software. But we plan to launch it later this year as at least a pro-ration where if you sign a two-year contract, the termination fee will go down over time as you get, you know, further into your contract. And quite frankly, it was competitive forces. Like so many of you, just about everything we do-- We're in a highly competitive industry. Typical market, you have five, six, seven wireless carriers. And when somebody moves, you know, others follow. And that's, quite frankly, competitive forces, or why we're doing it.

MS. LEINWAND: Okay, this one's in special wireless language here. You mentioned Sprint chose WiMax because it's available now. What steps are you taking to limit market penetration of LTE in the coming years other than pricing? What structural or consumer advances, if any, does WiMax have over LTE in Sprint's viewpoint?

MR. HESSE: Our view-- and we looked at-- You know, and just like everything, there's there, if you will-- If you're a wireless person, there's these religious wars that exist with every standard. In 2G, it was CDMA versus GSM. And it was, which one's better, and what have you. And, you know, net/net, each one has its advantages and its disadvantages. And you look at them and you decide what your business model is, and which one suits what you want to do better.

The key, as I mentioned earlier, for WiMax was time to market. WiMax is available now. So the way I limit LTE's market penetration is getting out there in the Clearwire company, hoping that they build this network very quickly, we go

out and sell and get as many of the customers on our 4G services first. That's really the way we limit the penetration of LTE. Verizon has mentioned that they're planning to go to LTE. AT&T is kind of intimating that it plans to go to LTE. So there will be, you know, multiple standards. But it'll be a very competitive world out there. You know, we're hoping also that, you know, with partners like Intel-- Again, it's not the traditional telecom model.

LTE I think is very well suited to, kind of today's wireless carrier, the evolution, if you will, of 3G to 4G, in an evolution, kind of similar business model with subsidized devices and what have you. WiMax, with kind of an embedded chip, it has a lot of similarities to Wi-Fi, where you just buy the device, it's got the chip, and then you make your decision in terms of whether you want the hourly, the daily, the monthly plan.

And we see it as an opportunity to differentiate Sprint. We, by being first, that was a way we differentiate Sprint. You see our messages in the market. They're all around the now network in data, you know, simply everything, ready now, instinct, One Click, the things I talked about. They have a lot of, if you will, data orientation to them. We intend to be the leader in wireless data, and being the first with 4G was crucial for us.

So I think there's an advantage for us, because quite frankly, we're smaller than AT&T and Verizon to be first and to be different, not having the same thing. So actually being different from AT&T and Verizon, and being able to do some things they can't do, we found it attractive as well.

MS. LEINWAND: Okay, well I'm glad you understood that question. Here's another one. How has Sprint's backbone or core infrastructure development changed to handle XOHM and WiMax build-out as opposed to CDMA?

MR. HESSE: Boy, this is really a wireless group. Well, I mean, one of the advantages that we have at Sprint is having a really robust, if you will, long distance or wire-line network. It's crucial for us-- You know, I talked earlier about Sprint being the number one wireless carrier to business. You can't sell to business if you don't always also have, if you will, that long haul network.

One of the advantages to Sprint that this Clearwire 4G network will bring to us is having owner's economics run this big long haul network. And it'll bring more traffic, if you will, onto our long haul network to have 4G service. What it'll require, I think, over time is we'll clearly need to continue to build capacity on that network. That's a good-- you know, as we say, success-based capital. That'll be a good problem to have when we have to enhance and build up this backbone even larger because of the amount of traffic that we're bringing onto it, which has

been increasing since our 3G services have been doing very well, and more data that's coming on. When you add to that 4G, there's just a lot more traffic on the long haul network. And that's, quite frankly, a good problem to have.

MS. LEINWAND: Okay, and back to our regularly scheduled questions. Here's one I can read. What is Sprint doing beyond job cuts and store closing already announced to reign in spending?

MR. HESSE: Well, we hired a chief financial officer, also known as Ebenezer, a few months ago. Which the Sprint people will grin, because it's so true, that-- We hired him as our new CFO a few months ago. And he previously had been-- You know, he kind of grew up at General Electric, but he had been the CFO at Kodak and the CFO at Unisys. So he had been in, kind of tough turnaround situations.

So what we did early on in the year is, as I mentioned earlier, we began to be much more selective around customers, to focus more on prime, being more concerned with credit worthiness, et cetera, in terms of the customer base that we were bringing on. We consolidated from two headquarters to one headquarter. You know, we reduced the number of employees. We've taken a look at our distribution. It's not just cutting the number of doors. We have reduced the number of sales doors by over 20% this year, but we do it based upon performance. Those that are bringing in a good number of high value, high quality customers, those are still there. So we're eliminating, if you will, low performing doors. And we continue to watch kind of everything we're doing, you know, from an expense point of view.

You know, we're also getting much more targeted in our use of capital. We're actually, in some respects, it's been beneficial in that we're becoming much more customer driven in terms of the way we do everything in the company, including spending capital. Earlier this week, I had the opportunity to accept a JD Powers Award for highest call quality in the Southwest, in our hometown of Kansas City, which-- The Southwest includes the states of Kansas and Missouri. And a lot of that has been just our focus on-- You know, when we get complaints from customers, we're really focusing on reducing the number of calls. Actually, this is a big way of reducing expenses. We have an enormous expense in customer care. We have lots and lots of people. And most of these are outsourced. A lot of them are insourced, a few other employees. But they're also outsourced, people that answer the phones when you have problems.

We have been reducing the number of calls that are coming into care very steadily. Also, about a week ago, the Pali report came out about customer care and said that Sprint had gone from last to first in terms of how quickly calls are answered when you call customer care, that 91% of calls to Sprint, based upon

Pali's research, are answered in 30 seconds or less. That's more than double the rate that you'd find at AT&T or T-Mobile, for example.

But what we've been doing, and the reason that's been improving is we're removing the reasons customers should have to call. So we focused very much, for example, on the network. If customers are calling because they're dropping calls or their call quality isn't good enough, we find out where they're calling from. And if we're getting a lot of calls because they're dropping-- you know, they're dropping calls at Third and Vine, we'll go and look at that location. We'll target our capital that way to really improve the quality of our network.

But we've closed six call centers this year, while service levels go up, because we're reducing the number of calls coming in. So we can actually take a lot of expense out of the business in intelligent ways, and we'll continue to do that.

MS. LEINWAND: Okay, here's some questions that were emailed into us. Is Sprint still firing customers for over-using customer service? Have you considered that they might have to repeatedly call for assistance because they're not getting the help they need the first or second time?

MR. HESSE: We're focused maniacally on what we call first call resolution. You know, if you were to go into the customer locations-- And what we're now incentivizing employees around just first call resolution, if you resolve a certain percentage of the calls that come to you the first time, you're going to get more money. So we're empowering our reps. We're giving them a lot more, if you will, discretion to, whatever the customer's problem is, fix it.

I don't know I'd use the word 'fire' but there are lonely people out there. I mean, there just are. And there are people that will just-- They just need to talk to somebody. And they are calling all the time. And it has nothing to do with customer service. And so those people are encouraged to look elsewhere, yes.

MS. LEINWAND: How many customers do you estimate you've lost to AT&T and its exclusive agreement with iPhone? And what is your timeline for stopping customer losses?

MR. HESSE: Well, let's say it's a great question. It's one I can't answer specifically yet, particularly with the changes in the economic climate in terms of when we're going to be able to-- Quite frankly, we've been making progress in improving our levels of churn, which is the customer defections. But they're still the highest rate in the industry. So again, we're making a lot of progress, but we're not nearly there yet.

You know, I will say that, you know, the iPhone, priced at \$200 dollars, you know, a device that's worth many multiples of that, is an attractive device in the marketplace. There's no question. I give AT&T credit. You know, it's a good device. The Samsung Instinct has been extremely successful from our perspective, has done very well as well. So we still have a lot of work to do to get our churn levels down to kind of competitive analogues. We're making progress. There's no question that the iPhone is-- Again, it's been successful. And that's one of the issues that we're dealing with. A lot of customers do want that device at that price. And AT&T has priced it very aggressively.

MS. LEINWAND: What do you think of Google's Android?

MR. HESSE: Well, we're a member-- Sprint is a member of the Open Handset Alliance. So we're very interested also in developing an android capable phone. But we don't think we're really ready yet. We don't think it's ready yet to be good enough to put the Sprint brand on it. But you can expect an android device from Sprint some time in the future.

MS. LEINWAND: Anything new to report on the possibility of selling the Nextel network?

MR. HESSE: Well, our plan right now-- and I stated this a number of times-- is, number one, to rejuvenate the-- you know, the iDEN network. You're pricing a lot more ads on television, whether it's the roadies or the firefighters or what have you, around, you know, getting work done on Nextel. The network is performing at its best levels ever. As a matter of fact, an independent third party test for the second and the third quarter said our iDEN network had the fewest dropped calls of any national wireless carrier, any network. So it's performing extraordinarily well.

We just launched a number of new devices on iDEN, including a BlackBerry, so, you know, BlackBerry iDEN device which a lot of customers have been looking for. So we're committed to iDEN, to push to talk. I think the fact that, you know, some of our competitors are coming out with push to talk and the capabilities, indicate there's a real market there. So that is the plan.

That being said, you know, when I came in and took this job, I said everything was on the table, and that I would look at everything, including iDEN. You know, so I have, you know, in a variety of things, gone out and seen what it could be worth to others. Hasn't changed my view at all. And that is, you know, I'm very committed to iDEN and our customers. And I think that the network has a great future.

MS. LEINWAND: What are two or three things the next President could do to promote the spread of broadband in rural America?

MR. HESSE: Well, that's kind of a political issue. I think number one is they should provide subsidies for WiMax deployment. (Laughter.) I would like to see that. (Applause.) And I say that kind of half-jokingly, but not really. In a lot of the world, you know, if you look at WiMax, it's deployed in lots and lots of countries around the world. And it is being deployed as a less expensive alternative to wire-line, because you really do have, if you will, wire-line data speeds.

And one of the challenges that we will have is, you know, how do we bring these broadband capabilities to rural America? And if the wire-line is not already in the ground, you know, it's not going to be built in rural America. There's going to be no more build. Just, the economics don't work long distances. It costs a lot of money to dig up the ground and what have you. So wireless is it. So it'll be one of the challenges, I think, that the next administration and the FCC will face, is to try to figure out, "How do we incentivize these new wireless technologies to be built in rural America?"

And there will have to be some form of subsidy mechanism to make it happen. You know, all of us face a lot of pressure from our shareholders. You know, when you spend capital, there has to be a good rate of return. It has to be, you know, provided in a reasonable period of time. And, you know, the economics of a lot of these rural areas, there's just not enough population to pay for the Cap-Ex required to build them out. So there has to be, I think, for rural America, not in urban America, but in rural America, there has to be some kind of a public/private partnership to make that happen.

MS. LEINWAND: Do you believe that the Federal government should continue with its ten-year, multi-billion dollar rollout of a secure voice and data wireless net for first responders, or that the commercial wireless providers could provide that same service faster, better, and cheaper?

MR. HESSE: Well, I think the latter is the case. First responders of course are a huge element of who we serve on the iDEN network. And their satisfaction with our network is very high, not only in terms of its productivity, its call quality, the devices. You know, there's some really ugly iDEN phones, but boy, you can drop them and throw them and what have you. They're devices that are intrinsically safe, which means you can take them into all sorts of, you know, flammable environments and they're perfectly safe.

So we have served this market, I think served it very well. We'll clearly work with the government and support them in any way they think makes sense. But like so many things, I think the private sector does things more efficiently.

MS. LEINWAND: All right, here's a politics question. What will an Obama or McCain administration mean for Sprint and for the broader telecom industry?

MR. HESSE: Well, you know, there's a few issues that are kind of on the table. And I won't take a lot of time, because I could take a lot of your time on these. I think for telecom, the telecom industry as a whole, probably the thing that scares the industry the most about a Democratic administration is regulating the one real shining star. And I talked about where the growth was, and what's really working really, really well, and that's the Internet. And there's, you know, kind of an Orwellian term. You know, in *1984*, every word really means exactly the opposite of what the word says. It's called net neutrality. And that's really net regulation. It's to regulate the Internet. It's to allow us, as carriers, to charge the end user whatever we want, but it regulates what we could charge or what we could do with content and traffic and what have you to protect the networks.

One thing that carriers have had to do for a long time is to try to serve the interests of the many sometimes, even if it might mean ratcheting back something for the few. So there have been some situations in the past where, if somebody's really gumming up the whole network, if no one else is getting service-- It would be like, you know, you're in your apartment building. Maybe the water is included. And somebody in the building decides, "You know what I'm going to do? I'm just going to turn all the faucets on, full. I'm just going to use all the water and no one else can get enough water." You might, because it is a limited commodity in bandwidth in the Internet-- By the way, the Internet, there's no such thing as the Internet. People think the Internet is, like, some thing. All the Internet is, is basically a language by which private networks and actually some public networks can talk to one another — the Verizon network and the AT&T network and the Sprint network, and what have you.

So anyway, regulating the Internet I think has really horrendous implications. And, you know, just the initial implications are serious. And then once it starts, where is it ever going to end? And I think that, quite frankly, is of great concern to the industry.

There are others with respect to some of the issues that I talked about earlier, with respect to subsidies of rural and how monies flow between different carriers. I'll talk about those at another time, because that could take the rest of the lunch.

MS. LEINWAND: Can you state Sprint's policy with respect to providing reporters' cellphone records to government agencies, particularly in law enforcement? Has this policy changed after 9/11? How and why?

MR. HESSE: Our policy is, no, we would not provide anything unless we are ordered to with a subpoena. You know, if legally, with a subpoena, we have to provide something, we will provide it then, but under no other circumstances would we do so.

MS. LEINWAND: Do you think the polls we see these days are skewed because they often miss households that have dropped landlines and only use cell phones?

MR. HESSE: Probably have to ask somebody who understands what the implications might be. I really don't know. I've heard that, but I'm not an expert enough to opine on whether that skews the results one way or the other.

MS. LEINWAND: When will there be a true open network in mobile space allowing content providers to reach consumers directly without going through the carriers?

MR. HESSE: Well, not really sure what the question means. At Sprint we have [simultaneous conversation]--

MS. LEINWAND: Neither do I.

MR. HESSE: Yeah. We have what we call a very-- You know, we're very open at Sprint in terms of-- We've enabled every device, every CDMA device that we sell, starting this year, full open access to anybody on the Internet. So they can go to any content provider they want. So what was called full HTML browsing, it's open. And actually what we put in was kind of a transcoder that-- Because a lot of websites are not optimized for mobile. And you'll go to that website. And if it's not optimized for mobile, it looks pretty bad on your mobile phone.

The ones that are optimized for mobile, those are going to be good. We put a transcoder to at least try to improve that. But we're completely open from a walled garden point of view. You know, we don't restrict where you go on a Sprint device anymore at all.

We also have a development program where we have 135,000 independent developers who develop applications and content or what have you for the Sprint network. And we encourage them to do it. We want to attract as many people, to build applications, to build content, to build destination for Sprint

customers on our network. WiMax, as I mentioned, will be even more open. In fact, you even bring our own devices. So I'm not exactly sure what the question means, but I think we're about as open as you can get.

MS. LEINWAND: Why did you decide to keep the company's headquarters in Kansas City instead of Reston?

MR. HESSE: It was just one of, kind of pure-- It was just pure economics. It's where most of the people were. It's where the owned buildings were. You know, we looked at it and it was just primarily an economic decision. We had to choose one or the other. You know, the Sprint headquarters, for those of you who aren't familiar with the situation, the Sprint headquarters and the company's operating headquarters was Kansas City. The previous Nextel headquarters and the company's kind of corporate headquarters were in Reston.

There was kind of a detailed study done, taking a look at the economic and other issues associated with which location was chosen. One thing was clear. We weren't going to have two headquarters anymore. I mean, that was part of the problem with the company. It had the corporate officers, if you will, in one location. And you had everybody who was dealing with customers and the PNLs and what have you at another location. That was a big contributing factor to some of the problems the company had. So I had to pick one or the other. And from an economic point of view, it was actually pretty overwhelming in terms of being in Kansas City's favor.

MS. LEINWAND: Okay, we're almost out of time. So before I ask the last question, we have a few important matters to take care of. First of all, I'd like to remind our members of our future speakers. On November 5th, Howard Dean, chair of the Democratic National Committee, and Mike Duncan, chair of the Republican National Committee, will both be here together on the same stage, probably police presence, and all that.

November 17th, we have Marin Alsop, music director for the Baltimore Symphony Orchestra. And November 19th, Steve Preston, Secretary for the U.S. Department of Housing and Urban Development. He will address a luncheon on something, I don't know.

And second, I would like to present our guest with the traditional NPC mug.

MR. HESSE: Thank you very much. (Applause.)

MS. LEINWAND: Okay, and for our final question, we have, can you provide a one-touch application on a Sprint phone that would answer the question,

“Where can I find a babysitter for my two year-old here in Potomac, Maryland for this evening”?

MR. HESSE: Well, you know, we actually could do that. We could put a one-touch to whoever your babysitter is. That’s a good question.

MS. LEINWAND: Okay. Well, since we have time for one more real question, what are your plans to implement fiber optics to handle all the wireless and other residential traffic you anticipate?

MR. HESSE: Well, that’s related to one of the earlier questions, which is how-- you know, your backbone network, your long haul network, what are the implications for that, of all this 3G traffic? And then when you have your 4G traffic for WiMax, what’s going to happen?

You know, when you think of a wireless network, a lot of people don’t realize that the wireless network is really fundamentally a wire-line network, which today means fiber. Years ago, it meant copper, today means fiber. The only wireless element of the network, the only wireless element is the air between your wireless device and that very first tower, that very first radio, which usually isn’t very far away. And it’s wires the rest of the way.

And lot of people just don’t-- You know, when they think of wireless, they think the whole thing’s wireless. That’s pretty much it. So wireless is just an access method to your wires. And really the goal of a wireless company is to get traffic onto your wires. But your end users don’t want to be tethered. They want to be mobile. Okay?

So you have many access points, if you will, that are wired. So what’ll mean for us is continuing our deployment of fiber and higher capacity routers and data networks and Internet connections to handle all of that traffic. And the great thing about fiber technology and wire-line technology like that is that, as wireless generations keep improving productivity and price performance, so does wire-line or fiber technology.

MS. LEINWAND: Okay, well thank you. I’d like to thank you all for coming today. I’d also like to thank National Press Club staff members, Melinda Cooke, Pat Nelson, JoAnn Booz and Howard Rothman for organizing today’s lunch. Also thanks to the NPC Library for its research.

The video archive of today’s luncheon is provided by the National Press Club Broadcast Operations Center. Many of our events are aired on XM Satellite Radio and available on free download on iTunes, as well as on our website. Non-members may purchase transcripts, audio and videotapes by calling 202.662

(sic) or by archives@Press.org. For more information about the Press Club, please go to our website at www.press.org.

And thank you very much for your time. We are adjourned. (Gavel sounds.)

END