T-Mobile US, Inc.
Form 10-Q
November 07, 2013

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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: 1-33409
T-MOBILE US, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	20-0836269
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12920 SE 38th Street, Bellevue, Washington	98006-1350
(Address of principal executive offices)	(Zip Code)

(425) 378-4000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer x Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Shares Outstanding as of October 31, 2013
Common Stock, $0.00001 par value per share	728,696,706

T-Mobile US, Inc.
Form 10-Q
For the Quarter Ended September 30, 2013

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

T-Mobile US, Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except share and per share amounts)	September 30, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$2,365	$394
Accounts receivable, net of allowances for uncollectible accounts of $330 and $289	3,370	2,678
Accounts receivable from affiliates	19	682
Inventory	761	457
Current portion of deferred tax assets, net	773	655
Other current assets	676	675
Total current assets	7,964	5,541
Property and equipment, net of accumulated depreciation of $19,320 and $17,744	15,370	12,807
Goodwill	1,683	—
Spectrum licenses	18,414	14,550
Other intangible assets, net of accumulated amortization of $404 and $243	1,297	79
Investments in unconsolidated affiliates	55	63
Long-term investments	36	31
Other assets	948	551
Total assets	$45,767	$33,622
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$4,324	$3,475
Current payables to affiliates	305	1,619
Short-term debt	195	—
Deferred revenue	447	290
Other current liabilities	243	208
Total current liabilities	5,514	5,592
Long-term payables to affiliates	11,200	13,655
Long-term debt	6,761	—
Long-term financial obligation	2,488	2,461
Deferred tax liabilities	4,695	3,618
Deferred rents	2,062	1,884
Other long-term liabilities	632	297
Total long-term liabilities	27,838	21,915
Commitments and contingencies		
Stockholders' equity		
Preferred stock, par value $0.00001 per share, 100,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, par value $0.00001 per share, 1,000,000,000 shares authorized; 729,526,906 and 535,286,077 shares issued, 728,144,401 and 535,286,077 shares outstanding	—	—

Additional paid-in capital	35,481	29,197
Treasury stock, at cost, 1,382,505 and 0 shares issued	—	—
Accumulated other comprehensive income	2	41
Accumulated deficit	(23,068)	(23,123)
Total stockholders' equity	12,415	6,115
Total liabilities and stockholders' equity	$45,767	$33,622

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

T-Mobile US, Inc.
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except shares and per share amounts)	2013	2012	2013	2012
Revenues				
Branded postpaid revenues	$3,302	$3,571	$9,849	$11,105
Branded prepaid revenues	1,594	450	3,339	1,241
Wholesale revenues	157	134	449	407
Roaming and other service revenues	85	106	262	333
Total service revenues	5,138	4,261	13,899	13,086
Equipment sales	1,467	554	3,452	1,524
Other revenues	83	78	242	200
Total revenues	6,688	4,893	17,593	14,810
Operating expenses				
Network costs	1,444	1,141	3,880	3,515
Cost of equipment sales	2,015	866	4,837	2,456
Customer acquisition	1,039	823	2,804	2,323
General and administrative	894	840	2,482	2,681
Depreciation and amortization	987	825	2,630	2,391
MetroPCS transaction and integration costs	12	—	51	—
Impairment charges	—	8,134	—	8,134
Restructuring costs	—	36	54	90
Other, net	—	(179)	(2)	(136)
Total operating expenses	6,391	12,486	16,736	21,454
Operating income (loss)	297	(7,593)	857	(6,644)
Other income (expense)				
Interest expense to affiliates	(183)	(165)	(586)	(487)
Interest expense	(151)	—	(311)	—
Interest income	50	20	125	53
Other income (expense), net	(7)	15	105	22
Total other expense, net	(291)	(130)	(667)	(412)
Income (loss) before income taxes	6	(7,723)	190	(7,056)
Income tax expense	42	12	135	272
Net income (loss)	$(36)	$(7,735)	$55	$(7,328)
Other comprehensive income (loss), net of tax				
Net gain on cross currency interest rate swaps, net of tax effect of $0, $36, $13 and $10	—	60	23	17
Net gain (loss) on foreign currency translation, net of tax effect of $0, $(22), $(37) and $2	—	(37)	(62)	2
Unrealized gain on available-for-sale securities, net of tax effect of $0, $0, $0 and $0	—	1	—	—
Other comprehensive income (loss), net of tax	—	24	(39)	19
Total comprehensive income (loss)	$(36)	$(7,711)	$16	$(7,309)
Earnings (loss) per share				
Basic	$(0.05)	$(14.45)	$0.09	$(13.69)
Diluted	(0.05)	(14.45)	0.09	(13.69)

Weighted average shares outstanding				
Basic	726,877,458	535,286,077	642,957,645	535,286,077
Diluted	726,877,458	535,286,077	645,520,524	535,286,077

The accompanying notes are an integral part of these condensed consolidated financial statements.

4

Table of Contents

T-Mobile US, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Nine Months Ended September 30, 2013	2012
Operating activities		
Net cash provided by operating activities	$2,541	$2,707
Investing activities		
Purchases of property and equipment	(3,143)	(2,003)
Purchases of intangible assets	(52)	(379)
Short term affiliate loan receivable, net	300	(297)
Cash and cash equivalents acquired in MetroPCS business combination	2,144	—
Change in restricted cash equivalents	(100)	—
Investments in unconsolidated affiliates, net	(22)	16
Other, net	5	(4)
Net cash used in investing activities	(868)	(2,667)
Financing activities		
Proceeds from issuance of long-term debt	498	—
Repayments of short-term debt for purchases of property and equipment	(194)	—
Repayments related to a variable interest entity	(80)	—
Distribution to affiliate as a result of debt recapitalization	(41)	—
Proceeds from exercise of stock options	116	—
Excess tax benefit from stock-based compensation	4	—
Other, net	(5)	—
Net cash provided by financing activities	298	—
Change in cash and cash equivalents	1,971	40
Cash and cash equivalents		
Beginning of period	394	390
End of period	$2,365	$430

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

T-Mobile US, Inc.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

(in millions, except shares)	Shares Common Stock	Treasury Stock	Par Value and Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
Balance as of December 31, 2012	535,286,077	—	$29,197	$ 41	$(23,123)	$6,115
Net income	—	—	—	—	55	55
Other comprehensive loss	—	—	—	(39)	—	(39)
Effects of debt recapitalization	—	—	3,143	—	—	3,143
MetroPCS shares converted upon reverse merger, net of treasury stock withheld for taxes	184,487,309	1,382,505	2,971	—	—	2,971
Stock-based compensation	—	—	54	—	—	54
Exercise of stock options and restricted stock units vested and issued	8,371,015	—	116	—	—	116
Balance as of September 30, 2013	728,144,401	1,382,505	$35,481	$ 2	$(23,068)	$12,415

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

T-Mobile US, Inc.
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the balances and results of operations of T-Mobile US, Inc. and its consolidated subsidiaries, collectively “T-Mobile” or the “Company”. T-Mobile consolidates all majority-owned subsidiaries over which it exercises control, as well as variable interest entities where it is deemed to be the primary beneficiary and variable interest entities which cannot be deconsolidated. Intercompany transactions and balances have been eliminated in consolidation.

The condensed consolidated financial statements fairly present the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair presentation of the Company’s results for the periods presented. The condensed consolidated financial statements are unaudited and should be read in conjunction with the audited Consolidated Financial Statements for the three years ended December 31, 2012, included in the Current Report on Form 8-K filed on June 18, 2013.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes, including estimates of probable losses and expenses. Actual results could differ from those estimates.

On April 30, 2013, the business combination involving T-Mobile USA, Inc. (“T-Mobile USA”) and MetroPCS Communications, Inc. (“MetroPCS”) was completed. In connection with the business combination, MetroPCS acquired all of the outstanding capital stock of T-Mobile USA beneficially owned by Deutsche Telekom AG (“Deutsche Telekom”) in consideration for the issuance of shares of common stock representing approximately 74% of the fully diluted shares of the combined entity. MetroPCS was subsequently renamed T-Mobile US, Inc. and is the consolidated parent of the Company’s subsidiaries, including T-Mobile USA. The business combination was accounted for as a reverse acquisition with T-Mobile USA as the accounting acquirer. Accordingly, T-Mobile USA’s historical financial statements became the historical financial statements of the combined company. The common shares outstanding and earnings (loss) per share presented for periods up to April 30, 2013 reflect the common shares issued to T-Mobile Global Holding GmbH (“T-Mobile Holding”), an indirect wholly-owned subsidiary of Deutsche Telekom, in connection with the reverse acquisition. See Note 2 – Transaction with MetroPCS for further information.

Segments

T-Mobile operates as a single operating segment and a single reporting unit. As of September 30, 2013 and December 31, 2012, and for the three and nine months ended September 30, 2013 and 2012, all of T-Mobile’s long-lived assets and revenues related to operations in the United States, Puerto Rico and the U.S. Virgin Islands.

Cash and Cash Equivalents

Cash equivalents, including those acquired through the business combination with MetroPCS, consist of highly liquid interest-earning investments with remaining maturities of three months or less at the date of purchase. Cash equivalents are stated at cost, which approximates fair value.

T-Mobile is required to restrict cash equivalents as collateral for certain agreements. Cash equivalents with use restrictions of less than twelve months are classified as current. Restricted cash equivalents included in other current assets were $100 million as of September 30, 2013. There were no restricted cash equivalents as of December 31, 2012.

Goodwill

Goodwill consists of the excess of the purchase price over the fair value of net identifiable assets acquired in a business combination. The Company assesses the carrying value of its goodwill for potential impairment annually as of December 31 or more frequently if events or changes in circumstances indicate that such assets might be impaired.

Table of Contents

Other Intangible Assets

Intangible assets that have finite useful lives are amortized over their useful lives. Customer lists are primarily amortized using the sum-of-the-years-digits method over the expected period in which the relationship is expected to contribute to future cash flows. The remaining finite-lived intangible assets are generally amortized using the straight-line method.

Guarantee Liabilities

T-Mobile offers a handset upgrade program that provides eligible customers a specified-price trade-in right to upgrade their handset, up to twice a year following completion of an initial six-month enrollment period. Participating customers must finance their handset using an equipment installment plan ("EIP"). Upon upgrading, the customer will receive a credit in the amount of the outstanding EIP balance provided they trade in their used handset to purchase a new handset from T-Mobile.

For customers who enroll in the trade-in programs, the Company defers the portion of equipment sales revenue which represents the estimated value of the specified-price trade-in right guarantee. The guarantee liabilities are valued based on various economic and customer behavioral assumptions, including the customer's estimated remaining EIP balance at trade-in, the expected fair value of the used handset at trade-in, and the trade-in probability for each month over the term of the EIP. The guarantee is recognized as equipment sales when the customer upgrades their handset or T-Mobile is otherwise relieved of its performance obligation. Guarantee liabilities included in other current liabilities were $90 million as of September 30, 2013. There were no guarantee liabilities as of December 31, 2012 as the program was introduced in the third quarter of 2013.

Stock-Based Compensation

Stock-based compensation cost for stock awards, which include restricted stock units ("RSUs") and performance stock units ("PSUs"), is measured at fair value on the grant date and recognized as expense, net of expected forfeitures, over the related service period. The fair value of stock awards is based on the closing price of T-Mobile common stock on the date of grant. RSUs are recognized as expense using the straight-line method. PSUs are recognized as expense following a graded vesting schedule.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed based on the weighted-average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed based on the weighted-average number of common shares outstanding for the period plus the effect of dilutive potential common shares outstanding during the period, calculated using the treasury stock method. Dilutive potential common shares consist of outstanding stock options, RSU and PSU awards.

Note 2 – Transaction with MetroPCS

Transaction Overview

On October 3, 2012, Deutsche Telekom, T-Mobile Global Zwischenholding GmbH, a direct wholly-owned subsidiary of Deutsche Telekom ("T-Mobile Global"), T-Mobile Holding, a direct wholly-owned subsidiary of T-Mobile Global, T-Mobile USA and MetroPCS entered into a Business Combination Agreement ("BCA") for the business combination of T-Mobile USA and MetroPCS, which was subsequently amended on April 14, 2013. The business combination was intended to provide the Company with expanded scale, spectrum, and financial resources to compete aggressively with other larger U.S. wireless carriers. The stockholders of MetroPCS approved the business combination on April 24, 2013, and the transaction closed on April 30, 2013 (“Acquisition Date”).

The transaction was accounted for as a reverse acquisition under the acquisition method of accounting with T-Mobile USA considered to be the accounting acquirer based upon the terms and conditions set forth in the BCA, including the ability of T-Mobile USA’s stockholder, Deutsche Telekom, to nominate a majority of the board of directors of the Company and Deutsche Telekom’s receipt of shares representing a majority of the outstanding voting power of the Company. Based on the determination that T-Mobile USA was the accounting acquirer in the transaction, the Company has allocated the preliminary purchase price to the fair value of MetroPCS’s assets and liabilities as of the Acquisition Date, with the excess preliminary purchase price recorded as goodwill.

Accordingly, the acquired assets and liabilities of MetroPCS are included in the Company’s condensed consolidated balance sheets as of September 30, 2013 and the results of its operations and cash flows are included in the Company’s condensed

Table of Contents

consolidated statements of comprehensive income (loss) and cash flows for the period from May 1, 2013 through September 30, 2013.

Pursuant to the terms and the conditions as set forth in the BCA:

- Deutsche Telekom recapitalized T-Mobile USA by retiring T-Mobile USA's notes payable to affiliates principal balance of $14.5 billion and all related derivative instruments in exchange for $11.2 billion in new notes payable to affiliates and additional paid-in capital prior to the closing of the business combination.
- Deutsche Telekom provided T-Mobile USA with a $500 million unsecured revolving credit facility.
- MetroPCS effected a recapitalization which consisted of a reverse stock split of the MetroPCS common stock and an aggregate cash payment of $1.5 billion to the MetroPCS stockholders on the Acquisition Date.
- Thereafter, MetroPCS acquired all of T-Mobile USA's capital stock from T-Mobile Holding in exchange for common stock representing approximately 74% of the fully diluted shares of the combined entity's common stock on the Acquisition Date.

Debt Recapitalization

In connection with the recapitalization of T-Mobile USA, certain outstanding balances with Deutsche Telekom were settled prior to the closing of the business combination. The debt recapitalization was accounted for as a debt extinguishment with the effects being treated as a capital transaction. The effects on additional paid-in capital as a result of the debt recapitalization are presented in the following table:

(in millions)	Debt Recapitalization
Retirement of notes payable to affiliates	$ 14,450
Elimination of net unamortized discounts and premiums on notes payable to affiliates	434
Issuance of new notes payable to affiliates	(11,200)
Settlement of accounts receivable from affiliates and other outstanding balances	(363)
Income tax effect	(178)
Total	$ 3,143

Reverse Stock Split

On April 30, 2013, as contemplated by the BCA, the Company amended and restated its existing certificate of incorporation in its entirety in the form of the Fourth Amended and Restated Certificate of Incorporation to, among other things, effect a reverse stock split of MetroPCS' common stock, and change its name to T-Mobile US, Inc. On the Acquisition Date, the Company issued to T-Mobile Holding 535,286,077 shares of common stock in exchange for T-Mobile Holding transferring to the Company all of its rights, title and interest in and to all the equity interests of T-Mobile USA. After giving effect to this transaction, the shares of the Company's common stock issued to T-Mobile Holding represented approximately 74% of the fully diluted shares of the Company's common stock on the Acquisition Date. Immediately prior to the Acquisition Date, each issued share of MetroPCS was reverse split, and at consummation of the business combination each issued share was canceled and converted into shares of the Company's stock totaling 184,487,309 shares of common stock, exclusive of 1,382,505 shares in treasury.

Consideration Transferred

The fair value of the consideration transferred in a reverse acquisition was determined based on the number of shares the accounting acquirer (T-Mobile USA, the legal acquiree) would have had to issue to the stockholders of the accounting acquiree (MetroPCS, the legal acquirer) in order to provide the same ratio of ownership in the combined entity (approximately 26%) as a result of the transaction. The fair value of the consideration transferred was based on the most reliable measure, which was determined to be the market price of MetroPCS shares as of the Acquisition Date.

Table of Contents

The fair value of the consideration transferred, based on the market price of MetroPCS shares on the Acquisition Date, consisted of the following:

(in millions)	Purchase Consideration
Fair value of MetroPCS shares	$2,886
Fair value of MetroPCS stock options	84
Cash consideration paid to MetroPCS stock option holders	1
Total purchase consideration	$2,971

The fair value of the MetroPCS shares was determined by using the closing price of MetroPCS common stock on the New York Stock Exchange on the Acquisition Date, prior to giving effect to the reverse stock split, of $11.84 per share, adjusted by the $4.05 per share impact of the $1.5 billion cash payment, which was a return of capital to the MetroPCS stockholders made as part of the recapitalization prior to the stock issuance to T-Mobile Holding. This resulted in an adjusted price of $7.79 per share unadjusted for the effects of the reverse stock split.

Pursuant to the BCA, unvested MetroPCS stock options and shares of restricted stock immediately vested as of the closing of the business combination and were adjusted to give effect to the recapitalization. Holders of stock options for which the exercise price was less than the average closing price of MetroPCS's common stock for the five days preceding the closing ("in-the-money options") had the right to receive, at their election, a cash payment based on the amount by which the average closing price exceeded the exercise price of the options. In-the-money options held by holders who made this election were canceled. Finally, stock options with low exercise prices, as defined in the BCA, were canceled in exchange for cash consideration.

Purchase Price Allocation

As T-Mobile USA was the accounting acquirer in the business combination, it has allocated the preliminary purchase price to the MetroPCS individually identifiable assets acquired and liabilities assumed based on their estimated fair values on the Acquisition Date. The excess of the preliminary purchase price over those fair values was recorded as goodwill. The determination of the preliminary fair values of the acquired assets and assumed liabilities requires significant judgment, including estimates relating to the decommissioning of network cell sites, the determination of estimated lives of depreciable and intangible assets and the calculation of the value of spectrum licenses, customer lists, and trademarks. Accordingly, should additional information become available, the preliminary purchase price allocation is subject to further adjustment.

Table of Contents

The following table summarizes the allocation of the preliminary purchase price:

(in millions)	Preliminary Fair Value
Assets	
Cash and cash equivalents	$2,144
Accounts receivable, net	98
Inventory	171
Other current assets	240
Property and equipment	1,475
Spectrum licenses	3,818
Other intangible assets	1,376
Other assets	10
Total assets acquired	9,332
Liabilities and Stockholders’ Equity	
Accounts payable and accrued liabilities	475
Deferred revenues	187
Other current liabilities	15
Deferred tax liabilities	735
Long-term debt	6,277
Other long-term liabilities	355
Total liabilities assumed	8,044
Net identifiable assets acquired	1,288
Goodwill	1,683
Net assets acquired	$2,971

The goodwill recognized was attributable primarily to expected synergies from combining the businesses of T-Mobile USA and MetroPCS, including, but not limited to, the following:

- Expected cost synergies from reduced network-related expenses through the elimination of redundant assets.
- Enhanced spectrum position which will provide greater network coverage and improved 4G LTE coverage in key markets across the country and the ability to offer a wider array of products, plans and services to the Company’s customers.

None of the goodwill is deductible for income tax purposes.

The Company recognized transaction and integration costs of $12 million and $51 million for the three and nine months ended September 30, 2013, respectively. This includes personnel-related change in control, transaction and other acquisition-related charges. These costs are included in MetroPCS transaction and integration costs in the condensed consolidated statements of comprehensive income (loss).

Condensed Consolidated Statements of Comprehensive Income (Loss) for MetroPCS Operations

The following supplemental information presents the financial results of MetroPCS operations included in the condensed consolidated statements of comprehensive income (loss) since May 1, 2013 for the three and nine months ended September 30, 2013:

(in millions)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013

Total revenues	$1,273	$2,072
Income before income taxes	87	103

11

Table of Contents

Pro Forma Financial Information

The following pro forma consolidated results of net income for the nine months ended September 30, 2013 and 2012 assume the business combination was completed as of January 1, 2012, respectively:

	Nine Months Ended September 30,	
(in millions, except per share amounts)	2013	2012
Pro forma revenues	$19,331	$18,720
Pro forma net income (loss)	57	(7,283)
Pro forma basic earnings (loss) per share	$0.08	$(10.13)
Pro forma diluted earnings (loss) per share	0.08	(10.13)

The pro forma amounts include the historical operating results of T-Mobile USA and MetroPCS prior to the business combination, with adjustments directly attributable to the business combination relating to purchase accounting adjustments to conform to accounting policies that affect total revenues, total operating expenses, interest expense, other income (expense), income taxes expense, and eliminate intercompany activities.

As the pro forma amounts assumed the business combination was completed as of January 1, 2012, pro forma earnings for the nine months ended September 30, 2013 excluded $205 million of transaction and integration costs and these costs were included in the pro forma earnings for the nine months ended September 30, 2012.

The pro forma results include the following:

- Increase in tax expenses based on the inclusion of MetroPCS in the combined company of $54 million for the nine months ended September 30, 2013 and a decrease of $194 million for the nine months ended September 30, 2012;
- Net decrease to amortization and depreciation expense related to the fair value of the intangible assets and fixed assets acquired of $3 million for the nine months ended September 30, 2013 and a net increase of $137 million for the nine months ended September 30, 2012, respectively; and
- The impact of financing agreements entered into whereby an aggregate of $14.7 billion senior unsecured notes were issued and $14.5 billion of senior unsecured notes previously issued by T-Mobile USA to Deutsche Telekom and $2.5 billion of senior unsecured notes previously issued by MetroPCS were retired in connection with the business combination for a net increase to interest and other income (expense) of $91 million and $107 million for the nine months ended September 30, 2013 and 2012, respectively.

Note 3 – Equipment Installment Plan Receivables

T-Mobile offers certain retail customers the option to pay for their devices and other purchases in installments over a period of up to 24 months. At the time of sale, T-Mobile imputes risk adjusted interest on the installment receivables and records the deferred interest as a reduction to equipment revenues and the related accounts receivable. Interest income is recognized over the financed installment term. The current portion of T-Mobile’s equipment installment plan receivables included in accounts receivable, net was $1.1 billion and $475 million as of September 30, 2013 and December 31, 2012, respectively. The long-term portion of the equipment installment plan receivables included in other assets was $750 million and $216 million as of September 30, 2013 and December 31, 2012, respectively.

Credit Quality

T-Mobile assesses the collectability of the equipment installment plan receivables based upon a variety of factors, including aging of the accounts receivable portfolio, credit quality of the customer base, historical write-off experience, payment trends and other qualitative factors such as macro-economic conditions.

Based upon customer credit profiles, T-Mobile classifies customer receivables into the categories of “Prime” and “Subprime”. Prime customer receivables are those with lower delinquency risk and Subprime customer receivables are those with higher delinquency risk. Some customers within the Subprime category are required to pay an advance deposit for equipment financed under the equipment installment plan or may be required to pay a higher down payment on the equipment purchase. Equipment sales that are not reasonably assured to be collectible are recorded on a cash basis as payments are received.

Table of Contents

The balance and aging of the equipment installment plan receivables on a gross basis by credit category were as follows:

	September 30, 2013			December 31, 2012		
	Credit Category			Credit Category		
(in millions)	Prime	Subprime	Total	Prime	Subprime	Total
Unbilled	$1,084	$953	$2,037	$337	$432	$769
Billed - Current	35	39	74	13	21	34
Billed - Past due	11	20	31	3	10	13
Equipment installment plan receivables, gross	$1,130	$1,012	$2,142	$353	$463	$816

T-Mobile records equipment installment bad debt expense based on an estimate of the percentage of equipment revenue that will not be collected. This estimate was based on a number of factors including historical write-off experience, credit quality of the customer base, and other factors such as macro-economic conditions. T-Mobile monitors the aging of its equipment installment plan receivables and writes off account balances if collection efforts were unsuccessful and future collection was unlikely based on customer credit ratings and the length of time from the original billing date.

Activity in the allowance for credit losses for the equipment installment plan receivables was as follows:

(in millions)	September 30, 2013
Allowance, December 31, 2012	$125
Change in deferred interest on short-term and long-term installment receivables	112
Bad debt expense	118
Write-offs	(79)
Allowance, September 30, 2013	$276

The allowance for credit losses includes deferred interest of $222 million and $110 million as of September 30, 2013 and December 31, 2012, respectively.

Note 4 – Property and Equipment

The components of property and equipment were as follows:

(in millions)	Useful Lives	September 30, 2013	December 31, 2012
Buildings and improvements	Up to 40 years	$695	$676
Wireless communications systems	2 - 20 years	23,908	21,147
Capitalized software	2 - 7 years	6,198	5,078
Equipment and furniture	2 - 5 years	2,286	1,991
Construction in progress		1,603	1,659
Accumulated depreciation and amortization		(19,320)	(17,744)
Property and equipment, net		$15,370	$12,807

Buildings and improvements, wireless communication systems, capitalized software, equipment and furniture, including assets with retirement obligations, and construction-in-progress include $14 million, $960 million, $162 million, $268 million, and $71 million, respectively, based on preliminary fair values, acquired through the business combination with MetroPCS. See Note 2 – Transaction with MetroPCS for further information.

Note 5 – Goodwill, Spectrum Licenses and Intangible Assets

Goodwill and Spectrum Licenses

Carrying values of goodwill and spectrum licenses were as follows:

(in millions)	September 30, 2013	December 31, 2012
Goodwill	$1,683	$—
Spectrum licenses	18,414	14,550

Table of Contents

Goodwill and spectrum licenses include $1.7 billion and $3.8 billion, respectively, based on preliminary fair values, acquired through the business combination with MetroPCS. See Note 2 – Transaction with MetroPCS for further information.

Other Intangible Assets

The components of intangible assets were as follows:

(in millions)	Useful Lives	September 30, 2013	December 31, 2012
Customer lists	1 - 6 years	$1,313	$209
Trademarks	1 - 8 years	291	55
Other	Up to 28 years	97	58
Accumulated amortization		(404)	(243)
Other intangible assets, net		$1,297	$79

Customer lists, trademarks and other intangible assets include $1.1 billion, $233 million and $39 million respectively, based on preliminary fair values, related to the business combination with MetroPCS. See Note 2 – Transaction with MetroPCS for further information. Estimated aggregate future amortization expense for intangible assets subject to amortization are $92 million for the three months ended December 31, 2013, $333 million in 2014, $278 million in 2015, $222 million in 2016, $163 million in 2017 and $209 million thereafter.

Note 6 – Fair Value Measurements and Derivative Instruments

T-Mobile accounts for certain assets and liabilities at fair value. Fair value is a market-based measurement which is determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, T-Mobile uses the three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1	Observable inputs that reflect quoted prices in active markets for identical assets or liabilities;
Level 2	Inputs other than the quoted prices in active markets that are observable either directly or indirectly; and
Level 3	Unobservable inputs for which there is little or no market data, which require T-Mobile to develop its own assumptions.

T-Mobile uses observable market data, when available. Assets and liabilities measured at fair value included interest rate swaps, cross currency interest rate swaps designated as cash flow hedges, and investments and obligations related to T-Mobile's nonqualified deferred compensation plan.

Interest Rate Swaps

Prior to the closing of the business combination, T-Mobile managed interest rate risk related to its notes payable to affiliates by entering into interest rate swap agreements. T-Mobile held seven interest rate swaps with a total notional amount of $3.6 billion as of December 31, 2012. These interest rate swap agreements were not designated as hedging instruments and changes in fair value related to such agreements were recognized in interest expense to affiliates.

Interest rate swaps were valued using discounted cash flow techniques. These techniques incorporated market-based observable inputs such as interest rates and credit spreads, considering each instrument's term, notional amount, discount rate and credit risk. T-Mobile's interest rate swaps were classified as Level 2 in the fair value hierarchy.

Prior to the closing of the business combination with MetroPCS, Deutsche Telekom recapitalized T-Mobile by retiring the existing T-Mobile notes payable to affiliates and all related derivative instruments, which included the interest rate swaps. The related balance in accumulated other comprehensive income was reclassified into net income (loss). As of September 30, 2013, there were no outstanding interest rate swaps.

Cross Currency Interest Rate Swaps

Prior to the closing of the business combination, T-Mobile managed foreign currency risk along with interest rate risk through cross currency interest rate swap agreements related to its intercompany Euro denominated notes payable to affiliates, which were entered into upon assumption of the notes to fix the future interest and principal payments in U.S. dollars, as well as to mitigate the impact of foreign currency transaction gains or losses over the terms of the notes payable to affiliates extending to

Table of Contents

2025. T-Mobile had three cross currency interest rate swaps with a total notional amount of $2.3 billion as of December 31, 2012. These cross currency interest rate swaps were designated as cash flow hedges and met the criteria for hedge accounting. As a result, the change in fair value was recorded in other comprehensive income (loss) and reclassified to interest expense to affiliates in the period in which the hedged transaction affected earnings. T-Mobile evaluated hedge effectiveness at the inception of the hedge prospectively, as well as retrospectively, and at the end of each reporting period. The hedges were evaluated as highly effective prior to the closing of the business combination with MetroPCS, thus no gain (loss) has been recognized due to hedge ineffectiveness.

Cross currency interest rate swaps were valued using discounted cash flow techniques. These techniques incorporated market-based observable inputs such as interest rates and credit spreads, considering each instrument's term, notional amount, discount rate and credit risk. T-Mobile's cross currency interest rate swaps were classified as Level 2 in the fair value hierarchy.

Prior to the closing of the business combination with MetroPCS, Deutsche Telekom recapitalized T-Mobile by retiring the existing T-Mobile notes payable to affiliates and all related derivative instruments, which included cross currency interest rate swaps. The related balance in accumulated other comprehensive income was reclassified into net income (loss). As of September 30, 2013, there were no outstanding cross currency interest rate swaps.

Nonqualified Deferred Compensation Plan

T-Mobile's nonqualified deferred compensation plan includes available for sale securities and obligations, which are valued using quoted market prices in active markets or broker-dealer quotations. The nonqualified deferred compensation plan assets and liabilities are classified as Level 1 in the three tier value hierarchy.

Fair Value of Financial Instruments

Fair value of financial instruments measured on a recurring basis by level were as follows:

	Balance Sheet	September 30, 2013			
(in millions)	Location	Level 1	Level 2	Level 3	Total
Assets					
Nonqualified deferred compensation	Long-term investments	$34	$—	$—	$34
Liabilities					
Nonqualified deferred compensation	Other long-term liabilities	34	—	—	34

	Balance Sheet	December 31, 2012			
(in millions)	Location	Level 1	Level 2	Level 3	Total
Assets					
Interest rate swaps	Other current assets	$—	$106	$—	$106
Cross currency interest rate swaps	Other assets	—	144	—	144
Nonqualified deferred compensation	Long-term investments	31	—	—	31
Liabilities					
Nonqualified deferred compensation	Other long-term liabilities	31	—	—	31

The following table summarizes the activity related to derivatives instruments:

(in millions)	Three Months Ended September 30, 2013	2012	Nine Months Ended September 30, 2013	2012
Gain (loss) recognized in other comprehensive income (loss):				
Cross currency interest rate swaps	$—	$92	$(17)	$15
Gain recognized in interest expense to affiliates:				
Interest rate swaps	—	28	8	74
Cross currency interest rate swaps	—	4	53	11

Table of Contents

Notes Payable to Affiliates and Long-term Debt

See Note 7 – Notes Payable to Affiliates and Debt for the fair value of T-Mobile's notes payable to affiliates and long-term debt.

Note 7 – Notes Payable to Affiliates and Debt

Notes Payable to Affiliates

Prior to the closing of the business combination with MetroPCS, Deutsche Telekom recapitalized T-Mobile by retiring its notes payable to affiliates principal balance of $14.5 billion in exchange for new senior unsecured notes in an aggregate principal amount of $11.2 billion. Further, in October 2013, Deutsche Telekom sold an aggregate principal amount of $5.6 billion of the senior unsecured notes to third parties. See Note 14 – Subsequent Events for further information.

Notes payable to affiliates as of September 30, 2013 were as follows:

(in millions)	September 30, 2013
6.464% Senior Notes due 2019	$1,250
5.578% Senior Reset Notes due 2019 (reset date in April 2015)	1,250
6.542% Senior Notes due 2020	1,250
5.656% Senior Reset Notes due 2020 (reset date in April 2015)	1,250
6.633% Senior Notes due 2021	1,250
5.747% Senior Reset Notes due 2021 (reset date in October 2015)	1,250
6.731% Senior Notes due 2022	1,250
5.845% Senior Reset Notes due 2022 (reset date in October 2015)	1,250
6.836% Senior Notes due 2023	600
5.950% Senior Reset Notes due 2023 (reset date in April 2016)	600
Total notes payables to affiliates	$11,200

Interest on the Senior Notes and Senior Reset Notes, collectively the notes payable to affiliates, is accrued from the date of issuance at stated interest rates and paid semi-annually. The interest rates on the Senior Reset Notes are adjusted at the reset dates to rates defined in the applicable supplemental indenture. The notes payable to affiliates may be redeemed, in whole, or from time to time in part, subject to the conditions and an early termination fee as set forth in the applicable supplemental indentures.

Notes payable to affiliates as of December 31, 2012 were as follows:

(in millions)	December 31, 2012
Notes payable to affiliates, due 2013 (1.772% - 7.099%)	$1,273
Notes payable to affiliates, due 2014 (2.696% - 3.532%)	2,348
Notes payable to affiliates, due 2015 (2.843%)	1,905
Notes payable to affiliates, due 2016 (2.739%)	1,000
Notes payable to affiliates, thereafter (3.652% - 8.195%)	7,956
Unamortized discount and premium, net	463
Total notes payable to affiliates	14,945
Less: Current portion of long-term notes payable to affiliates	1,290
Long-term payables to affiliates	$13,655

The notes payable to affiliates accrued interest from the date of issuance at stated interest rates or LIBOR plus an applicable margin, with accrued interest paid semi-annually, quarterly or monthly. The applicable interest rate on certain notes payable was subject to periodic change based on changes in the credit rating of Deutsche Telekom.

Long-term Debt

In connection with the business combination with MetroPCS, T-Mobile assumed long-term indebtedness of MetroPCS of $6.3 billion, including capital leases in the amount of $333 million. In addition, certain subsidiaries of T-Mobile became guarantors

Table of Contents

of the assumed senior unsecured notes previously issued by MetroPCS. Further, the Company issued $500 million of long-term debt in August 2013, for which certain subsidiaries are guarantors. See Note 12 – Guarantor Financial Information for the condensed consolidating financial information of T-Mobile's guarantor subsidiaries.

Long-term debt as of September 30, 2013 was as follows:

(in millions)	September 30, 2013
5.250% Senior Notes due 2018	$500
7.875% Senior Notes due 2018	1,000
6.625% Senior Notes due 2020	1,000
6.250% Senior Notes due 2021	1,750
6.625% Senior Notes due 2023	1,750
Unamortized premium from purchase price allocation fair value adjustment	422
Capital leases	356
Total debt	6,778
Less: Current portion of capital leases	17
Long-term debt	$6,761

Interest on the long-term debt, excluding capital leases, is accrued from the date of issuance at stated interest rates and paid semi-annually. The long-term debt, excluding capital leases, may be redeemed, in whole, or from time to time in part, subject to the conditions and an early termination fee as set forth in the applicable supplemental indenture.

Registration Rights Agreements

In connection with the business combination with MetroPCS, T-Mobile and the guarantors assumed the obligations under a Registration Rights Agreement with Deutsche Bank Securities Inc., as representative of the initial purchasers of the 6.250% Senior Notes due 2021 and 6.625% Senior Notes due 2023. In addition, in August 2013, the Company entered into a Registration Rights Agreement with Deutsche Bank Securities Inc. in connection with the issuance of 5.250% Senior Notes due 2018 (together with the 6.250% Senior Notes due 2021 and 6.625% Senior Notes due 2023, the "2013 Notes") by T-Mobile USA.

Under the terms of the Registration Rights Agreements, the Company and the subsidiary guarantors have agreed to use commercially reasonable efforts to file a registration statement covering an offer to exchange the 2013 Notes for Exchange Securities (as defined in the Registration Rights Agreements). The Company has also agreed to use commercially reasonable efforts to have such registration statement declared effective and to consummate the Exchange Offer not later than a specified period after the date such registration statement becomes effective. Alternatively, if the Company is unable to consummate the Exchange Offer under certain conditions, or if holders of the 2013 Notes cannot participate in, or cannot obtain freely transferable Exchange Securities in connection with the Exchange Offer for certain specified reasons, then the Company and the subsidiary guarantors will use commercially reasonable efforts to file a shelf registration statement within the times specified in the Registration Rights Agreements to facilitate resale of the 2013 Notes. All registration expenses (subject to limitations specified in the Registration Rights Agreements) will be paid by the Company.

Should the Company fail to consummate the Exchange Offer within the specified period; or, if a shelf registration statement is required, fail to have the shelf registration statement declared effective, or, if a shelf registration statement has become effective, fail to maintain the effectiveness thereof or the usability of the related prospectus (subject to certain exceptions) for more than a specified period within any twelve-month period, the Company will be required to pay certain additional interest as provided in the Registration Rights Agreements.

Capital Leases

Capital lease agreements are primarily for distributed antenna systems, with varying expiration terms through 2028. Assets and future obligations related to capital leases are included in property and equipment, short-term debt and long-term debt, respectively. Depreciation of assets held under capital leases is included in depreciation and amortization expense. As of December 31, 2012, capital lease obligations were not significant. Future minimum payments required under capital leases, including interest, over their remaining terms for the twelve months ended September 30 are $40 million in 2014, $41 million in 2015, $42 million in 2016, $43 million in 2017, $44 million in 2018, and $306 million thereafter, for a total of $516 million, including $160 million in interest.

Table of Contents

Short-term Debt

The Company maintains vendor financing arrangements with its primary network equipment suppliers. Under the respective agreements, the Company can obtain extended financing terms. The interest rate on the vendor financing arrangements is determined based on the difference between LIBOR and a specified margin per the agreements. Obligations under the vendor financing arrangements are included in short-term debt. As of September 30, 2013, the outstanding balance was $178 million. As of December 31, 2012, there was no outstanding balance.

Long-term Financial Obligation
In November 2012, T-Mobile conveyed to Crown Castle International Corp. ("CCI") the exclusive right to manage and operate approximately 7,100 wireless communication tower sites in exchange for net proceeds of $2.5 billion (the "Tower Transaction"). The Company recorded a long-term financial obligation in the amount of the net proceeds received from CCI. T-Mobile recognizes interest expense on the financial obligation at a rate of approximately 8% using the effective interest method. The financial obligation is increased by accrued interest expense and amortized through contractual leaseback payments made by T-Mobile to CCI and through estimated future net cash flows generated and retained by CCI from operation of the tower sites. The long-term financial obligation was $2.5 billion as of September 30, 2013 and December 31, 2012, respectively. For further information, see Note 4 – Tower Transaction to the audited Consolidated Financial Statements for the three years ended December 31, 2012, included in the Current Report on Form 8-K filed on June 18, 2013.

Fair Value of Long-term Notes Payable to Affiliates and Debt

The fair value of the Company's variable-rate notes payable to affiliates was determined based on a discounted cash flow approach which considers the future cash flows discounted at current rates. The approach includes an estimate for the stand-alone credit risk of T-Mobile. The Company's variable-rate notes payable to affiliates are classified as Level 2 in the fair value hierarchy. In October 2013, Deutsche Telekom sold the fixed-rate notes payable to affiliates to third parties. The fair value of the Company's fixed-rate notes payable to affiliates as of September 30, 2013 was determined based on the selling price as of October 8, 2013. This is a quoted market price in an active market, and therefore the fixed-rate notes payable to affiliates in an aggregate principal amount of $5.6 billion were transferred from Level 2 and are now classified as Level 1 in the fair value hierarchy. The fair value of the Company's long-term debt was determined based on quoted market prices in active markets, and therefore are classified as Level 1 in the fair value hierarchy. The fair value hierarchy is described in Note 6 – Fair Value Measurements and Derivative Instruments.

The carrying amounts and fair values of the Company's notes payable to affiliates and long-term debt were as follows:

	September 30, 2013		December 31, 2012	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Variable-rate notes payable to affiliates	$5,600	$5,480	$—	$—
Fixed-rate notes payable to affiliates	5,600	5,601	14,945	14,721
Long-term debt principal, excluding capital leases	6,000	6,142	—	—

Although the Company has determined the estimated fair value amounts using available market information and commonly accepted valuation methodologies, considerable judgment is required in interpreting market data to develop fair value estimates for the variable-rate notes payable to affiliates and long-term debt. The fair value estimates are based on information available as of September 30, 2013 and December 31, 2012. As such, the Company's estimates are not necessarily indicative of the amount that the Company could realize in a current market exchange.

Note 8 – Stock-Based Compensation

Stock Awards

During the second quarter of 2013, the Company’s Board of Directors and stockholders approved the 2013 Omnibus Incentive Plan, which authorized the issuance of up to 63 million shares of common stock. Under the incentive plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units, and performance awards to employees, consultants, advisors and non-employee directors. As of September 30, 2013, there were 40 million shares of common stock available for future grants under the incentive plan.

Table of Contents

Stock-based compensation expense and related income tax benefits for the stock awards were as follows:

(in millions)	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Stock-based compensation expense	$48	$54
Income tax benefit related to stock-based compensation	18	21

In June 2013, the Company granted restricted stock units ("RSUs") to eligible employees and certain non-employee directors. RSUs entitle the grantee to receive shares of T-Mobile common stock at the end of a vesting period of one to four years.

In June 2013, the Company also granted performance stock units ("PSUs") to eligible key executives of the Company. PSUs entitle the holder to receive shares of T-Mobile common stock at the end of a vesting period of approximately 2.5 years if certain performance goals are achieved. The number of shares ultimately received is dependent on T-Mobile's business performance against the specified performance goals. The PSUs were considered granted for accounting purposes upon specification of the performance goals in July 2013.

The following activity occurred under the RSU and PSU awards:

	Units	Weighted Average Grant-Date Fair Value
Nonvested, December 31, 2012	—	$—
Granted	24,584,884	22.03
Vested	(17,866)	21.20
Forfeited	(962,345)	21.20
Nonvested, September 30, 2013	23,604,673	$22.06

Vesting of the stock awards triggers a tax obligation for the employee, which is required to be remitted to the relevant tax authorities. The Company has agreed to withhold stock units from the employee to cover the tax obligation. The net shares issued to the employee are accounted for as outstanding common stock.

As of September 30, 2013, total unrecognized stock-based compensation expense related to nonvested stock awards, net of estimated forfeitures, was $379 million, before income taxes, which is expected to be recognized over a weighted-average period of 2.5 years.

Stock Options

Prior to the business combination, MetroPCS had established the MetroPCS Communications, Inc. 2010 Equity Incentive Compensation Plan, the MetroPCS Communications, Inc. Amended and Restated 2004 Equity Incentive Compensation Plan and the Second Amended and Restated 1995 Stock Option Plan ("Predecessor Plans"). The MetroPCS stock options were adjusted in connection with the business combination. See Note 2 – Transaction with MetroPCS for further information. Following stockholder approval of the Company's 2013 Omnibus Incentive Plan, no new awards may be granted under the Predecessor Plans.

For the period from May 1, 2013 through September 30, 2013, 8,358,830 stock options with a weighted-average exercise price of $13.92 were exercised under the Predecessor Plans, generating proceeds of approximately $116 million, net of tax. At September 30, 2013, 8,200,306 stock options with a weighted-average exercise price of $25.59

and weighted-average contractual life of 4 years remain outstanding and exercisable under the Predecessor Plans.

Note 9 – Income Taxes

Income tax expense for the three months ended September 30, 2013, compared to same period in 2012, increased primarily due to fluctuations in income and changes in Puerto Rico taxes. Income tax expense for the nine months ended September 30, 2013, compared to the same period in 2012, decreased primarily due to lower pretax income for the nine months ended September 30, 2013, as compared to pretax income, exclusive of impairment charges, for the same period in 2012.

Table of Contents

Note 10 – Related Party Transactions

Prior to the closing of the business combination, Deutsche Telekom recapitalized T-Mobile by retiring T-Mobile's notes payable to affiliates principal balance and all related derivative instruments in exchange for new unsecured senior notes and additional paid-in capital provided by Deutsche Telekom. In connection with the debt recapitalization, other outstanding balances with Deutsche Telekom were settled. See Note 2 – Transaction with MetroPCS for further information regarding the business combination and the effects on additional paid-in capital as a result of the debt recapitalization and the settlement of the other outstanding balances with Deutsche Telekom. Further, in October 2013, Deutsche Telekom sold a portion of the senior unsecured notes to third parties. See Note 14 – Subsequent Events for further information.

Additionally, T-Mobile has related party transactions associated with Deutsche Telekom or its affiliates in the ordinary course of business, which are included in various line items in the condensed consolidated financial statements.

The following table summarizes the significant balances with Deutsche Telekom or its affiliates in the condensed consolidated balance sheets:

(in millions)	September 30, 2013	December 31, 2012
Assets		
Accounts receivable from affiliates	$19	$682
Interest rate swaps	—	106
Cross currency interest rate swaps	—	144
Liabilities		
Current payables to affiliates	$305	$1,619
Long-term payables to affiliates	11,200	13,655

The following table summarizes the impact of significant transactions with Deutsche Telekom or its affiliates in the condensed consolidated statements of comprehensive income (loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2013	2012	2013	2012
Fees incurred for use of the T-Mobile brand	$14	$12	$39	$37
Expenses for telecommunications and IT services	27	23	77	94
Interest expense to affiliates	183	165	586	487
Net gain (loss) recorded in other comprehensive income (loss), net of tax	—	23	(39)	19

Lines of Credit

T-Mobile has an unsecured revolving credit facility with Deutsche Telekom that allows for up to $500 million in borrowings. T-Mobile had no borrowings outstanding under this facility as of September 30, 2013. On March 29, 2013, T-Mobile amended and restated its credit agreement with U.S. Bank National Association that allows for the issuance of letters of credit in the aggregate amount of $100 million through June 30, 2014. For the purposes of securing T-Mobile's obligation under the credit agreement, Deutsche Telekom issued a letter of credit on T-Mobile's behalf.

Note 11 – Commitments and Contingencies

Operating Leases

T-Mobile has operating leases with local exchange carriers for dedicated transportation lines with varying expiration terms through 2021.

T-Mobile has other operating leases for cell sites, switch sites, retail stores and office facilities with contractual terms expiring between 2013 and 2028. The majority of cell site leases have an initial term of five years to ten years, with renewal options for several additional five-year periods. The Company considers unexercised renewal options on leases as being reasonably assured of exercise, and thus included in future minimum lease payments for a total term of approximately 15 years from inception or acquisition of the lease.

Table of Contents

Future minimum payments for dedicated transportation lines and other operating leases over their remaining terms, including reasonably assured renewals, are summarized below:

(in millions)	Dedicated Transportation Lines	Other Operating Leases
Twelve Months Ending September 30,		
2014	$248	$1,953
2015	161	1,921
2016	79	1,866
2017	44	1,784
2018	19	1,622
Thereafter	5	5,561
Total	$556	$14,707

In addition, as of September 30, 2013, the Company was contingently liable for approximately $677 million in future ground lease payments as the Company remains an obligor on the ground leases related to the Tower Transaction sites. This contingent rent is not included in the above table as any amounts due under ground leases are contractually owed by CCI based on T-Mobile's subleasing arrangement with CCI. For further information, see Note 4 – Tower Transaction to the audited Consolidated Financial Statements for the three years ended December 31, 2012, included in the Current Report on Form 8-K filed on June 18, 2013.

Aggregate rental expense for transportation lines under operating leases was $148 million and $129 million for the three months ended September 30, 2013 and 2012, respectively, and $414 million and $420 million for the nine months ended September 30, 2013 and 2012, respectively. Aggregate rental expense for cell sites, switch sites, retail stores and office facilities, including accounting for lease expense on a straight line basis, was $562 million and $482 million for the three months ended September 30, 2013 and 2012, respectively, and $1.6 billion and $1.4 billion for the nine months ended September 30, 2013 and 2012, respectively.

Other Commitments

T-Mobile has commitments with local exchange carriers for non-dedicated transportation lines with varying expiration terms through 2021. The original terms of these commitments vary from five years to ten years. Additionally, the Company has entered into various other commitments with a variety of suppliers primarily to purchase handsets, network services, equipment, software, marketing sponsorship agreements and other items in the ordinary course of business, with various terms, through 2018. These amounts are not reflective of the Company's entire anticipated purchases under the related agreements, but are determined based on the non-cancelable quantities or termination amounts to which the Company was contractually obligated. Additionally, in the second quarter of 2013, T-Mobile entered into a purchase agreement with United States Cellular Corporation ("U.S. Cellular") for the acquisition of Advanced Wireless Services spectrum ("AWS spectrum") for $308 million in cash, which was included in Other Purchase Commitments below. The transaction was completed in October 2013. See Note 14 – Subsequent Events for further information.

Future minimum payments for non-dedicated transportation lines and other purchase commitments over their remaining terms are summarized below:

(in millions)	Non-Dedicated Transportation Lines	Other Purchase Commitments
Twelve months ending September 30,		
2014	$604	$1,352
2015	583	260

2016	533	166
2017	443	2,335
2018	179	58
Thereafter	164	—
Total	$2,506	$4,171

Table of Contents

Contingencies and Litigation

T-Mobile is involved in putative stockholder derivative and class action lawsuits challenging the business combination with MetroPCS. These lawsuits include:

- Paul Benn v. MetroPCS Communications, Inc. et al., Case No. C.A. 7938-CS filed on October 11, 2012 in the Delaware Court of Chancery;
- Joseph Marino v. MetroPCS Communications, Inc. et al., Case No. C.A. 7940-CS filed on October 11, 2012 in the Delaware Court of Chancery;
- Robert Picheny v. MetroPCS Communications, Inc. et al., Case No. C.A. 7971-CS filed on October 22, 2012 in the Delaware Court of Chancery;
- James McLearie v. MetroPCS Communications, Inc. et al., Case No. C.A. 8009-CS filed on November 5, 2012 in the Delaware Court of Chancery;
- Adam Golovoy et al. v. Deutsche Telekom et al., Cause No. CC-12-06144-A filed on October 10, 2012 in the Dallas, Texas County Court at Law; and
- Nagendra Polu et al. v. Deutsche Telekom et al., Cause No. CC-12-06170-E filed on October 10, 2012 in the Dallas, Texas County Court at Law.

The lawsuits allege that the various defendants breached fiduciary duties, or aided and abetted in the alleged breach of fiduciary duties, to the MetroPCS stockholders by entering into the transaction. The complaints allege claims for relief including, among other things, rescission to the extent the terms of the business combination have already been implemented, damages for the breaches of fiduciary duty, and the payment of plaintiffs' attorneys' fees and costs. In addition, on March 28, 2013, another lawsuit challenging the transaction and related disclosures, and alleging breaches of fiduciary duty to MetroPCS shareholders was filed in the U.S. District Court for the Southern District of New York entitled The Merger Fund et al. v. MetroPCS Communications, Inc. et al. The New York case was settled, and the complaint was dismissed with prejudice on September 30, 2013; and in the Delaware cases, plaintiffs have agreed to dismiss their claims and the parties have reached a settlement in principle. T-Mobile intends to defend the remaining Texas lawsuits vigorously and does not expect resolution of these matters to have a material adverse effect on T-Mobile's financial position, results of operations or cash flows.

T-Mobile and its subsidiaries are involved in numerous lawsuits, regulatory proceedings, and other similar matters, including class actions and intellectual property claims, that arise in the ordinary course of business. Legal proceedings are inherently unpredictable, and often present complex legal and factual issues and can include claims for large amounts of damages. In T-Mobile's opinion at this time, these proceedings, both individually and in the aggregate, should not have a material adverse effect on T-Mobile's financial position, results of operations or cash flows. These statements are based on T-Mobile's current understanding and assessment of relevant facts and circumstances. As such, T-Mobile's view of these matters is subject to inherent uncertainties and may change in the future.

Note 12 – Guarantor Financial Information

On April 28, 2013, T-Mobile USA ("Issuer") issued new notes payable to affiliates of $11.2 billion to Deutsche Telekom. As described in more detail in Note 2 – Transaction with MetroPCS, on April 30, 2013, the transactions contemplated by the BCA, were consummated, as a result of which MetroPCS Communications, Inc. (the legal acquirer) acquired all of the outstanding shares of the Issuer. Also on April 30, 2013, the name of MetroPCS Communications, Inc. was changed to T-Mobile US, Inc. In addition, unsecured senior notes of $5.9 billion, including the effects of purchase accounting, were assumed by the Issuer in connection with the closing of the business combination. In August 2013, the Issuer issued unsecured senior notes of $500 million. Pursuant to the indenture and the applicable supplemental indentures, the notes payable to affiliates and long-term debt, excluding capital leases, are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by T-Mobile (“Parent”) and certain of the Issuer’s wholly owned subsidiaries (“Guarantor Subsidiaries”). The notes payable to affiliates and long-term debt are described in further detail in Note 7 – Notes Payable to Affiliates and Debt.

The guarantees of the Guarantor Subsidiaries are subject to release in limited circumstances only upon the occurrence of certain customary conditions. The indenture governing the notes payable to affiliates and long-term debt contain covenants that, among other things, limit the ability of the Issuer and the Guarantor Subsidiaries to: incur more debt; pay dividends and make distributions; make certain investments; repurchase stock; create liens or other encumbrances; enter into transactions with affiliates; enter into transactions that restrict dividends or distributions from subsidiaries; and merge, consolidate, or sell, or otherwise dispose of, substantially all of their assets. Certain provisions of each of the indentures and the supplemental indentures relating to the long-term debt restrict the ability of the Issuer to loan funds or make payments to Parent. However, the Issuer is allowed to make certain permitted payments to Parent under the terms of each of the indentures and the supplemental indentures.

Table of Contents

In 2013, T-Mobile entered into an agreement with Cook Inlet Voice and Data Services, Inc. (“Cook Inlet”) to acquire all of Cook Inlet's interest in Cook Inlet/VoiceStream GSM VII PCS Holdings LLC, (“CIVS VII”), a fully consolidated Non-Guarantor Subsidiary. The transaction was completed in July 2013 and resulted in CIVS VII becoming an indirect wholly-owned subsidiary of T-Mobile USA. CIVS VII was subsequently combined with, and net assets transferred to, T-Mobile License LLC, a wholly-owned Restricted Subsidiary of T-Mobile USA. As a result the net assets of CIVS VII were included in the Guarantor Subsidiaries condensed consolidating balance sheet information. The guarantees of the notes payable to affiliates and long-term debt were unchanged by the transaction. See Note 13 – Additional Financial Information for more information regarding the transaction.

Presented below is the condensed consolidating financial information as of September 30, 2013 and December 31, 2012 and for the three and nine months ended September 30, 2013 and 2012. As the business combination was treated as a “reverse acquisition” and the Issuer was treated as the accounting acquirer, the Issuer’s historical financial statements are the historical financial statements of Parent for comparative purposes. As a result the Parent column only reflects activity in the condensed consolidating financial statements presented below for periods subsequent to the consummation of the business combination on April 30, 2013. The equity method of accounting is used to account for ownership interests in subsidiaries, where applicable.

Table of Contents

Condensed Consolidating Balance Sheet Information
As of September 30, 2013

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$1,157	$984	$89	$ 135	$—	$2,365
Accounts receivable, net of allowances for uncollectible accounts	—	—	3,256	114	—	3,370
Accounts receivable from affiliates	—	—	19	—	—	19
Inventory	—	—	761	—	—	761
Current portion of deferred tax assets, net	—	—	758	15	—	773
Other current assets	—	4	666	6	—	676
Total current assets	1,157	988	5,549	270	—	7,964
Property and equipment, net of accumulated depreciation	—	—	14,754	616	—	15,370
Goodwill	—	—	1,683	—	—	1,683
Spectrum licenses	—	—	18,414	—	—	18,414
Other intangible assets, net of accumulated amortization	—	—	1,297	—	—	1,297
Investments in unconsolidated affiliates	—	15	40	—	—	55
Investments in subsidiaries, net	9,328	25,455	—	—	(34,783)	—
Intercompany receivables	1,927	1,073	—	19	(3,019)	—
Long-term investments	3	—	33	—	—	36
Other assets	—	4	894	79	(29)	948
Total assets	$12,415	$27,535	$42,664	$ 984	$(37,831)	$45,767
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable and accrued liabilities	$—	$189	$4,007	$ 128	$—	$4,324
Current payables to affiliates	—	201	104	—	—	305
Short-term debt	—	178	17	—	—	195
Deferred revenue	—	—	447	—	—	447
Other current liabilities	—	—	203	40	—	243
Total current liabilities	—	568	4,778	168	—	5,514
Long-term payables to affiliates	—	11,200	—	—	—	11,200
Long-term debt	—	6,424	337	—	—	6,761
Long-term financial obligation	—	—	364	2,124	—	2,488
Deferred tax liabilities	—	—	4,724	—	(29)	4,695
Deferred rents	—	—	2,062	—	—	2,062
Negative carrying value of subsidiaries, net	—	—	767	—	(767)	—

Intercompany payables	—	—	3,019	—	(3,019)	—
Other long-term liabilities	—	15	617	—	—	632
Total long-term liabilities	—	17,639	11,890	2,124	(3,815)	27,838
Total stockholders' equity	12,415	9,328	25,996	(1,308)	(34,016)	12,415
Total liabilities and stockholders' equity	$12,415	$27,535	$42,664	$ 984	$ (37,831)	$45,767

24

Table of Contents

Condensed Consolidating Balance Sheet Information
As of December 31, 2012

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$—	$—	$287	$ 107	$—	$394
Accounts receivable, net of allowances for uncollectible accounts	—	—	2,607	71	—	2,678
Accounts receivable from affiliates	—	—	682	—	—	682
Inventory	—	—	457	—	—	457
Current portion of deferred tax assets, net	—	—	640	15	—	655
Other current assets	—	106	565	4	—	675
Total current assets	—	106	5,238	197	—	5,541
Property and equipment, net of accumulated depreciation	—	—	12,129	678	—	12,807
Spectrum licenses	—	—	14,330	220	—	14,550
Other intangible assets, net of accumulated amortization	—	—	79	—	—	79
Investments in unconsolidated affiliates	—	19	44	—	—	63
Investments in subsidiaries, net	—	24,823	—	—	(24,823)	—
Intercompany receivables	—	—	3,760	71	(3,831)	—
Long-term investments	—	—	31	—	—	31
Other assets	—	147	352	52	—	551
Total assets	$—	$25,095	$35,963	$ 1,218	$(28,654)	$33,622
Liabilities and Stockholder’s Equity						
Current liabilities						
Accounts payable and accrued liabilities	$—	$—	$3,382	$ 93	$—	$3,475
Current payables to affiliates	—	1,494	125	—	—	1,619
Deferred revenue	—	—	290	—	—	290
Other current liabilities	—	—	168	40	—	208
Total current liabilities	—	1,494	3,965	133	—	5,592
Long-term payables to affiliates	—	13,655	—	—	—	13,655
Long-term financial obligation	—	—	360	2,101	—	2,461
Deferred tax liabilities	—	—	3,603	15	—	3,618
Deferred rents	—	—	1,884	—	—	1,884
Negative carrying value of subsidiaries, net	—	—	489	—	(489)	—
Intercompany payables	—	3,831	—	—	(3,831)	—
Other long-term liabilities	—	—	297	—	—	297
Total long-term liabilities	—	17,486	6,633	2,116	(4,320)	21,915

Total stockholder’s equity	—	6,115	25,365	(1,031)	(24,334)	6,115
Total liabilities and stockholder’s equity	$—	$25,095	$35,963	$ 1,218	$ (28,654)	$33,622

25

Table of Contents

Condensed Consolidating Statement of Comprehensive Income (Loss) Information
Three Months Ended September 30, 2013

(in millions)	Parent	Issuer	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating and Eliminating Adjustments	Consolidated
Revenues						
Service revenues	$—	$—	$4,958	$ 219	$ (39)	$5,138
Equipment sales	—	—	1,643	—	(176)	1,467
Other revenues	—	—	59	30	(6)	83
Total revenues	—	—	6,660	249	(221)	6,688
Operating expenses						
Network costs	—	—	1,443	6	(5)	1,444
Cost of equipment sales	—	—	2,052	155	(192)	2,015
Customer acquisition	—	—	1,039	—	—	1,039
General and administrative	—	—	871	47	(24)	894
Depreciation and amortization	—	—	966			