

METROPCS COMMUNICATIONS INC

Form S-1/A

February 13, 2007

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**As filed with the Securities and Exchange Commission on February 13, 2007**

**Registration No. 333-139793**

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

**Amendment No. 1  
to  
Form S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**MetroPCS Communications, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction  
of incorporation or organization)*

**4812**

*(Primary Standard Industrial  
Classification Code Number)*

**20-0836269**

*(I.R.S. Employer  
Identification No.)*

**8144 Walnut Hill Lane  
Suite 800  
Dallas, Texas 75231-4388  
(214) 265-2550**

*(Address, including zip code, and telephone number,  
including area code, of agent for service)*

**Roger D. Linquist  
Chief Executive Officer  
8144 Walnut Hill Lane  
Suite 800  
Dallas, Texas 75231-4388  
(214) 265-2550**

*(Name, address, including zip code, and telephone  
number,  
including area code, of registrant's principal executive  
offices)*

*Copies to:*

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**Approximate date of commencement of proposed sale to the public:  
As soon as practicable after the registration statement becomes effective.**

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act ), check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price(1),(2)</b>	<b>Amount of Registration Fee</b>
Common Stock, par value \$0.0001 per share	\$1,125,000,000.00	\$120,375.00

- (1) Includes shares of common stock subject to an over-allotment option granted to the underwriters, if any.
- (2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED FEBRUARY 13, 2007**

**PROSPECTUS**

**Shares**

**MetroPCS Communications, Inc.**

**Common Stock**

This is our initial public offering. We are offering \_\_\_\_\_ shares of our common stock and the selling stockholders identified in this prospectus are offering an additional \_\_\_\_\_ shares of our common stock. We will not receive any proceeds from the sale of our common stock by the selling stockholders. We currently expect the initial public offering price for our stock will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share.

Prior to this offering, there has been no public market for our common stock. We have applied to list our common stock on the \_\_\_\_\_ under the symbol \_\_\_\_\_.

**Investing in our common stock involves risks. See **Risk Factors** beginning on page 13.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discounts	\$	\$
Proceeds, before expenses, to us	\$	\$
Proceeds to the selling stockholders	\$	\$

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the shares against payment in New York, New York on or about \_\_\_\_\_, 2007.

The underwriters have a 30-day option to purchase up to \_\_\_\_\_ additional shares of common stock from the selling stockholders to cover over-allotments, if any. We will not receive any proceeds from the exercise of the over-allotment option.

**Bear, Stearns & Co. Inc.**

**Banc of America Securities LLC  
Merrill Lynch & Co.**

**Morgan Stanley**

**UBS Investment Bank**

**Thomas Weisel Partners LLC  
Wachovia Securities**

**Raymond James**

The date of this prospectus is \_\_\_\_\_, 2007.

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**You should rely only on the information contained in this prospectus, any free writing prospectus prepared by us or the information to which we have referred you. We have not, and the underwriters have not, authorized anyone to provide you with different information. This prospectus may only be used where it is legal to sell these securities and this prospectus is not an offer to sell or a solicitation to buy shares in any jurisdiction where an offer or sale of shares would be unlawful. The information in this prospectus and any free writing prospectus prepared by us may be accurate only as of their respective dates.**

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**PROSPECTUS SUMMARY**

*This summary highlights selected information about us and this offering contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information that is important to you or that you should consider before investing in our common stock. You should read carefully the entire prospectus, including the risk factors, financial data and financial statements included in this prospectus, before making a decision about whether to invest in our common stock. In this prospectus, unless the context indicates otherwise, references to MetroPCS, MetroPCS Communications, our Company, the Company, we, our, ours and us refer to MetroPCS Communications Inc., a Delaware corporation, and its wholly-owned subsidiaries.*

**Company Overview**

We offer wireless broadband personal communication services, or PCS, on a no long-term contract, flat rate, unlimited usage basis in selected major metropolitan areas in the United States. Since we launched our innovative wireless service in 2002, we have been among the fastest growing wireless broadband PCS providers in the United States as measured by growth in subscribers and revenues during that period. We currently own or have access to wireless licenses covering a population of approximately 140 million in the United States, which includes 14 of the top 25 largest metropolitan areas in the country. As of September 30, 2006, we had launched service in seven of the top 25 largest metropolitan areas covering a licensed population of approximately 36 million and had approximately 2.6 million total subscribers, representing a 50% growth rate over total subscribers as of September 30, 2005.

Our wireless services target a mass market which we believe is largely underserved by traditional wireless carriers. Our service, branded under the MetroPCS name, allows customers to place unlimited wireless calls from within our service areas and to receive unlimited calls from any area under our simple and affordable flat monthly rate plans. Our customers pay for our service in advance, eliminating any customer-related credit exposure. Our flat rate service plans start as low as \$30 per month. For an additional \$5 to \$15 per month, our customers may select a service plan that offers additional services, such as unlimited nationwide long distance service, voicemail, caller ID, call waiting, text messaging and picture and multimedia messaging. For additional fees, we also provide international long distance and text messaging, ringtones, games and content applications, unlimited directory assistance, mobile Internet browsing, ring back tones, nationwide roaming and other value-added services. As of September 30, 2006, over 80% of our customers selected either our \$40 or \$45 rate plan. Our flat rate plans differentiate our service from the more complex plans and long-term contract requirements of traditional wireless carriers.

We launched our service initially in 2002 in the Miami, Atlanta, Sacramento and San Francisco metropolitan areas, which we refer to as our Core Markets and which currently comprise our Core Markets segment. Our Core Markets have a licensed population of approximately 26 million, of which our networks cover approximately 22 million as of September 30, 2006. In our Core Markets we reached the one million customer mark after eight full quarters of operation, and as of September 30, 2006 we served approximately 2.2 million customers, representing a customer penetration of covered population of approximately 10%. We reported positive adjusted earnings before depreciation and amortization and non-cash stock-based compensation, or Core Markets segment Adjusted EBITDA, in our Core Markets segment after only four full quarters of operation. Our Core Markets segment Adjusted EBITDA for the 12 months ended December 31, 2005 was \$317 million, representing a 55% increase over the comparable period in 2004, and representing 36.4% of our segment service revenue. Our Core Markets segment Adjusted EBITDA for the nine months ended September 30, 2006 was \$365 million, representing a 56% increase over the comparable period in 2005 and representing 44% of our segment service revenue. For a discussion of our Core Markets segment Adjusted EBITDA, please read Summary Historical Financial and Operating Data and Management's Discussion and Analysis of Financial Condition and Results of Operations Core Markets Performance Measures.





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Beginning in the second half of 2004, we began to strategically acquire licenses in new geographic areas that share certain key characteristics with our existing Core Markets. These new geographic areas, which we refer to as our Expansion Markets and which currently comprise our Expansion Markets segment, include the Tampa/Sarasota, Dallas/Ft. Worth and Detroit metropolitan areas, as well as the Los Angeles and Orlando metropolitan areas and portions of northern Florida, which were acquired by Royal Street Communications, LLC, or Royal Street, a company in which we own an 85% limited liability company member interest. We launched service in the Tampa/Sarasota metropolitan area in October 2005, in the Dallas/Ft. Worth metropolitan area in March 2006, and in the Detroit metropolitan area in April 2006. As of September 30, 2006, our networks covered approximately 14 million people and we served approximately 442,000 customers in these Expansion Markets, representing a customer penetration of covered population of approximately 3.2%. In November 2006, we began offering our service in Orlando and portions of northern Florida, with network coverage of approximately 2 million people through our agreements with Royal Street. In the second or third quarter of 2007, also through our agreements with Royal Street, we expect to begin offering MetroPCS-branded services in Los Angeles, California. Together, our Core and Expansion Markets, including Los Angeles, are expected to cover a population of approximately 53 million by the end of 2008.

In November 2006, we were granted licenses covering a total unique population of 117 million which we acquired from the Federal Communications Commission, or FCC, in the spectrum auction denominated as Auction 66, for a total aggregate purchase price of approximately \$1.4 billion. Approximately 69 million of the total licensed population associated with our Auction 66 licenses represents expansion opportunities in geographic areas outside of our Core and Expansion Markets, which we refer to as our Auction 66 Markets. These new expansion opportunities in our Auction 66 Markets cover six of the 25 largest metropolitan areas in the United States. Our east coast expansion opportunities cover a geographic area with a population of 50 million and include the entire east coast corridor from Philadelphia to Boston, including New York City, as well as the entire states of New York, Connecticut and Massachusetts. In the western United States, our new expansion opportunities cover a geographic area of 19 million people, including the San Diego, Portland, Seattle and Las Vegas metropolitan areas. The balance of our Auction 66 Markets, which cover a population of 48 million, supplements or expands the geographic boundaries of our existing operations in Dallas/Ft. Worth, Detroit, Los Angeles, San Francisco and Sacramento. We expect this additional spectrum to provide us with enhanced operating flexibility, lower capital expenditure requirements in existing licensed areas and an expanded service area relative to our position before our acquisition of this spectrum in Auction 66. We intend to focus our build-out strategy in our Auction 66 Markets initially on licenses with a total population of approximately 40 million in major metropolitan areas where we believe we have the opportunity to achieve financial results similar to our existing Core and Expansion Markets, with a primary focus on the New York, Boston, Philadelphia and Las Vegas metropolitan areas.

## **Competitive Strengths**

Our business model has many competitive strengths that we believe distinguish us from our primary wireless broadband PCS competitors and will allow us to execute our business strategy successfully, including:

Our fixed price calling plans, which provide unlimited usage within a local calling area with no long-term contracts;

Our focus on densely populated markets, which provides significant operational efficiencies;

Our leadership position as one of the lowest cost providers of wireless telephone services in the United States;

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Our spectrum portfolio, which covers 9 of the top 12 and 14 of the top 25 most populous metropolitan areas in the United States; and

Our advanced CDMA network, which is designed to provide the capacity necessary to satisfy the usage requirements of our customers.

## **Business Strategy**

We believe the following components of our business strategy provide the foundation for our continued rapid growth:

Target the underserved customer segments in our markets;

Offer affordable, fixed price unlimited calling plans with no long-term service contract;

Remain one of the lowest cost wireless telephone service providers in the United States; and

Expand into new attractive markets.

## **Business Risks**

Our business and our ability to execute our business strategy are subject to a number of risks, including:

Our limited operating history;

Competition from other wireline and wireless providers, many of whom have substantially greater resources than us;

Our significant current debt levels of approximately \$2.6 billion as of December 31, 2006, the terms of which may restrict our operational flexibility;

Our need to supplement the proceeds from this offering with significant excess cash flows to meet the requirements for the build-out and launch of our Auction 66 Markets; and

Increased costs which could result from higher customer churn, delays in technological developments or our inability to successfully manage our growth.

For a more detailed discussion of the risks associated with our business and an investment in our common stock, please see **Risk Factors** beginning on page 13.

## **Recent Financing Transactions**

On November 3, 2006, MetroPCS Wireless, Inc., or MetroPCS Wireless, our indirect wholly-owned subsidiary, entered into a senior secured credit facility pursuant to which MetroPCS Wireless may borrow up to \$1.7 billion and consummated an offering of 9 1/4% senior notes due 2014, or the senior notes, in the aggregate principal amount of \$1.0 billion. Prior to the closing of our senior secured credit facility and the sale of senior notes, we owed an aggregate of \$900 million under MetroPCS Wireless first and second lien secured credit agreements, \$1.25 billion under an exchangeable secured bridge credit facility entered into by one of our indirect wholly-owned subsidiaries and \$250 million under an exchangeable unsecured bridge credit facility entered into by another of our indirect

wholly-owned subsidiaries. The funds borrowed under the bridge credit facilities were used primarily to pay the aggregate purchase price of approximately \$1.4 billion for the licenses we acquired in Auction 66. We borrowed \$1.6 billion under our senior secured credit facility concurrently with the closing of the sale of the senior notes and used the amount borrowed, together with the net proceeds from the sale of the senior notes, to repay all amounts owed under our existing first and second lien secured credit agreements and our bridge credit facilities and to pay related premiums, fees and expenses, and we will use the remaining amounts for general corporate purposes.

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**Corporate Information**

Our principal executive offices are located at 8144 Walnut Hill Lane, Suite 800, Dallas, Texas 75231 and our telephone number at that address is (214) 265-2550. Our principal website is located at [www.metropcs.com](http://www.metropcs.com). The information contained in, or that can be accessed through, our website is not part of this prospectus.

MetroPCS, metroPCS, MetroPCS Wireless and the MetroPCS logo are registered trademarks and service marks of MetroPCS. In addition, the following are trademarks or service marks of MetroPCS: Permission to Speak Freely; Text Talk; Freedom Package; Talk All I Want, All Over Town; Metrobucks; Wireless Is Now Minuteless; Get Off the Clock; My Metro; @Metro; Picture Talk; MiniMetro; GreetMeTones; and Travel Talk. This prospectus also contains brand names, trademarks and service marks of other companies and organizations, and these brand names, trademarks and service marks are the property of their respective owners.



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**SUMMARY HISTORICAL FINANCIAL AND OPERATING DATA**

The following tables set forth selected consolidated financial and other data for MetroPCS and its wholly-owned and majority-owned subsidiaries for the years ended December 31, 2002, 2003, 2004 and 2005, for the nine months ended September 30, 2005 and 2006 and as of September 30, 2006. We derived our summary historical financial data for the years ended December 31, 2004 and 2005 from the consolidated financial statements of MetroPCS, which were audited by Deloitte & Touche LLP. We derived our summary historical financial data as of and for the years ended December 31, 2002 and 2003 from our consolidated financial statements, which were audited by PricewaterhouseCoopers LLP. We derived our summary historical financial data as of September 30, 2006 and for the nine months ended September 30, 2005 and 2006 from our unaudited condensed consolidated interim financial statements included elsewhere in this prospectus. You should read the summary historical financial and operating data in conjunction with Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors and our audited consolidated financial statements, including the notes thereto, contained elsewhere in this prospectus. The summary historical financial and operating data presented in this prospectus may not be indicative of future performance.

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	Year Ended December 31,				Nine Months Ended	
	2002	2003	2004	2005	2005	2006
	(In Thousands, Except Per Share Data)					
<b>Statement of Operations Data:</b>						
Revenues:						
Service revenues	\$ 102,293	\$ 369,851	\$ 616,401	\$ 872,100	\$ 631,209	\$ 916,179
Equipment revenues	27,048	81,258	131,849	166,328	118,990	177,592
Total revenues	129,341	451,109	748,250	1,038,428	750,199	1,093,771
Operating expenses:						
Cost of service (excluding depreciation and amortization disclosed separately below)	63,567	122,211	200,806	283,212	201,940	313,510
Cost of equipment	106,508	150,832	222,766	300,871	210,529	330,898
Selling, general and administrative expenses (excluding depreciation and amortization disclosed separately below)	55,161	94,073	131,510	162,476	116,206	171,921
Depreciation and amortization	21,472	42,428	62,201	87,895	61,895	96,187
(Gain) loss on disposal of assets	(279,659)	392	3,209	(218,203)	(218,292)	10,763
Total operating expenses	(32,951)	409,936	620,492	616,251	372,278	923,279
Income from operations	162,292	41,173	127,758	422,177	377,921	170,492
Other expense (income):						
Interest expense	6,720	11,115	19,030	58,033	40,867	67,408
Accretion of put option in majority-owned subsidiary			8	252	187	564
Interest and other income	(964)	(996)	(2,472)	(8,658)	(4,876)	(15,106)
Loss (gain) on extinguishment of	703	(603)	(698)	46,448	46,448	(244)



debt

Total other expense	6,459	9,516	15,868	96,075	82,626	52,622
Income before provision for income taxes and cumulative effect of change in accounting principle	155,833	31,657	111,890	326,102	295,295	117,870
Provision for income taxes	(25,528)	(16,179)	(47,000)	(127,425)	(115,460)	(47,245)
Income before cumulative effect of change in accounting principle	130,305	15,478	64,890	198,677	179,835	70,625
Cumulative effect of change in accounting principle, net of tax		(120)				
Net income	130,305	15,358	64,890	198,677	179,835	70,625
Accrued dividends on Series D Preferred Stock	(10,619)	(18,493)	(21,006)	(21,006)	(15,711)	(15,711)
Accrued dividends on Series E Preferred Stock				(1,019)	(263)	(2,244)
Accretion on Series D Preferred Stock	(473)	(473)	(473)	(473)	(355)	(355)
Accretion on Series E Preferred Stock				(114)	(30)	(254)
Net income (loss) applicable to Common Stock	\$ 119,213	\$ (3,608)	\$ 43,411	\$ 176,065	\$ 163,476	\$ 52,061
Basic net income (loss) per common share(1):						
Income (loss) before cumulative effect of change in accounting principle	\$ 2.16	\$ (0.10)	\$ 0.55	\$ 2.12	\$ 2.02	\$ 0.57
Cumulative effect of change in accounting principle, net of tax		(0.00)				
Basic net income (loss) per common	\$ 2.16	\$ (0.10)	\$ 0.55	\$ 2.12	\$ 2.02	\$ 0.57

share

Diluted net income  
(loss) per common  
share(1):

Income (loss) before  
cumulative effect of  
change in accounting  
principle

\$	1.56	\$	(0.10)	\$	0.46	\$	1.87	\$	1.74	\$	0.56
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Cumulative effect of  
change in accounting  
principle, net of tax

(0.00)
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Diluted net income  
(loss) per common  
share

\$	1.56	\$	(0.10)	\$	0.46	\$	1.87	\$	1.74	\$	0.56
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Weighted average  
shares(1):

Basic	36,236,434	36,443,962	42,240,684	45,117,465	43,517,417	51,890,687
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Diluted	50,072,699	36,443,962	50,211,229	51,203,530	50,417,637	53,158,789
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	<b>Year Ended December 31,</b>				<b>Nine Months Ended</b>	
<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>	<b>2006</b>	
	<b>(Dollars, Customers and POPs in Thousands)</b>				<b>September 30,</b>	
<b>Other Financial Data:</b>						
Net cash (used in) provided by operating activities	\$ (50,672)	\$ 112,605	\$ 150,379	\$ 283,216	\$ 247,015	\$ 284,688
Net cash used in investment activities	(88,311)	(306,868)	(190,881)	(905,228)	(789,109)	(489,255)
Net cash provided by (used in) financing activities	157,039	201,951	(5,433)	712,244	564,777	208,123
<b>Consolidated Operating Data:</b>						
Licensed POPs (at period end)(2)	22,584	22,584	28,430	64,222	41,247	65,346
Covered POPs (at period end)(2)	16,964	17,662	21,083	23,908	21,168	35,980
Customers (at period end)	513	977	1,399	1,925	1,740	2,616
Adjusted EBITDA (Deficit)(3)	\$ (94,376)	\$ 89,566	\$ 203,597	\$ 294,465	\$ 224,826	\$ 285,192
Adjusted EBITDA as a percentage of service revenues(4)	NM	24.2%	33.0%	33.8%	35.6%	31.1%
Capital Expenditures	\$ 227,350	\$ 117,731	\$ 250,830	\$ 266,499	\$ 204,450	\$ 453,864
<b>Core Markets Operating Data(5):</b>						
Licensed POPs (at period end)(2)	22,584	22,584	24,686	25,433	25,320	25,769
Covered POPs (at period end)(2)	16,964	17,662	21,083	21,263	21,168	22,194
Customers (at period end)	513	977	1,399	1,872	1,740	2,174
Adjusted EBITDA (Deficit)(6)	\$ (94,376)	\$ 89,566	\$ 203,597	\$ 316,555	\$ 233,491	\$ 364,585
Adjusted EBITDA as a percentage of service revenues(4)	NM	24.2%	33.0%	36.4%	37.0%	43.9%
Capital Expenditures	\$ 227,350	\$ 117,731	\$ 250,830	\$ 171,783	\$ 157,153	\$ 187,922
<b>Expansion Markets Operating Data(5):</b>						
Licensed POPs (at period end)(2)			3,744	38,789	15,927	39,577
				2,645		13,786

Covered POPs (at period end)(2)						
Customers (at period end)			53			442
Adjusted EBITDA (Deficit)(6)			\$ (22,090)	\$ (8,665)	\$ (79,393)	
Capital Expenditures			\$ 90,871	\$ 44,893	\$ 256,531	

	Year Ended December 31,				Nine Months Ended September 30,	
	2002	2003	2004	2005	2005	2006
Average monthly churn(7)(8)	4.4%	4.6%	4.9%	5.1%	5.0%	4.7%
Average revenue per user (ARPU)(9)(10)	\$ 39.23	\$ 37.49	\$ 41.13	\$ 42.40	\$ 42.34	\$ 42.91
Cost per gross addition (CPGA)(8)(9)(11)	\$ 157.02	\$ 100.46	\$ 103.78	\$ 102.70	\$ 101.46	\$ 116.56
Cost per user (CPU)(9)(12)	\$ 37.68	\$ 18.21	\$ 18.95	\$ 19.57	\$ 19.15	\$ 19.65

**As of September 30, 2006**  
As  
**Actual      Adjusted(13)**  
**(In Thousands)**

**Balance Sheet Data:**

Cash, cash equivalents & short-term investments	\$ 345,811
Property and equipment, net	1,207,982
Total assets	2,626,174
Long-term debt (including current maturities)	1,102,594
Series D Cumulative Convertible Redeemable Participating Preferred Stock	437,955
Series E Cumulative Convertible Redeemable Participating Preferred Stock	50,294
Stockholders' equity	427,689

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- (1) See Notes 17 and 10 to the annual and interim consolidated financial statements, respectively, included elsewhere in this prospectus for an explanation of the calculation of basic and diluted net income (loss) per common share. The calculation of basic and diluted net income per common share for the year ended December 31, 2002 is not included in Note 17 to the annual consolidated financial statements.
- (2) Licensed POPs represent the aggregate number of persons that reside within the areas covered by our or Royal Street's licenses. Covered POPs represent the estimated number of POPs in our markets that reside within the areas covered by our network.
- (3) Our senior secured credit facility calculates consolidated Adjusted EBITDA as: consolidated net income *plus* depreciation and amortization; gain (loss) on disposal of assets; non-cash expenses; gain (loss) on extinguishment of debt; provision for income taxes; interest expense; and certain expenses of MetroPCS Communications, Inc. *minus* interest and other income and non-cash items increasing consolidated net income.

We consider Adjusted EBITDA, as defined above, to be an important indicator to investors because it provides information related to our ability to provide cash flows to meet future debt service, capital expenditures and working capital requirements and fund future growth. We present this discussion of Adjusted EBITDA because covenants in our senior secured credit facility contain ratios based on this measure. If our Adjusted EBITDA were to decline below certain levels, covenants in our senior secured credit facility that are based on Adjusted EBITDA, including our maximum senior secured leverage ratio covenant, may be violated and could cause, among other things, an inability to incur further indebtedness and in certain circumstances a default or mandatory prepayment under our senior secured credit facility. Our maximum senior secured leverage ratio is required to be less than 4.5 to 1.0 based on Adjusted EBITDA plus the impact of certain new markets. In addition, consolidated Adjusted EBITDA is also utilized, among other measures, to determine management's compensation levels. See Executive Compensation. Adjusted EBITDA is not a measure calculated in accordance with GAAP and should not be considered a substitute for operating income (loss), net income (loss), or any other measure of financial performance reported in accordance with GAAP. In addition, Adjusted EBITDA should not be construed as an alternative to, or more meaningful, than cash flows from operating activities, as determined in accordance with GAAP. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The following table shows the calculation of consolidated Adjusted EBITDA, as defined in our senior secured credit facility, for the years ended December 31, 2002, 2003, 2004 and 2005 and for the nine months ended September 30, 2005 and 2006.

	<b>Year Ended December 31,</b>				<b>Nine Months Ended</b>	
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September 30,</b>	<b>2006</b>
	<b>(In Thousands)</b>					
<b>Calculation of Consolidated Adjusted EBITDA (Deficit):</b>						
Net income	\$ 130,305	\$ 15,358	\$ 64,890	\$ 198,677	\$ 179,835	\$ 70,625
Adjustments:						
Depreciation and amortization	21,472	42,428	62,201	87,895	61,895	96,187
	(279,659)	392	3,209	(218,203)	(218,292)	10,763

(Gain) loss on disposal of assets						
Non-cash compensation expense(a)	1,519	5,573	10,429	2,596	3,302	7,750
Interest expense	6,720	11,115	19,030	58,033	40,867	67,408
Accretion of put option in majority-owned subsidiary(a)			8	252	187	564
Interest and other income	(964)	(996)	(2,472)	(8,658)	(4,876)	(15,106)
Loss (gain) on extinguishment of debt	703	(603)	(698)	46,448	46,448	(244)
Provision for income taxes	25,528	16,179	47,000	127,425	115,460	47,245
Cumulative effect of change in accounting principle, net of tax(a)		120				
<b>Consolidated Adjusted EBITDA (Deficit)</b>	<b>\$ (94,376)</b>	<b>\$ 89,566</b>	<b>\$ 203,597</b>	<b>\$ 294,465</b>	<b>\$ 224,826</b>	<b>\$ 285,192</b>

(a) Represents a non-cash expense, as defined by our senior secured credit facility.

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In addition, for further information, the following table reconciles consolidated Adjusted EBITDA, as defined in our senior secured credit facility, to cash flows from operating activities for the years ended December 31, 2002, 2003, 2004 and 2005 and for the nine months ended September 30, 2005 and 2006.

	Year Ended December 31,				Nine Months Ended	
	2002	2003	2004	2005	September 30, 2005	2006
	(In Thousands)					
<b>Reconciliation of Net Cash</b>						
<b>(Used In) Provided By</b>						
<b>Operating Activities to</b>						
<b>Consolidated Adjusted</b>						
<b>EBITDA (Deficit):</b>						
Net cash (used in) provided by operating activities	\$ (50,672)	\$ 112,605	\$ 150,379	\$ 283,216	\$ 247,015	\$ 302,638
Adjustments:						
Interest expense	6,720	11,115	19,030	58,033	40,867	67,408
Non-cash interest expense	(2,833)	(3,073)	(2,889)	(4,285)	(3,766)	(3,702)
Interest and other income	(964)	(996)	(2,472)	(8,658)	(4,876)	(15,106)
Provision for uncollectible accounts receivable	(359)	(110)	(125)	(129)	38	(64)
Deferred rent expense	(2,886)	(2,803)	(3,466)	(4,407)	(3,091)	(5,365)
Cost of abandoned cell sites	(1,449)	(824)	(1,021)	(725)	(251)	(2,069)
Accretion of asset retirement obligation		(127)	(253)	(423)	(103)	(469)
Loss (gain) on sale of investments			(576)	190	(49)	1,875
Provision for income taxes	25,528	16,179	47,000	127,425	115,460	47,245
Deferred income taxes	(6,616)	(18,716)	(44,441)	(125,055)	(113,580)	(41,792)
Changes in working capital	(60,845)	(23,684)	42,431	(30,717)	(52,838)	(65,407)
<b>Consolidated Adjusted EBITDA (Deficit)</b>	<b>\$ (94,376)</b>	<b>\$ 89,566</b>	<b>\$ 203,597</b>	<b>\$ 294,465</b>	<b>\$ 224,826</b>	<b>\$ 285,192</b>

- (4) Adjusted EBITDA as a percentage of service revenues is calculated by dividing Adjusted EBITDA by total service revenues.
- (5) Core Markets include Atlanta, Miami, Sacramento and San Francisco. Expansion Markets include Dallas/Ft. Worth, Detroit, Tampa/Sarasota/Orlando and Los Angeles. See Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (6) Core and Expansion Markets Adjusted EBITDA is presented in accordance with SFAS No. 131 as it is the primary financial measure utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Operating Segments.

- (7) Average monthly churn represents (a) the number of customers who have been disconnected from our system during the measurement period less the number of customers who have reactivated service, divided by (b) the sum of the average monthly number of customers during such period. See Management's Discussion and Analysis of Financial Condition and Results of Operations Performance Measures. A customer's handset is disabled if the customer has failed to make payment by the due date and is disconnected from our system if the customer fails to make payment within 30 days thereafter. See Management's Discussion and Analysis of Financial Condition and Results of Operations Customer Recognition and Disconnect Policies.
- (8) In the first quarter of 2006, based upon a change in the allowable return period from 7 days to 30 days, we revised our definition of gross additions to exclude customers that discontinue service in the first 30 days of service as churn. This revision has the effect of reducing deactivations and gross additions, commencing March 23, 2006, and reduces churn and increases CPGA. Churn computed under the original 7 day allowable return period would have been 5.2% for the nine months ended September 30, 2006.
- (9) Average revenue per user, or ARPU, cost per gross addition, or CPGA, and cost per user, or CPU, are non-GAAP financial measures utilized by our management to evaluate our operating performance. We believe these measures are important in understanding the performance of our operations from period to period, and although every company in the wireless industry does not define each of these measures in precisely the same way, we believe that these measures (which are common in the wireless industry) facilitate operating performance comparisons with other companies in the wireless industry.
- (10) ARPU Average revenue per user, or ARPU, represents (a) service revenues less activation revenues, E-911, Federal Universal Service Fund, or FUSF, and vendor's compensation charges for the measurement period, divided by (b) the sum of the average monthly number of customers during such period. We utilize ARPU to evaluate our per-customer service revenue realization and to assist in forecasting our future service revenues. ARPU is calculated exclusive of activation revenues, as these amounts are a component of our costs of acquiring new customers and are included in our calculation of CPGA. ARPU is also calculated exclusive of



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E-911, FUSF and vendor's compensation charges, as these are generally pass through charges that we collect from our customers and remit to the appropriate government agencies.

Average number of customers for any measurement period is determined by dividing (a) the sum of the average monthly number of customers for the measurement period by (b) the number of months in such period. Average monthly number of customers for any month represents the sum of the number of customers on the first day of the month and the last day of the month divided by two. The following table shows the calculation of ARPU for the periods indicated:

	<b>Year Ended December 31,</b>				<b>Nine Months Ended</b>	
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>	<b>2006</b>
	<b>(In Thousands, Except Average Number of Customers and ARPU)</b>					
<b>Calculation of ARPU:</b>						
Service revenues	\$ 102,293	\$ 369,851	\$ 616,401	\$ 872,100	\$ 631,209	\$ 916,179
Less:						
Activation revenues	(3,018)	(14,410)	(7,874)	(6,808)	(4,988)	(6,026)
E-911, FUSF and vendor's compensation charges		(6,527)	(12,522)	(26,221)	(18,875)	(29,222)
Net service revenues	\$ 99,275	\$ 348,914	\$ 596,005	\$ 839,071	\$ 607,346	\$ 880,931
Divided by:						
Average number of customers	210,881	775,605	1,207,521	1,649,208	1,593,848	2,281,261
ARPU	\$ 39.23	\$ 37.49	\$ 41.13	\$ 42.40	\$ 42.34	\$ 42.91

(11) CPGA Cost per gross addition, or CPGA, is determined by dividing (a) selling expenses plus the total cost of equipment associated with transactions with new customers less activation revenues and equipment revenues associated with transactions with new customers during the measurement period by (b) gross customer additions during such period. We utilize CPGA to assess the efficiency of our distribution strategy, validate the initial capital invested in our customers and determine the number of months to recover our customer acquisition costs. This measure also allows us to compare our average acquisition costs per new customer to those of other wireless broadband PCS providers. Activation revenues and equipment revenues related to new customers are deducted from selling expenses in this calculation as they represent amounts paid by customers at the time their service is activated that reduce our acquisition cost of those customers. Additionally, equipment costs associated with existing customers, net of related revenues, are excluded as this measure is intended to reflect only the acquisition costs related to new customers. The following table reconciles total costs used in the calculation of CPGA to selling expenses, which we consider to be the most directly comparable GAAP financial measure to CPGA:

	<b>Year Ended December 31,</b>	<b>Nine Months Ended</b>
		<b>September 30,</b>

	2002	2003	2004	2005	2005	2006
	(In Thousands, Except Gross Customer Additions and CPGA)					
<b>Calculation of CPGA:</b>						
Selling expenses	\$ 26,228	\$ 44,006	\$ 52,605	\$ 62,396	\$ 43,863	\$ 72,796
Less:						
Activation revenues	(3,018)	(14,410)	(7,874)	(6,809)	(4,988)	(6,026)
Less:						
Equipment revenues	(27,048)	(81,258)	(131,849)	(166,328)	(118,990)	(177,592)
Add:						
Equipment revenue not associated with new customers	482	13,228	54,323	77,011	55,324	80,571
Add:						
Cost of equipment	106,508	150,832	222,766	300,871	210,529	330,898
Less:						
Equipment costs not associated with new customers	(4,850)	(22,549)	(72,200)	(109,803)	(77,910)	(108,292)
Gross addition expenses	\$ 98,302	\$ 89,849	\$ 117,771	\$ 157,338	\$ 107,828	\$ 192,355
Divided by:						
Gross customer additions	626,050	894,348	1,134,762	1,532,071	1,062,772	1,650,282
CPGA	\$ 157.02	\$ 100.46	\$ 103.78	\$ 102.70	\$ 101.46	\$ 116.56

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(12) CPU Cost per user, or CPU, is cost of service and general and administrative costs (excluding applicable non-cash compensation expense included in cost of service and general and administrative expense) plus net loss on equipment transactions unrelated to initial customer acquisition (which includes the gain or loss on sale of handsets to existing customers and costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers)), divided by the sum of the average monthly number of customers during such period. CPU does not include any depreciation and amortization expense. Management uses CPU as a tool to evaluate the non-selling cash expenses associated with ongoing business operations on a per customer basis, to track changes in these non-selling cash costs over time, and to help evaluate how changes in our business operations affect non-selling cash costs per customer. In addition, CPU provides management with a useful measure to compare our non-selling cash costs per customer with those of other wireless providers. We believe investors use CPU primarily as a tool to track changes in our non-selling cash costs over time and to compare our non-selling cash costs to those of other wireless providers. Other wireless carriers may calculate this measure differently. The following table reconciles total costs used in the calculation of CPU to cost of service, which we consider to be the most directly comparable GAAP financial measure to CPU:

	<b>Year Ended December 31,</b>				<b>Nine Months Ended</b>	
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>September 30,</b>	<b>2006</b>
	<b>(In Thousands, Except Average Number of Customers and CPU)</b>					
<b>Calculation of CPU:</b>						
Cost of service	\$ 63,567	\$ 122,211	\$ 200,806	\$ 283,212	\$ 201,940	\$ 313,510
Add:						
General and administrative expense	28,933	50,067	78,905	100,080	72,343	99,125
Add:						
Net loss on equipment transactions unrelated to initial customer acquisition	4,368	9,320	17,877	32,791	22,586	27,721
Less:						
Non-cash compensation expense included in cost of service and general and administrative expense	(1,519)	(5,573)	(10,429)	(2,596)	(3,302)	(7,750)
Less:						
E-911, FUSF and vendor s compensation revenues		(6,527)	(12,522)	(26,221)	(18,875)	(29,222)
Total costs used in the calculation of CPU	\$ 95,349	\$ 169,498	\$ 274,637	\$ 387,266	\$ 274,692	\$ 403,384
Divided by:						
Average number of customers	210,881	775,605	1,207,521	1,649,208	1,593,848	2,281,261

CPU	\$	37.68	\$	18.21	\$	18.95	\$	19.57	\$	19.15	\$	19.65
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(13) As adjusted to give effect to the following, as if they had occurred on September 30, 2006: (a) the completion of the senior notes offering and receipt of the net proceeds from the sale of the senior notes; (b) the entry into our senior secured credit facility and the borrowing of \$1.6 billion thereunder; (c) the purchase of the Auction 66 licenses; (d) the application of the net proceeds from the sale of the senior notes and our net borrowings under the senior secured credit facility to repay all amounts owed under our existing first and second lien credit agreements and bridge credit facilities; and (e) the consummation of this offering at a price equal to the mid-point of the range.

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**RISK FACTORS**

*An investment in our common stock involves a high degree of risk. You should carefully consider the specific risk factors set forth below, as well as the other information set forth elsewhere in this prospectus, before purchasing our common stock. Our business, financial condition or results of operations could be materially adversely affected by any or all of these risks. As a result, the trading price of our common stock may decline, and you might lose part or all of your investment.*

**Risks Related to Our Business**

*Our business strategy may not succeed in the long term.*

A major element of our business strategy is to offer consumers a service that allows them to make unlimited local calls and, depending on the service plan selected, long distance calls, from within our service area and to receive unlimited calls from any area for a flat monthly rate without entering into a long-term service contract. This is a relatively new approach to marketing wireless services and it may not prove to be successful in the long term or deployable in geographic areas we have acquired but not launched or geographic areas we may acquire in the future. Some companies that have offered this type of service in the past have not been successful. From time to time, we evaluate our service offerings and the demands of our target customers and may amend, change, discontinue or adjust our service offerings or trial new service offerings as a result. These service offerings may not be successful or prove to be profitable.

*We have limited operating history and have launched service in a limited number of metropolitan areas. Accordingly, our performance to date may not be indicative of our future results or our performance in future markets we launch.*

We began offering service in the first quarter of 2002, and we had no revenues before that time. Consequently, we have a limited operating and financial history upon which to evaluate our financial performance, business plan execution and ability to succeed in the future. You should consider our prospects in light of the risks, expenses and difficulties we may encounter, including those frequently encountered by new companies competing in rapidly evolving and highly competitive markets. If we are unable to execute our plans and grow our business, our financial results will be adversely affected. Our business strategy involves expanding into new geographic areas beyond our Core Markets and these geographic areas may present competitive challenges different from those encountered in our Core Markets. Our financial performance in new geographic areas, including our Expansion Markets and Auction 66 Markets, may not be as positive as our Core Markets.

*We face intense competition from other wireless and wireline communications providers, which could adversely affect our operating results and hinder our ability to grow.*

We compete directly in each of our markets with (i) other facilities-based wireless providers, such as Verizon Wireless, Cingular Wireless, Sprint Nextel, and T-Mobile and their prepaid affiliates or brands, (ii) non-facilities based mobile virtual network operators, or MVNOs, such as Virgin Mobile USA and Amp'd Mobile, (iii) incumbent local exchange carriers, such as AT&T, Verizon and BellSouth, as a mobile alternative to traditional landline service and (iv) competitive local exchange carriers or Voice-Over-Internet-Protocol, or VoIP, service providers, such as Vonage, Time Warner, Comcast, McLeod USA, Clearwire and XO Communications, as a mobile alternative to wired service. We also may face competition from providers of an emerging technology known as Worldwide Interoperability for Microwave Access, or WiMax, which is capable of supporting wireless transmissions suitable for

mobility applications. Also, certain mobile satellite providers recently have received authority to offer ancillary terrestrial service. Many major cable television service providers, including Comcast, Time Warner Cable, Cox Communications and Bright House Networks, also have indicated their intention to offer suites of service, including wireless service, often referred to as the Quadruple Play, and are actively pursuing the acquisition of spectrum or leasing access to spectrum to

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implement those plans. These cable companies formed a joint venture along with Sprint Nextel called SpectrumCo LLC, or SpectrumCo, which bid on and acquired 20 MHz of advanced wireless service spectrum, or AWS, in a number of major metropolitan areas throughout the United States, including all of the major metropolitan areas which comprise our Core, Expansion and Auction 66 Markets. In addition, Sprint Nextel recently announced that it is evaluating whether to offer an unlimited local calling plan under its Boost brand. Other national wireless carriers also may decide in the future to offer unlimited wireless service offerings. Many of our current and prospective competitors are, or are affiliated with, major companies that have substantially greater financial, technical, personnel and marketing resources than we have (including spectrum holdings, brands and intellectual property) and larger market share than we have, which may affect our ability to compete successfully. These competitors often have greater name and brand recognition and established relationships with a larger base of current and potential customers and, accordingly, we may not be able to compete successfully. In some markets, we also compete with local or regional carriers, such as Leap Wireless International and Sure West Wireless, some of whom have or may develop unlimited fixed-rate service plans similar to ours.

We expect that increased competition will result in more competitive pricing, slower growth and increased churn of our customer base. Our ability to compete will depend, in part, on our ability to anticipate and respond to various competitive factors and to keep our costs low. The competitive pressures of the wireless telecommunications industry have caused, and may continue to cause, other carriers to offer service plans with increasingly large bundles of minutes of use at increasingly lower prices and rate plans with unlimited nights and weekends. These competitive plans could adversely affect our ability to maintain our pricing and market penetration and maintain and grow our customer base.

***We may face additional competition from new entrants in the wireless marketplace, many of whom may have significantly more resources than we do.***

Certain new entrants with significant financial resources participated in Auction 66 and were designated as the high bidder on spectrum rights in geographic areas served by us. For example, SpectrumCo acquired 20 MHz of spectrum in all of the metropolitan areas which comprise our Core, Expansion and Auction 66 Markets. In addition, Leap Wireless offers unlimited fixed-rate service plans similar to ours and acquired spectrum which overlaps some of the metropolitan areas we serve or plan to serve. These licenses could be used to provide services directly competitive with our services.

The auction and licensing of new spectrum, including the spectrum recently auctioned by the FCC in Auction 66, may result in new competitors and/or allow existing competitors to acquire additional spectrum, which could allow them to offer services that we may not technologically or cost effectively be able to offer with the licenses we hold or to which we have access. The FCC has already designated an additional 60 MHz of spectrum in the 700 MHz band which may be used to offer services competitive with the services we offer or plan to offer. Furthermore, the FCC may pursue policies designed to make available additional spectrum for the provision of wireless services in each of our metropolitan areas, which may increase the number of wireless competitors and enhance the ability of our wireless competitors to offer additional plans and services that we may be unable to successfully compete against.

***Some of our competitors have technological or operating capabilities that we may not be able to successfully compete with in our existing markets or any new markets we may launch.***

Some of the carriers we compete against provide wireless services using cellular frequencies in the 800 MHz band. These frequencies enjoy propagation advantages over the PCS frequencies we use, which may cause us to have to spend more capital than our competitors in certain areas to cover the same area. In addition, the FCC plans to auction additional spectrum in the 700 MHz band which will have similar characteristics to the 800 MHz cellular frequencies. Many of the wireless carriers against whom we compete have service area footprints substantially larger than our

footprint. In addition, certain of our competitors are



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able to offer their customers roaming services over larger geographic areas and at rates lower than the rates we can offer. Our ability to replicate these roaming service offerings at rates which will make us, or allow us to be, competitive is uncertain at this time.

Certain carriers we compete against, or may compete against in the future, are multi-faceted telecommunications service providers which, in addition to providing wireless services, are affiliated with companies that provide local wireline, long distance, satellite television, Internet, media, content, cable television and/or other services. These carriers are capable of bundling their wireless services with other telecommunications services and other services in a package of services that we may not be able to duplicate at competitive prices.

We also compete with companies that use other communications technologies, including paging and digital two-way paging, enhanced specialized mobile radio and domestic and global mobile satellite service. These technologies may have certain advantages over the technology we use and may ultimately be more attractive to our existing and potential customers. We may compete in the future with companies that offer new technologies and market other services that we do not offer or may not be able to offer. Some of our competitors do or may offer these other services together with their wireless communications service, which may make their services more attractive to customers. Energy companies and utility companies are also expanding their services to offer communications services.

In addition, we compete with companies that take advantage of the unlicensed spectrum that the FCC is increasingly allocating for use. Certain technical standards are being prepared, including Worldwide Interoperability for Microwave Access, or WiMax, which may allow carriers to offer services competitive with ours in the unlicensed spectrum. The users of this unlicensed spectrum do not have the exclusive use of licensed spectrum, but they also are not subject to the same regulatory requirements that we are and, therefore, may have certain advantages over us.

***We may face increased competition from other unlimited fixed rate plan competitors in our existing and new markets.***

We currently overlap with Leap Wireless and Sure West Wireless, who are unlimited fixed-rate plan wireless carriers providing service in the Sacramento, Modesto and Merced, California basic trading areas. In Auction 66, the FCC auctioned 90 MHz of spectrum in each geographic area of the United States including the areas in which we currently hold or have access to licenses. Leap Wireless also acquired licenses in or has been announced as the high bidder in Auction 66 in some of the same geographic areas in which we currently hold or have access to licenses or in which we were granted licenses as a result of Auction 66. In addition to Leap Wireless, other licensees who have PCS spectrum or acquired spectrum in Auction 66 also may decide to offer unlimited wireless service offerings. In addition, Sprint Nextel recently announced that it is evaluating whether to offer an unlimited local calling plan under its Boost brand. Other national wireless carriers may also decide in the future to offer unlimited wireless service offerings. In addition, we may not be able to launch unlimited service plans ahead of our competition in our new markets. As a result, we may experience lower growth in such areas, may experience higher churn, and may incur higher costs to acquire customers which may materially and adversely affect our financial performance in the future.

***A patent infringement suit has been filed against us by Leap Wireless International, Inc., which could have a material adverse effect on our business or results of operations.***

On June 14, 2006, Leap Wireless International, Inc. and Cricket Communications, Inc., or collectively Leap, filed suit against us in the United States District Court for the Eastern District of Texas, Marshall Division, Civil Action No. 2-06CV-240-TJW and amended on June 16, 2006, for infringement of U.S. Patent No. 6,813,497 *Method for Providing Wireless Communication Services and Network and System for Delivering of Same*, or the 497 Patent, issued to Leap. The complaint seeks both injunctive relief and monetary damages for our alleged infringement and alleged continued infringement of such patent.



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If Leap is successful in its claim for injunctive relief, we could be enjoined from operating our business in the manner we operate currently, which could require us to redesign our current networks, to expend additional capital to change certain of our technologies and operating practices, or could prevent us from offering some or all of our services using some or all of our existing systems. In addition, if Leap is successful in its claim for monetary damage, we could be forced to pay Leap substantial damages for past infringement and/or ongoing royalties on a portion of our revenues, which could materially adversely impact our financial performance. If Leap prevails in its action, it could have a material adverse effect on our business, financial condition and results of operations. Moreover, the actions may consume valuable management time, may be very costly to defend and may distract management attention away from our business.

***The Department of Justice has informally requested information regarding our use of the PCS spectrum we acquired in the Dallas/Ft. Worth and Detroit Expansion Markets.***

We acquired the PCS spectrum for the Dallas/Ft. Worth and Detroit Expansion Markets in connection with a consent decree entered into between Cingular Wireless, AT&T Wireless, and the United States Department of Justice, or the DOJ. When we acquired the spectrum, we had certain expectations which were communicated to the DOJ about how we would use the spectrum, including expectations about constructing a combined 1XRTT/EV-DO network on the spectrum capable of supporting data services. Although we have constructed a combined 1XRTT/EV-DO network in those markets, we expected to be able to support our services as demand increased by upgrading the networks to EV-DO Revision A with VoIP when available. Based upon our discussions at the time with our network vendor, we anticipated that these upgrades would be available in 2006.

As a result of a delay in the availability of EV-DO Revision A with VoIP, in September 2006 we contacted the DOJ to inform them that we had determined that it was necessary for us to redeploy the EV-DO network assets at certain cell sites in those markets to 1XRTT in order to serve our existing customers. The DOJ responded with an informal letter expressing concern over our use of the spectrum and requesting certain information regarding our construction of our network facilities in these markets, our use of EV-DO, and the services we are providing in the Dallas/Ft. Worth and Detroit Expansion Markets. We have responded to the initial DOJ request and subsequent follow-up requests. We cannot predict at this time whether the DOJ will pursue this matter any further and, if they do, what the outcome may be.

***If we experience a higher rate of customer turnover than we have forecasted, our costs could increase and our revenues could decline, which would reduce our profits.***

Our average monthly rate of customer turnover, or churn, for the nine month period ended September 30, 2006 was approximately 4.7%. A higher rate of churn could reduce our revenues and increase our marketing costs to attract the replacement customers required to sustain our business plan, which could reduce our profit margin. In addition, we may not be able to replace customers who leave our service profitably or at all. Our rate of customer churn may be affected by several factors, including the following:

network coverage;

reliability issues, such as dropped and blocked calls and network availability;

handset problems;

lack of competitive regional and nationwide roaming and the inability of our customers to cost-effectively roam onto other wireless networks;

affordability;

supplier or vendor failures;

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customer care concerns;

lack of early access to the newest handsets;

wireless number portability requirements that allow customers to keep their wireless phone number when switching between service providers;

our inability to offer bundled services or new services offered by our competitors; and

competitive offers by third parties.

Unlike many of our competitors, we do not require our customers to enter into long-term service contracts. As a result, our customers have the ability to cancel their service at any time without penalty, and we therefore expect our churn rate to be higher than other wireless carriers. In addition, customers could elect to switch to another carrier that has service offerings based on newer network technology. We cannot assure you that our strategies to address customer churn will be successful. If we experience a high rate of wireless customer churn, seek to prevent significant customer churn, or fail to replace lost customers, our revenues could decline and our costs could increase which could have a material adverse effect on our business, financial condition and operating results.

***We may not have access to all the funding necessary to build and operate our Auction 66 Markets.***

The proceeds from the sale of the senior notes and our borrowings under our senior secured credit facility did not include the funds necessary to construct, launch and operate our Auction 66 Markets. In addition to the proceeds from this offering, we will need to generate significant excess free cash flow, which is defined as Adjusted EBITDA less capital expenditures, from our operations in our Core and Expansion Markets in order to construct and operate the Auction 66 Markets in the near term or at all. See Management Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources. If we are unable to fund the build-out of our Auction 66 Markets with the proceeds from this offering and excess internally generated cash flows, we may be forced to seek additional debt financing or delay our construction. The covenants under our senior secured credit facility and the indenture covering the notes may prevent us from incurring additional debt to fund the construction and operation of the Auction 66 Markets, or may prevent us from securing such funds on suitable terms or in accordance with our preferred construction timetable. Accordingly, we may be required to continue to pay interest on the secured debt and the senior notes for our Auction 66 Market licenses without the ability to generate any revenue from our Auction 66 Markets.

***We may not achieve the customer penetration levels in our Core and Expansion Markets that we currently believe are possible with our business model.***

Our ability to achieve the customer penetration levels that we currently believe are possible with our business model in our Core and Expansion Markets is subject to a number of risks, including:

increased competition from existing competitors or new competitors;

higher than anticipated churn in our Core and Expansion Markets;

our inability to increase our network capacity in areas we currently cover and plan to cover in the Core and Expansion Markets to meet growing customer demand;

our inability to continue to offer products or services which prospective customers want;

our inability to increase the relevant coverage areas in our Core and Expansion Markets in areas that are important to our current and prospective customers;

changes in the demographics of our Core and Expansion Markets; and

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adverse changes in the regulatory environment that may limit our ability to grow our customer base.

If we are unable to achieve the aggregate levels of customer penetration that we currently believe are possible with our business model in our Core and Expansion Markets, our ability to continue to grow our customer base and revenues at the rates we currently expect may be limited. Any failure to achieve the penetration levels we currently believe are possible may have a material adverse impact on our future financial results and operations. Furthermore, any inability to increase our overall level of market penetration in our Core and Expansion Markets, as well as any inability to achieve similar customer penetration levels in other markets we launch in the future, could adversely impact the market price of our stock.

***We may be subject to claims of infringement regarding telecommunications technologies that are protected by patents and other intellectual property rights.***

Telecommunications technologies are protected by a wide array of patents and other intellectual property rights. As a result, third parties may assert infringement claims against us from time to time based on our general business operations, the equipment, software or services we use or provide, or the specific operation of our wireless networks. We generally have indemnification agreements with the manufacturers, licensors and suppliers who provide us with the equipment, software and technology that we use in our business to protect us against possible infringement claims, but we cannot guarantee that we will be fully protected against all losses associated with an infringement claim. Moreover, we may be subject to claims that products, software and services provided by different vendors which we combine to offer our services may infringe the rights of third parties and we may not have any indemnification protection from our vendors for these claims. Further, we have been, and may be, subject to further claims that certain business processes we use may infringe the rights of third parties, and we may have no indemnification rights from any of our vendors or suppliers. Whether or not an infringement claim is valid or successful, it could adversely affect our business by diverting management's attention, involving us in costly and time-consuming litigation, requiring us to enter into royalty or licensing agreements (which may not be available on acceptable terms, or at all), require us to pay royalties for prior periods, or requiring us to redesign our business operations, processes or systems to avoid claims of infringement. If a claim is found to be valid or if we cannot successfully negotiate a required royalty or license agreement, it could disrupt our business, prevent us from offering certain services and cause us to incur losses of customers or revenues, any or all of which could be material and could adversely affect our business, financial performance, operating results and the market price of our stock.

***The wireless industry is experiencing rapid technological change, and we may lose customers if we fail to keep up with these changes.***

The wireless telecommunications industry is experiencing significant technological change. Our continued success will depend, in part, on our ability to anticipate or adapt to technological changes and to offer, on a timely basis, services that meet customer demands. We cannot assure you that we will obtain access to new technology on a timely basis, on satisfactory terms, or that we will have adequate spectrum to offer new services or implement new technologies. This could have a material adverse effect on our business, financial condition and operating results. For us to keep pace with these technological changes and remain competitive, we must continue to make significant capital expenditures to our networks and to acquire additional spectrum. Customer acceptance of the services that we offer will continually be affected by technology-based differences in our product and service offerings and those offered by our competitors.

The wireless telecommunications industry has been, and we believe will continue to be, characterized by several trends, including the following:

rapid development and introduction of new technologies, products, and services, such as VoIP, push-to-talk services, or push-to-talk, location based services, such as global positioning satellite, or



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GPS, mapping technology and high speed data services, including streaming video, mobile gaming, video conferencing and other applications;

substantial regulatory change due to the continuing implementation of the Telecommunications Act of 1996, which amended the Communications Act, and included changes designed to stimulate competition for both local and long distance telecommunications services and continued allocation of spectrum for, and relaxation of existing rules to allow existing licensees to offer, wireless services competitive with our services;

increased competition within established metropolitan areas from current and new entrants that may provide competing or alternative services;

an increase in mergers and strategic alliances that allow one telecommunications provider greater access to capital or resources or to offer increased services, access to wider geographic territory, or attractive bundles of services; and

the blurring of traditional dividing lines between, and the bundling of, different services, such as local telephone, long distance, wireless, video, data and Internet services. For example, several carriers appear to be positioning themselves to offer a quadruple play of services which includes telephone service, Internet access, video service and wireless service.

We expect competition to intensify as a result of new competitors, allocation of additional spectrum and relaxation of existing policies, and the development of new technologies, products and services. For instance, we currently do not offer certain of the high speed data applications offered by our competitors. In addition, push-to-talk has become popular as it allows subscribers to save time on dialing or connecting to a network and some of the companies that compete with us in our wireless markets offer push-to-talk. We do not offer our customers a push-to-talk service. As demand for this service continues to grow, and if we do not offer these technologies, we may have difficulty attracting and retaining subscribers, which will have an adverse effect on our business. In addition, other service providers have announced plans to develop a WiFi or WiMax enabled handset. Such a handset would permit subscribers to communicate using voice and data services with their handset using VoIP technology in any area equipped with a wireless Internet connection, or hot spot, potentially allowing more carriers to offer larger bundles of minutes while retaining low prices and the ability to offer attractive roaming rates. The number of hot spots in the U.S. is growing rapidly, with some major cities and urban areas being covered entirely. The availability of VoIP or another alternative technology to our competitor's subscribers could increase their ability to offer competing rate plans, which would have an adverse effect on our ability to attract and retain customers.

***We and Royal Street may incur significant costs in our build-out and launch of new markets and we may incur operating losses in those markets for an undetermined period of time.***

We and Royal Street have invested and expect to continue to invest a significant amount of capital to build systems that will adequately cover our Expansion Markets, and we and Royal Street will incur operating losses in each of these markets for an undetermined period of time. We also anticipate having to spend and invest a significant amount of capital to build systems and operate networks in the Auction 66 Markets.

***Our and Royal Street's network capacities in our existing and new markets may be insufficient to meet customer demand or to offer new services that our competitors may be able to offer.***

We and Royal Street have licenses for only 10 MHz of spectrum in certain of our markets, which is significantly less than most of the wireless carriers with whom we and Royal Street compete. This limited spectrum may require Royal Street and us to secure more cell sites to provide equivalent service (including data services based on EV-DO

technology) compared to Royal Street s and our competitors or to deploy more expensive network equipment, such as six-sector antennas and EV-DO Revision A with VoIP, sooner

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than our competitors. Royal Street's and our limited spectrum may also limit Royal Street's and our ability to support our growth plans without additional technology improvements and/or spectrum, and may make Royal Street and us more reliant on technology advances than our competitors. There is no guarantee we and Royal Street can secure adequate tower sites or additional spectrum, or that expected technology improvements will be available to support Royal Street's and our business requirements or that the cost of such technology improvements will allow Royal Street and us to remain competitive with other carriers. Competitive carriers in these markets also may take steps prior to Royal Street and us launching service to try to attract Royal Street's and our target customers. There also is no guarantee that the operations in the Royal Street metropolitan areas, which are based on a wholesale model, will be profitable or successful.

Most national wireless carriers have greater spectrum capacity than we do that can be used to support third generation, or 3G, and fourth generation, or 4G, services. These national wireless carriers are currently investing substantial sums of capital to deploy the necessary capital equipment to deliver 3G enhanced services. We and Royal Street have access to less spectrum than certain major competitive carriers in most of our and Royal Street's markets. Our limited spectrum may make it difficult for us and Royal Street to simultaneously support our voice services and 3G/4G services. In addition, we and Royal Street may have to invest additional capital and/or acquire additional spectrum to support the delivery of 3G/4G services. There is no guarantee that we or Royal Street will be able to provide 3G/4G services on existing licensed spectrum, or will have access to either the spectrum or capital, necessary to provide competitive 3G/4G services in our metropolitan areas, or that our vendors will provide the necessary equipment and software in a timely manner. Moreover, Royal Street's and our deployment of 3G/4G services requires technology improvements which may not occur or may be too costly for Royal Street and us to compete.

***We are dependent on certain network technology improvements which may not occur, or may be materially delayed.***

The adequacy of our spectrum to serve our customers in markets where we have access to only 10 MHz of spectrum is dependent upon certain recent and ongoing technology improvements, such as EV-DO Revision A with VoIP, 4G vocoders, and intelligent antennas. Further, there can be no assurance that (1) the additional technology improvements will be developed by our existing infrastructure provider, (2) such improvements will be delivered when needed, (3) the prices for such improvements will be cost-effective, or (4) the technology improvements will deliver our projected network efficiency improvements. If projected or anticipated technology improvements are not achieved, or are not achieved in the timeframes we need such improvements, we and Royal Street may not have adequate spectrum in certain metropolitan areas, which may limit our ability to grow our customer base, may inhibit our ability to achieve additional economies of scale, may limit our ability to offer new services offered by our competitors, may require us to spend considerably more capital and incur more operating expenses than our competitors with more spectrum, and may force us to purchase additional spectrum at a potentially material cost. If our network infrastructure vendor does not supply such improvements or materially delays the delivery of such improvements and other network equipment manufacturers are able to develop such technology, we may be at a material competitive disadvantage to our competitors and we may be required to change network infrastructure vendors, the cost of which could be material.

***We may be unable to acquire additional spectrum in the future at a reasonable cost.***

Because we offer unlimited calling services for a fixed fee, our customers tend, on average, to use our services more than the customers of other wireless carriers. We believe that the average amount of use our customers generate may continue to rise. We intend to meet this demand by utilizing spectrum-efficient state-of-the-art technologies, such as six-sector cell site technology, EV-DO Revision A with VoIP, 4G vocoders and intelligent antennas. Nevertheless, in the future we may need to acquire additional spectrum in order to maintain our grade of service and to meet increasing customer demands. However, we cannot be sure that additional spectrum will be made available by the FCC for commercial uses on a timely basis or that we will



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be able to acquire additional spectrum at a reasonable cost. For example, there have been recent calls for reallocating spectrum previously slated for commercial mobile uses to public safety uses in order to enable first responders to establish an interoperable nationwide broadband network. If the additional spectrum is unavailable when needed or unavailable at a reasonable cost, we could lose customers or revenues, which could be material, and our ability to grow our customer base may be materially adversely affected.

***Substantially all of our network infrastructure equipment is manufactured or provided by a single infrastructure vendor and any failure by that vendor could result in a material adverse effect on us.***

We have entered into a general purchase agreement with an initial term of three years, effective as of June 6, 2005, with Lucent Technologies, Inc., or Lucent, now known as Alcatel Lucent, as our network infrastructure supplier of PCS CDMA system products and services, including without limitation, wireless base stations, switches, power, cable and transmission equipment and services. The agreement does not cover the spectrum we recently acquired in Auction 66. The agreement provides for both exclusive and non-exclusive pricing for PCS CDMA products and the agreement may be renewed at our option on an annual basis for three additional years after its initial three-year term concludes. Substantially all of our PCS network infrastructure equipment is manufactured or provided by Alcatel Lucent. A substantial portion of the equipment manufactured or provided by Alcatel Lucent is proprietary, which means that equipment and software from other manufacturers may not work with Alcatel Lucent's equipment and software, or may require the expenditure of additional capital, which may be material. If Alcatel Lucent ceases to develop new products or support existing equipment and software, we may be required to spend significant amounts of money to replace such equipment and software, may not be able to offer new products or service, and may not be able to compete effectively in our markets. If we fail to continue purchasing our PCS CDMA products exclusively from Alcatel Lucent, we may have to pay certain liquidated damages based on the difference in prices between exclusive and non-exclusive prices, which may be material to us.

***Our network infrastructure vendor has merged, which could have a material adverse effect on us.***

Lucent announced on April 2, 2006 that it had entered into a definitive merger agreement with Alcatel, and the shareholders of each company approved the merger. Alcatel and Lucent announced on November 30, 2006 the completion of the merger and the companies began doing business on December 1, 2006 as Alcatel Lucent. There can be no assurance that the combined entity will continue to produce and support the products and services that we currently purchase from Alcatel Lucent. In addition, the combined entity may delay or cease developing or supplying products or services necessary to our business. If Alcatel Lucent delays or ceases to produce products or services necessary to our business and we are unable to secure replacement products and services on reasonable terms and conditions, our business could be materially adversely affected.

***Our network infrastructure vendor may change where it manufactures equipment necessary for our network which could have a material adverse effect on us.***

As a result of its ongoing operations, Alcatel Lucent may move the manufacturing of some of its products from its existing facilities in one country to another manufacturing facility located in another country and that process may accelerate with the completion of its merger. To the extent that products are manufactured outside the current facilities, we may experience delays in receiving products from Alcatel Lucent and the quality of the products we receive may suffer. These delays and quality problems could cause us to experience problems in increasing capacity of our existing systems, expanding our service areas, and the construction of new markets. If these delays or quality problems occur, they could have a material adverse effect on our ability to meet our business plan and our business operations and finances may be materially adversely affected.



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***No equipment or handsets are currently available for the AWS spectrum and such equipment or handsets may not be developed in a timely manner.***

The advanced wireless services, or AWS, spectrum requires modified or new equipment and handsets which are not currently available. We do not manufacture or develop our own equipment or handsets and are dependent on third party manufacturers to design, develop and manufacture such equipment. If equipment or handsets are not available when we need them, we may not be able to develop the Auction 66 Markets. We may, therefore, be forced to pay interest on our indebtedness which we used to fund the purchase of the licenses in Auction 66, without realizing any revenues from our Auction 66 Markets.

***If we are unable to manage our planned growth effectively, our costs could increase and our level of service could be adversely affected.***

We have experienced rapid growth and development in a relatively short period of time and expect to continue to experience substantial growth in the future. The management of rapid growth will require, among other things, continued development of our financial and management controls and management information systems. Historically, we have failed to adequately implement financial controls and management systems. We publicly acknowledged deficiencies in our financial reporting as early as August 2004, and controls and systems designed to address these deficiencies are not yet fully implemented. The costs of implementing these controls and systems will affect the near-term financial results of the business and the lack of these controls and systems may materially adversely affect our ability to access the capital markets.

Our expected growth also will require stringent control of costs, diligent management of our network infrastructure and our growth, increased capital requirements, increased costs associated with marketing activities, the ability to attract and retain qualified management, technical and sales personnel and the training and management of new personnel. Our growth will challenge the capacity and abilities of existing employees and future employees at all levels of our business. Failure to successfully manage our expected growth and development could have a material adverse effect on our business, increase our costs and adversely affect our level of service. Additionally, the costs of acquiring new customers could adversely affect our near-term profitability.

***We have identified material weaknesses in our internal control over financial reporting in the past. We will incur significant time and expense enhancing, documenting, testing and certifying our internal control over financial reporting and our business may be adversely affected if we have other material weaknesses or significant deficiencies in our internal control over financial reporting in the future.***

In connection with the preparation of our quarterly financial statements for the three months ended June 30, 2004, we determined that previously disclosed financial statements for the three months ended March 31, 2004 understated service revenues and net income. Additionally, in connection with their evaluation of our disclosure controls and procedures with respect to the filing in May 2006 of our Annual Report on Form 10-K for the year ended December 31, 2004, our chief executive officer and chief financial officer concluded that certain material weaknesses in our internal controls over financial reporting existed as of December 31, 2004. The material weaknesses related to deficiencies in our information technology and accounting control environments, insufficient tone at the top, deficiencies in our accounting for income taxes, and a lack of automation in our revenue reporting process. In connection with their review of our material weaknesses, our management and audit committee concluded that our previously reported consolidated financial statements for the years ended December 31, 2002 and 2003 should be restated to correct accounting errors resulting from these material weaknesses.

We have identified, developed and implemented a number of measures to strengthen our internal control over financial reporting and address the material weaknesses that we identified. Although, there were no reported material

weaknesses in our internal controls over financial reporting as of December 31, 2005, our management did identify a significant deficiency relating to the accrual of equipment and services in one of



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our markets. There can be no assurance that we will not have significant deficiencies in the future or that such conditions will not rise to the level of a material weakness. The existence of one or more material weaknesses or significant deficiencies could result in errors in our financial statements or delays in the filing of our periodic reports required by the SEC. Any failure by us to timely file our periodic reports could result in a breach of the indenture covering the senior notes and our secured credit facility, potentially accelerating payment under both agreements. We may not have the ability to pay, or borrow any amounts necessary to pay, any accelerated payment due under the secured credit facility or the indenture covering the senior notes. We may also incur substantial costs and resources to rectify any internal control deficiencies.

As a public company we will incur significant legal, accounting, insurance and other expenses. The Sarbanes-Oxley Act of 2002, as well as compliance with other SEC and exchange listing rules, will increase our legal and financial compliance costs and make some activities more time-consuming and costly. Furthermore, once we become a public company, SEC rules require that our chief executive officer and chief financial officer periodically certify the existence and effectiveness of our internal control over financial reporting. Our independent registered public accounting firm will be required, beginning with our Annual Report on Form 10-K for our fiscal year ending on December 31, 2008, to attest to our assessment of our internal control over financial reporting.

During the course of our testing, we may identify deficiencies that would have to be remediated to satisfy the SEC rules for certification of our internal control over financial reporting. As a consequence, we may have to disclose in periodic reports we file with the SEC significant deficiencies or material weaknesses in our system of internal controls. The existence of a material weakness would preclude management from concluding that our internal control over financial reporting is effective, and would preclude our independent auditors from issuing an unqualified opinion that our internal control over financial reporting is effective. If we cannot produce reliable financial reports, we may be in breach of the indenture covering the senior notes and our secured credit facility, potentially accelerating payment under both agreements. In addition, disclosures of this type in our SEC reports could cause investors to lose confidence in our financial reporting and may negatively affect the trading price of our common stock. Moreover, effective internal controls are necessary to produce reliable financial reports and to prevent fraud. If we have deficiencies in our disclosure controls and procedures or internal control over financial reporting it may negatively impact our business, results of operations and reputation.

***Because we may have issued stock options and shares of common stock in violation of federal and state securities laws and some of our stockholders and optionholders may have a right of rescission, we intend to make a rescission offer to certain holders of shares of our common stock and options to purchase shares of our common stock.***

Certain options to purchase our common stock granted since January 2004 and certain shares issued upon exercise of options granted during this period may not have been exempt from the registration and qualification requirements of the Securities Act of 1933 or under the securities laws of a few states. As of September 30, 2006, we granted to employees and former employees options to purchase approximately 716,000 shares of our common stock, of which approximately 659,000 options remain outstanding with a weighted average exercise price per option of \$18.83. As of September 30, 2006, we had issued approximately 15,600 shares of common stock upon exercise of these options, none of which are currently held by the optionees. We issued these options and shares of common stock in reliance on Rule 701 under the Securities Act of 1933. However, we may not have been entitled to rely on Rule 701 because (1) during certain periods we exceeded certain thresholds in the rule and may not have delivered to our optionholders the financial and other information required to be delivered by Rule 701; and (2) during certain periods in 2004 and 2006 we were subject to, or should have been subject to, the periodic reporting requirements under the Securities Exchange Act of 1934. As a result, certain holders of options and shares acquired from us may have a right to require us to repurchase those securities if we are found to be in violation of federal or state securities laws.



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In order to address these issues, we intend to make a rescission offer to the holders of options to purchase approximately 659,000 shares of our common stock as soon as practicable after the completion of our initial public offering. We will be making this offer to approximately 525 of our current and former employees. If the rescission offer is accepted by all persons to whom it is made, we could be required to make aggregate payments of up to approximately \$2.6 million. This amount reflects a purchase price equal to the price paid by the holder for each share of common stock that is the subject of the rescission offer and a purchase price equal to 20% of the aggregate exercise price for each option that is the subject of the rescission offer. It is possible that an optionholder could argue that the purchase price for the options does not represent an adequate remedy for the issuance of the option in violation of applicable securities laws, and a court may find that we are required to pay a greater amount for the options.

There can be no assurance that the SEC or state regulatory bodies will not take the position that any rescission offers should extend to all holders of options or stock acquired upon exercise of options granted during the relevant periods. However, the Securities Act of 1933 does not provide that a rescission offer will extinguish a holder's right to rescind the grant of an option or the issuance of shares that were not registered or exempt from the registration requirements under the Securities Act of 1933. Consequently, should any recipients of our rescission offer reject the offer, expressly or impliedly, we may remain liable under the Securities Act of 1933 for the purchase price of the options and shares that are subject to the rescission offer.

***We failed to register our stock options under the Securities Exchange Act of 1934 and, as a result, we may face potential claims under federal and state securities laws.***

As of December 31, 2005, options granted under our 1995 option plan and our 2004 equity incentive plan were held by more than 500 holders. As a result, we were required to file a registration statement registering the stock options pursuant to Section 12(g) of the Securities Exchange Act of 1934 no later than April 30, 2006. We failed to file a registration statement within the required time period.

If we had filed a registration statement pursuant to Section 12(g) as required, we would have become subject to the periodic reporting requirements of Section 13 of the Securities Exchange Act of 1934 upon the effectiveness of that registration statement. We have not filed any periodic reports, including quarterly reports on Form 10-Q and periodic reports on Form 8-K during the period since April 30, 2006, which is the latest date upon which we were required to file a registration statement.

Our failure to file the periodic reports we would have been required to file had we registered our common stock pursuant to Section 12(g) could give rise to potential claims by present or former stockholders based on the theory that such holders were harmed by the absence of such public reports. In addition to any claims by present or former stockholders, we could be subject to administrative and/or civil actions by the SEC. If any such claim or action is asserted, we could incur significant expenses and divert management's attention in defending them.

***A significant portion of our revenue is derived from geographic areas susceptible to natural and other disasters.***

Our markets in California, Texas and Florida contribute a substantial amount of revenue, operating cash flows, and net income to our operations. These same states, however, have a history of natural disasters which may adversely affect our operations in those states. The severity and frequency of certain of these natural disasters, such as hurricanes, are projected to increase over the next several years. In addition, the major metropolitan areas in which we operate, or plan to operate, could be the target of terrorist attacks. These events may cause our networks to cease operating for a substantial period of time while we reconstruct them and our competitors may be less affected by such natural disasters or terrorist attacks. If our networks cease operating for any substantial period of time, we may lose revenue and customers, and may have difficulty attracting new customers in the future, which could materially adversely affect

our operations. Although we have business interruption insurance which we believe is adequate, we cannot provide any

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assurance that the insurance will cover all losses we may experience as a result of a natural disaster or terrorist attack or that the insurance carrier will be solvent.

***Our substantial indebtedness could adversely affect our financial health.***

We have now, and will continue to have, a significant amount of debt. As of September 30, 2006, as adjusted to give effect to the repayment of our first and second lien credit agreements, the repayment of our bridge loans, the borrowing of \$1.6 billion under our senior secured credit facility and the receipt of the proceeds from the sale of \$1.0 billion of 91/4% senior notes due 2014, we had \$2.6 billion of outstanding indebtedness under the senior secured credit facility and the senior notes. Our substantial amount of debt could have important material adverse consequences to us. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to make interest and principal payments on our debt, limiting the availability of our cash flow to fund future capital expenditures for existing or new markets, working capital and other general corporate requirements;

limit our flexibility in planning for, or reacting to, changes in our business and the telecommunications industry;

limit our ability to purchase additional spectrum, develop new metropolitan areas in the future or fund growth in our metropolitan areas;

place us at a competitive disadvantage compared with competitors that have less debt; and

limit our ability to borrow additional funds, even when necessary to maintain adequate liquidity.

In addition, a substantial portion of our debt, including borrowings under our senior secured credit facility, bears interest at variable rates. Although we have entered into a transaction to hedge some of our interest rate risk, if market interest rates increase, variable-rate debt will create higher debt service requirements, which could adversely affect our cash flow. While we have and may in the future enter into agreements limiting our exposure to higher interest rates, any such agreements may not offer complete protection from this risk and any portions not subject to such agreements would have full exposure to higher interest rates. We estimate the interest expense and principal repayments on our debt for the 12 months ending December 31, 2007 to be approximately \$231.1 million.

***Despite current indebtedness levels, we will be able to incur substantially more debt. This could further exacerbate the risks associated with our leverage.***

We will be able to incur additional debt in the future despite our current level of indebtedness. The terms of the senior secured credit facility and the indenture governing the senior notes will allow us to incur substantial amounts of additional debt, subject to certain limitations. There are no restrictions on our or any of our future unrestricted or upstream subsidiaries' ability to incur additional indebtedness. If new debt is added to our current debt levels, the related risks we could face would be magnified.

***To service our debt, we will require a significant amount of cash, which may not be available to us.***

Our ability to make payments on, or repay or refinance, our debt and to fund planned capital expenditures and operating losses associated with the Expansion Markets and the Auction 66 Markets, will depend largely upon receipt

of proceeds from this offering and our future operating performance. Our future performance is subject to certain general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our ability to borrow funds in the future to make payments on our debt will depend on the satisfaction of the covenants in our senior secured credit facility, the indenture covering the senior notes and our other debt agreements and other agreements we may enter into in the

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future. Specifically, we will need to maintain specified financial ratios and satisfy financial condition tests. We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured credit facility or from other sources in an amount sufficient to enable us to pay interest or principal on our debt, including the senior notes, or to fund our other liquidity needs.

***The terms of our debt place restrictions on certain of our subsidiaries which may limit our operating flexibility.***

The indenture governing the senior notes and the senior secured credit facility impose material operating and financial restrictions on MetroPCS Wireless and certain of its subsidiaries. These restrictions, subject in certain cases to ordinary course of business and other exceptions, may limit MetroPCS Wireless and our ability to engage in some transactions, including the following:

- incurring additional debt by MetroPCS Wireless and some of our other subsidiaries;
- paying dividends, redeeming capital stock or making other restricted payments or investments;
- paying interest on any additional indebtedness incurred;
- selling or buying assets, properties or licenses;
- developing assets, properties or licenses which we have or in the future may procure;
- creating liens on assets;
- participating in future FCC auctions of spectrum;
- merging, consolidating or disposing of assets;
- entering into transactions with affiliates; and
- permitting subsidiaries (which does not include Royal Street and its subsidiaries) to pay dividends or make other payments.

Under the senior secured credit facility, MetroPCS Wireless is also subject to financial maintenance covenants with respect to its senior secured leverage and in certain circumstances total maximum consolidated leverage and certain minimum fixed charge coverage ratios.

These restrictions could limit MetroPCS Wireless and our ability to obtain debt financing, repurchase stock, refinance or pay principal on our outstanding debt, complete acquisitions for cash or debt or react to changes in our operating environment. Any future debt that we incur may contain similar or more restrictive covenants.

***Our success depends on our ability to attract and retain qualified management and other personnel.***

Our business is managed by a small number of key executive officers. The loss of one or more of these persons could disrupt our ability to react quickly to business developments and changes in market conditions, which could harm our financial results. Only one of our key executives has an employment contract, so any of our other key executive officers may leave at any time subject to forfeiture of any unpaid performance awards and any unvested stock options. In addition, upon any change in control, all unvested stock options will vest which may make it difficult for anyone to acquire us. We believe that our future success will also depend in large part on our continued ability to attract and

retain highly qualified executive, technical and management personnel. We believe competition for highly qualified management, technical and sales personnel is intense, and there can be no assurance that we will retain our key management, technical and sales employees or that we will be successful in attracting, assimilating or retaining other highly qualified management, technical and sales personnel in the future sufficient to support our continued growth. We have



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occasionally experienced difficulty in recruiting qualified personnel and there can be no assurance that we will not experience such difficulties in the future. Our inability to attract or retain highly qualified executive, technical and management personnel could materially and adversely affect our business operations and financial performance.

***We rely on third-party suppliers to provide our customers and us with equipment, software and services that are integral to our business, and any significant disruption in our relationship with these vendors could increase our cost and affect our operating efficiencies.***

We have entered into agreements with third-party suppliers to provide equipment and software for our network and services required for our operations, such as customer care and billing and payment processing. Sophisticated information and billing systems are vital to our ability to monitor and control costs, bill customers, process customer orders, provide customer service and achieve operating efficiencies. We currently rely on internal systems and third-party vendors to provide all of our information and processing systems. Some of our billing, customer service and management information systems have been developed by third-parties and may not perform as anticipated. If these suppliers experience interruptions or other problems delivering these products or services on a timely basis or at all, it may cause us to have difficulty providing services to our customers, developing and deploying new services and/or upgrading, maintaining, or improving our networks. If alternative suppliers and vendors become necessary, we may not be able to obtain satisfactory and timely replacement services on economically attractive terms, or at all. Some of these agreements may be terminated upon relatively short notice. The loss, termination or expiration of these contracts or our inability to renew them or negotiate contracts with other providers at comparable rates could harm our business. Our reliance on others to provide essential services on our behalf also gives us less control over the efficiency, timeliness and quality of these services. In addition, our plans for developing and implementing our information and billing systems rely to some extent on the design, development and delivery of products and services by third-party vendors. Our right to use these systems is dependent on license agreements with third-party vendors. Since we rely on third-party vendors to provide some of these services, any switch or disruption by our vendors could be costly and affect operating efficiencies.

***If we lose the right to install our equipment on wireless cell sites, or are unable to renew expiring leases for wireless cell sites on favorable terms or at all, our business and operating results could be adversely impacted.***

Our base stations are installed on leased cell site facilities. A significant portion of these cell sites are leased from a small number of large cell site companies under master agreements governing the general terms of our use of that company's cell sites. If a master agreement with one of these cell site companies were to terminate, the cell site company were to experience severe financial difficulties or file for bankruptcy or if one of these cell site companies were unable to support our use of its cell sites, we would have to find new sites or rebuild the affected portion of our network. In addition, the concentration of our cell site leases with a limited number of cell site companies could adversely affect our operating results and financial condition if we are unable to renew our expiring leases with these cell site companies either on terms comparable to those we have today or at all.

In addition, the tower industry has continued to consolidate. If any of the companies from which we lease towers or distributed antenna systems, or DAS systems, were to consolidate with other tower or DAS systems companies, they may have the ability to raise prices which could materially affect our profitability. If any of the cell site leasing companies or DAS system providers with which we do business were to experience severe financial difficulties, or file for bankruptcy protection, our ability to use cell sites leased from that company could be adversely affected. If a material number of cell sites were no longer available for our use, our financial condition and operating results could be adversely affected.

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***We may be unable to obtain the roaming and other services we need from other carriers to remain competitive.***

Many of our competitors have regional or national networks which enable them to offer automatic roaming and long distance telephone services to their subscribers at a lower cost than we can offer. We do not have a national network, and we must pay fees to other carriers who provide roaming services and who carry long distance calls made by our subscribers. We currently have roaming agreements with several other carriers which allow our customers to roam on those carriers' network. The roaming agreements, however, do not cover all geographic areas where our customers may seek service when they travel, generally cover voice but not data services, and at least one such agreement may be terminated on relatively short notice. In addition, we believe the rates charged by the carriers to us in some instances are higher than the rates they charge to certain other roaming partners. The FCC recently initiated a Notice of Proposed Rulemaking seeking comments on whether automatic roaming services are considered common carrier services, whether carriers have an obligation to offer automatic roaming services to other carriers, whether carriers have an obligation to provide non-voice automatic roaming services, and what rates a carrier may charge for roaming services. We are unable to predict with any certainty the likely outcome of this proceeding. The FCC previously has initiated roaming proceedings to address similar issues but repeatedly has failed to resolve these issues. Our current and future customers may desire that we offer automatic roaming services when they travel outside the areas we serve which we may be unable to obtain or provide cost effectively. If we are unable to obtain roaming agreements at reasonable rates, then we may be unable to effectively compete and may lose customers and revenues.

***A recent ruling from the Copyright Office of the Library of Congress may have an adverse effect on our distribution strategy.***

The Copyright Office of the Library of Congress, or the Copyright Office, recently released final rules on its triennial review of the exemptions to certain provisions of the Digital Millennium Copyright Act, or DMCA. A section of the DMCA prohibits anyone other than a copyright owner from circumventing technological measures employed to protect a copyrighted work, or access control. In addition, the DMCA provides that the Copyright Office may exempt certain activities which otherwise might be prohibited by that section of the DMCA for a period of three years when users are (or in the next three years are likely to be) adversely affected by the prohibition on their ability to make noninfringing uses of a class of copyrighted work. Many carriers, including us, routinely place software locks on wireless handsets, which prevent a customer from using a wireless handset sold by one carrier on another carrier's system. In its triennial review, the Copyright Office determined that these software locks on wireless handsets are access controls which adversely affect the ability of consumers to make noninfringing use of the software on their wireless handsets. As a result, the Copyright Office found that a person could circumvent such software locks and other firmware that enable wireless handsets to connect to a wireless telephone network when such circumvention is accomplished for the sole purpose of lawfully connecting the wireless handset to another wireless telephone network. A wireless carrier has filed suit in the United States District Court in Florida to reverse the Copyright Office's decision. This exemption is effective from November 27, 2006 through October 27, 2009 unless extended by the Copyright Office.

This ruling, if upheld, could allow our customers to use their wireless handsets on networks of other carriers. This ruling may also allow our customers who are dissatisfied with our service to utilize the services of our competitors without having to purchase a new handset. The ability of our customers to leave our service and use their wireless handsets on other carriers' networks may have an adverse material impact on our business. In addition, since we provide a subsidy for handsets to our distribution partners that is incurred in advance, we may experience higher distribution costs resulting from wireless handsets not being activated or maintained on our network, which costs may be material.

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***We may incur higher than anticipated intercarrier compensation costs, which could increase our costs and reduce our profit margin.***

When our customers use our service to call customers of other carriers, we generally are required to pay the carrier that serves the called party and any intermediary or transit carrier. Similarly, when a customer of another carrier calls one of our customers, that carrier generally is required to pay us. While we generally have been successful in negotiating agreements with other carriers that establish acceptable compensation arrangements, some carriers have claimed a right to unilaterally impose charges on us that we consider to be unreasonably high. The FCC has determined that certain unilateral termination charges imposed prior to April 2005 may be appropriate. We have requested clarification of this order. We cannot assure you that the FCC will rule in our favor. An adverse ruling or FCC inaction could result in some carriers successfully collecting such fees from us, which could increase our costs and affect our financial performance. In the meantime, certain carriers are threatening to pursue or have initiated claims against us for termination payments and the likely outcome of these claims is uncertain. A finding by the FCC that we are liable for additional terminating compensation payments could subject us to additional claims by other carriers. In addition, certain transit carriers have taken the position that they can charge market rates for transit services, which may in some instances be significantly higher than our current rates. We may be obligated to pay these higher rates and/or purchase services from others or engage in direct connection, which may result in higher costs which could materially affect our costs and financial results.

***Concerns about whether wireless telephones pose health and safety risks may lead to the adoption of new regulations, to lawsuits and to a decrease in demand for our services, which could increase our costs and reduce our revenues.***

Media reports and some studies have suggested that radio frequency emissions from wireless handsets are linked to various health concerns, including cancer, or interfere with various electronic medical devices, including hearing aids and pacemakers. Additional studies have been undertaken to determine whether the suggestions from those reports and studies are accurate. In addition, lawsuits have been filed against other participants in the wireless industry alleging various adverse health consequences as a result of wireless phone usage. While many of these lawsuits have been dismissed on various grounds, including a lack of scientific evidence linking wireless handsets with such adverse health consequences, future lawsuits could be filed based on new evidence or in different jurisdictions. If any such suits do succeed, or if plaintiffs are successful in negotiating settlements, it is likely additional suits would be filed. Additionally, certain states in which we offer or may offer service have passed or may pass legislation seeking to require that all wireless telephones include an earpiece that would enable the use of wireless telephones without holding them against the user's head. While it is not possible to predict whether any additional states in which we conduct business will pass similar legislation, such legislation could increase the cost of our wireless handsets and other operating expenses.

If consumers' health concerns over radio frequency emissions increase, consumers may be discouraged from using wireless handsets, and regulators may impose restrictions or increased requirements on the location and operation of cell sites or the use or design of wireless telephones. Such new restrictions or requirements could expose wireless providers to further litigation, which, even if not successful, may be costly to defend. In addition, compliance with such new requirements, and the associated costs, could adversely affect our business. The actual or perceived risk of radio frequency emissions could also adversely affect us through a reduction in customers or a reduction in the availability of financing in the future.

In addition to health concerns, safety concerns have been raised with respect to the use of wireless handsets while driving. Certain states and municipalities in which we provide service or plan to provide service have passed laws prohibiting the use of wireless phones while driving or requiring the use of wireless headsets. If additional state and local governments in areas where we conduct business adopt regulations restricting the use of wireless handsets while

driving, we could have reduced demand for our services.

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*A system failure could cause delays or interruptions of service, which could cause us to lose customers.*

To be successful, we must provide our customers reliable service. Some of the risks to our network and infrastructure which may prevent us from providing reliable service include:

physical damage to outside plant facilities;

power surges or outages;

equipment failure;

vendor or supplier failures or delays;

software defects;

human error;

disruptions beyond our control, including disruptions caused by terrorist activities, theft, or natural disasters; and

failures in operational support systems.

Network disruptions may cause interruptions in service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses. Further, our costs to replace or repair the network may be substantial, thus causing our costs to provide service to increase. We may also experience higher churn as our competitors systems may not experience similar problems.

*Unauthorized use of, or interference with, our network could disrupt service and increase our costs.*

We may incur costs associated with the unauthorized use of our network including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraudulent use of our network may impact interconnection and long distance costs, capacity costs, administrative costs, fraud prevention costs and payments to other carriers for fraudulent roaming. Such increased costs could have a material adverse impact on our financial results.

*Security breaches related to our physical facilities, computer networks, and informational databases may cause harm to our business and reputation and result in a loss of customers.*

Our physical facilities and information systems may be vulnerable to physical break-ins, computer viruses, theft, attacks by hackers, or similar disruptive problems. If hackers gain improper access to our databases, they may be able to steal, publish, delete or modify confidential personal information concerning our subscribers. In addition, misuse of our customer information could result in more substantial harm perpetrated by third-parties. This could damage our business and reputation and result in a loss of customers.

**Risks Related to Legal and Regulatory Matters**

*We are dependent on our FCC licenses, and our ability to provide service to our customers and generate revenues could be harmed by adverse regulatory action or changes to existing laws or rules.*

The FCC regulates most aspects of our business, including the licensing, construction, modification, operation, use, ownership, control, sale, roaming arrangements and interconnection arrangements of wireless communications systems, as do some state and local regulatory agencies. We can make no assurances that the FCC or the state and local agencies having jurisdiction over our business will not adopt regulations or take other actions that would adversely affect our business by imposing new costs or requiring changes in our current or planned operations, or that the Communications Act, from which the FCC obtains its authority, will not be amended in a manner materially adverse to us.

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Taken together or individually, new or changed regulatory requirements affecting any or all of the wireless, local, and long distance industries may harm our business and restrict the manner in which we operate our business. The enactment of new adverse legislation, regulation or regulatory requirements may slow our growth and have a material adverse effect upon our business, results of operations and financial condition. We cannot assure you that changes in current or future regulations adopted by the FCC or state regulators, or other legislative, administrative or judicial initiatives relating to the communications industry, will not have a material adverse effect on our business, results of operations and financial condition. In addition, pending congressional legislative efforts to reform the Communications Act may cause major industry and regulatory changes that are difficult to predict.

Some of our principal assets are our FCC licenses which we use to provide our services. The loss of any of these licenses could have a material adverse effect on our business. Our FCC licenses are subject to revocation if the FCC finds we are not in compliance with its rules or the Communications Act's requirements. We also could be subject to fines and forfeitures for such non-compliance, which could adversely affect our business. For example, absent a waiver, failure to comply with the FCC's Enhanced-911, or E-911, requirements, privacy rules, lighting and painting regulations, employment regulations, Customer Proprietary Network Information, or CPNI, protection rules, hearing aid-compatibility rules, number portability requirements, law enforcement cooperation or other existing or new regulatory mandates could subject us to significant penalties or a revocation of our FCC licenses, which could have a material adverse effect on our business, results of operations and financial condition. In addition, a failure to comply with these requirements or the FCC's construction requirements could result in revocation of the licenses and/or fines and forfeitures, any of which could have an adverse effect on our business.

***The structure of the transaction with Royal Street creates several risks because we do not control Royal Street and do not own or control the licenses it holds.***

We have agreements with Royal Street that are intended to allow us to actively participate in the development of the Royal Street licenses and networks, and we have the right to acquire on a wholesale basis 85% of the services provided by the Royal Street systems and to resell these services on a retail basis under our brand in accordance with applicable laws and regulations. There are, nonetheless, risks inherent in the fact that we do not own or control Royal Street or the Royal Street licenses. C9 Wireless, LLC, or C9, an unaffiliated third party, has the ability to put all or part of its ownership interest in Royal Street to us, but, due to regulatory restrictions, we have no corresponding right to call C9's ownership interest in Royal Street. We can give no assurance that C9 will exercise its put rights or if it does, when such exercise may occur. Further, these put rights expire in June 2012. Subject to certain non-controlling investor protections in Royal Street's limited liability company agreement, C9 also has control over the operations of Royal Street because it has the right to elect three of the five members of Royal Street's management committee, which has the full power to direct the management of Royal Street. The FCC's rules also restrict our ability to acquire or control Royal Street licenses during the period that Royal Street must maintain its eligibility as a very small business designated entity, or DE, which is currently through December 2010. Thus, we cannot be certain that the Royal Street licenses will be developed in a manner fully consistent with our business plan or that C9 will act in ways that benefit us.

Royal Street acquired certain of its PCS licenses as a DE entitled to a 25% discount. As a result, Royal Street received a bidding credit equal to approximately \$94 million for its PCS licenses. If Royal Street is found to have lost its status as a DE it would be required to repay the FCC the amount of the bidding credit on a five-year straight-line basis beginning on the grant date of the license. If Royal Street were required to pay this amount, it could have a material adverse effect on us due to our non-controlling 85% limited liability company member interest in Royal Street. In addition, if Royal Street is found to have lost its status as a DE, it could lose some or all of the licenses only available to DEs, which includes most of its licenses in Florida. If Royal Street lost those licenses, it could have a material adverse effect on us because we would lose access to the Orlando metropolitan area and certain portions of northern Florida.





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Certain recent regulatory developments pertaining to the DE program indicate that the FCC plans to be proactive in assuring that DEs abide by the FCC's control requirements. The FCC has the right to audit the compliance of DEs with FCC rules governing their operations, and there have been recent indications that it intends to exercise that authority. In addition, the Royal Street business plan may become so closely aligned with our business plan that there is a risk the FCC may find Royal Street to have relinquished control over its licenses in violation of FCC requirements. If the FCC were to determine that Royal Street has failed to exercise the requisite control over its licenses, the result could be the loss of closed licenses, which are licenses that the FCC only offered to qualified DEs, the loss of bidding credits, which effectively lowered the purchase price for the open licenses, and fines and forfeitures, which amounts may be material.

In making the changes to the DE rules, the FCC concluded that certain relationships between a DE licensee and its investors would in the future be deemed impermissible material relationships based on a new FCC view that these relationships, by their very nature, are generally inconsistent with an applicant's or licensee's ability to achieve or maintain designated entity eligibility and inconsistent with Congress's legislative intent. The FCC cited wholesale service arrangements as an example of an impermissible material relationship, but indicated that previously approved arrangements of this nature would be allowed to continue. While the FCC has grandfathered the existing arrangements between Royal Street and us, there can be no assurance that any changes that may be required to those arrangements in the future will not cause the FCC to determine that the changes would trigger the loss of DE eligibility for Royal Street and require the reimbursement of the bidding credits received by Royal Street and loss of any licenses covering geographic areas which are not sufficiently constructed which were available initially only to DEs. Further, the FCC has opened an additional Notice of Further Proposed Rulemaking seeking to determine what additional changes, if any, may be required or appropriate to its DE program. There can be no assurance that these changes will not be applied to the current arrangements between Royal Street and us. Any of these results could be materially adverse to our business.

***We may not be able to continue to offer our services if the FCC does not renew our licenses when they expire.***

Our current PCS licenses began to expire in January 2007. We have filed applications to renew our PCS licenses for additional ten-year periods by filing renewal applications with the FCC as soon as the filing windows were opened. All of the applications are currently pending. Renewal applications are subject to FCC review and potentially public comment to ensure that licensees meet their licensing requirements and comply with other applicable FCC mandates. If we fail to file for renewal of any particular license at the appropriate time or fail to meet any regulatory requirements for renewal, we could be denied a license renewal and, accordingly, our ability to continue to provide service in the geographic area covered by such license would be adversely affected. In addition, many of our licenses are subject to interim or final construction requirements. While we or the prior licensee have met the five-year construction benchmark, there is no guarantee that the FCC will find our construction sufficient to meet the applicable construction requirement, in which case the FCC could terminate our license and our ability to continue to provide service in that license area would be adversely affected. For some licenses, we also have a 10 year construction obligation and the FCC requires that a licensee provide substantial service for renewal. There is no guarantee that the FCC will find our or the prior licensees' system construction to meet any ten-year build-out requirement or construction requirements for renewal. Additionally, while incumbent licensees may enjoy a certain renewal expectancy if they provide substantial service, there is no guarantee that the FCC will conclude that we are providing substantial service, that we are entitled to a renewal expectancy, or will renew all or any of our licenses, or that the FCC will not grant the renewal with conditions that could materially and adversely affect our business. Failure to have our licenses renewed would materially and adversely affect our business.

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***The value of our licenses may drop in the future as a result of volatility in the marketplace and the sale of additional spectrum by the FCC.***

The market value of FCC licenses has been subject to significant volatility in the past and Congress has mandated that the FCC bring an additional substantial amount of spectrum to the market by auction in the next several years. The likely impact of these future auctions on license values is uncertain. For example, Congress has mandated that the FCC auction 60 MHz of spectrum in the 700 MHz band before mid 2008 and another 40 MHz of AWS spectrum is in the process of being assigned for wireless broadband services and is expected to be auctioned in the future by the FCC. There can be no assurance of the market value of our FCC licenses or that the market value of our FCC licenses will not be volatile in the future. If the value of our licenses were to decline significantly, we could be forced to record non-cash impairment charges which could impact our ability to borrow additional funds. A significant impairment loss could have a material adverse effect on our operating income and on the carrying value of our licenses on our balance sheet.

***The FCC may license additional spectrum which may not be appropriate for or available to us or which may allow new competitors to enter our markets.***

The FCC periodically makes additional spectrum available for wireless use. For instance, the FCC recently allocated and auctioned an additional 90 MHz of spectrum for AWS. The AWS band plan makes some licenses available in small (Metropolitan Statistical Area (MSA) and Rural Service Area (RSA)) license areas, although the predominant amount of spectrum remains allocated on a regional basis in combinations of 10 MHz and 20 MHz spectrum blocks. This band plan favors large incumbent carriers with nationwide footprints and presented challenges for us in acquiring additional spectrum. The FCC also has allocated an additional 40 MHz of spectrum devoted to AWS. It is in the process of considering the channel assignment policies for 20 MHz of this spectrum and has indicated that it will initiate a further proceeding with regard to the remaining 20 MHz in the future. The FCC also is in the process of taking comments on the appropriate geographic license areas and channel blocks for an additional 60 MHz of spectrum in the 700 MHz band. Specifically, on August 10, 2006, the FCC issued a Notice of Proposed Rulemaking seeking comment on possible changes to the 700 MHz band plan, including possible changes in the service area and channel block sizes for the 60 MHz of as yet unauctioned 700 MHz spectrum. We, along with other small, regional and rural carriers, filed comments advocating changes to the current 700 MHz bandplan to create a greater number of licenses with smaller spectrum blocks and geographic area sizes. Several national wireless carriers support the current plan. In addition, one commenter advocates reassigning 30 MHz of the 700 MHz band which now is slated for commercial broadband use, to public safety use to create a nationwide, interoperable broadband network that public safety users can access on a priority basis. In September 2006, the FCC also sought comment on proposals to increase the flexibility of guard band licensees in the 700 MHz spectrum. Furthermore, in December 2006, the FCC sought comment on the possible implementation of a nationwide broadband interoperable network in the 700 MHz band allocated for public safety use, which also could be used by commercial service providers on a secondary basis. We cannot predict the likely outcome of those proceedings or whether they will benefit or adversely affect us.

There are a series of risks associated with any new allocation of broadband spectrum by the FCC. First, there is no assurance that the spectrum made available by the FCC will be appropriate for or complementary to our business plan and system requirements. Second, depending upon the quantity, nature and cost of the new spectrum, it is possible that we will not be granted any of the new spectrum and, therefore, we may have difficulty in providing new services. This could adversely affect the valuation of the licenses we already hold. Third, we may be unable to purchase additional spectrum or the prices paid for such spectrum may negatively affect our ability to be competitive in the market. Fourth, new spectrum may allow new competitors to enter our markets and impact our ability to grow our business and compete effectively in our market. Fifth, new spectrum may be sold at prices lower than we paid at past auctions or in private transactions, thus adversely affecting the value of our existing assets. Sixth, the clearing obligations for existing licensees on new spectrum may take longer or cost more than anticipated. Seventh, our competitors



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may be able to use this new spectrum to provide products and services that we cannot provide using our existing spectrum. Eighth, there can be no assurance that our competitors will not use certain FCC programs, such as its designated entity program or the proposed nationwide interoperable networks for public safety use, to purchase or acquire spectrum at materially lower prices than what we are required to pay. Any of these risks, if they occur, may have a material adverse effect on our business.

***We are subject to numerous surcharges and fees from federal, state and local governments, and the applicability and amount of these fees is subject to great uncertainty and may prove to be material to our financial results.***

Telecommunications providers pay a variety of surcharges and fees on their gross revenues from interstate and intrastate services. Interstate surcharges include federal Universal Service Fund fees and common carrier regulatory fees. In addition, state regulators and local governments impose surcharges, taxes and fees on our services and the applicability of these surcharges and fees to our services is uncertain in many cases and jurisdictions may argue as to whether we have correctly assessed and remitted those monies. The division of our services between interstate services and intrastate services is a matter of interpretation and may in the future be contested by the FCC or state authorities. In addition, periodic revisions by state and federal regulators may increase the surcharges and fees we currently pay. The Federal government and many states apply transaction-based taxes to sales of our products and services and to our purchases of telecommunications services from various carriers. It is possible that our transaction based tax liabilities could change in the future. We may or may not be able to recover some or all of those taxes from our customers and the amount of taxes may deter demand for our services.

***Spectrum for which we have been granted licenses as a result of AWS Auction 66 is subject to certain legal challenges, which may ultimately result in the FCC revoking our licenses.***

We have paid the full purchase price of approximately \$1.4 billion to the FCC for the licenses we were granted as a result of Auction 66, even though there are ongoing uncertainties regarding some aspects of the final auction rules. In April 2006, the FCC adopted an Order relating to its DE program, or the DE Order. This Order was modified by the FCC in an Order on Reconsideration which largely upheld the revised DE rules but clarified that the FCC's revised unjust enrichment rules would only apply to licenses initially granted after April 25, 2006. Several interested parties filed an appeal in the U.S. Court of Appeals for the Third Circuit on June 7, 2006, of the DE Order. The appeal challenges the DE Order on both substantive and procedural grounds. Among other claims, the petitions contest the FCC's effort to apply the revised rules to applications for the AWS Auction 66 and seeks to overturn the results of Auction 66. We are unable at this time to predict the likely outcome of the court action. We also are unable to predict the likelihood that the litigation will result in any changes to the DE Order or to the DE program, and, if there are changes, whether or not any such changes will be beneficial or detrimental to our interests. If the court overturns the results of Auction 66, there may be a delay in us receiving a refund of our payments. Further, the FCC may appeal any decision overturning Auction 66 and not refund any amounts paid until the appeal is final. In such instance, we may be forced to pay interest on the payments made to the FCC without receiving any interest on such payments from the FCC. If the results of Auction 66 were overturned and we receive a refund, the delay in the return of our money and the loss of any amounts spent to develop the licenses in the interim may affect our financial results and the loss of the licenses may affect our business plan. Additionally, such refund would be without interest. In the meantime we would have been obligated to pay interest to our lenders on the amounts we advanced to the FCC during the interim period and such interest amounts may be material.

***We may be delayed in starting operations in the Auction 66 Markets because the incumbent licensees may have unreasonable demands for relocation or may refuse to relocate.***

The spectrum allocated for AWS currently is utilized by a variety of categories of existing licensees (Broadband Radio Service, Fixed Service) as well as governmental users. The FCC rules provide that a



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portion of the money raised in Auction 66 will be used to reimburse the relocation costs of certain governmental users from the AWS band. However, not all governmental users are obligated to relocate. To foster the relocation of non-governmental incumbent licensees, the FCC also adopted a transition and cost sharing plan under which incumbent users can be reimbursed for relocating out of the AWS band with the costs of relocation being shared by AWS licensees benefiting from the relocation. The FCC has established rules requiring the new AWS licensee and the non-governmental incumbent user to negotiate voluntarily for up to three years before the non-governmental incumbent licensee is subject to mandatory relocation.

We are not able to determine with any certainty the costs we may incur to relocate the non-governmental incumbent licenses in the Auction 66 Markets or the time it will take to clear the AWS spectrum in those areas.

If any federal government users refuse to relocate out of the AWS band in a metropolitan area where we have been granted a license, we may be delayed or prevented from serving certain geographic areas or customers within the metropolitan area and such inability may have a material adverse effect on our financial performance, and our future prospects. In addition, if any of the incumbent users refuse to voluntarily relocate, we may be delayed in using the AWS spectrum granted to us and such delay may have a material adverse effect on our ability to serve the metropolitan areas, our financial performance, and our future prospects.

***The FCC may adopt rules requiring new point-to-multipoint emergency alert capabilities that would require us to make costly investments in new network equipment and consumer handsets.***

In 2004, the FCC initiated a proceeding to update and modernize its systems for distributing emergency broadcast alerts. Television stations, radio broadcasters and cable systems currently are required to maintain emergency broadcast equipment capable of retransmitting emergency messages received from a federal agency. As part of its attempts to modernize the emergency alert system, the FCC in its proceeding is addressing the feasibility of requiring wireless providers, such as us, to distribute emergency information through our wireless networks. Unlike broadcast and cable networks, however, our infrastructure and protocols like those of all other similarly-situated wireless broadband PCS carriers are optimized for the delivery of individual messages on a point-to-point basis, and not for delivery of messages on a point-to-multipoint basis, such as all subscribers within a defined geographic area. While multiple proposals have been discussed in the FCC proceeding, including limited proposals to use existing SMS capabilities on a short-term basis, the FCC has not yet ruled and therefore we are not able to assess the short- and long-term costs of meeting any future FCC requirements to provide emergency and alert service, should the FCC adopt such requirements. Congress recently passed the Warning, Alert, and Response Network Act, or the Act, which was signed into law. In the Act, Congress provided for the establishment, within 60 days of enactment, of an advisory committee to provide recommendations to the FCC on, and the FCC is required to complete a proceeding to adopt, relevant technical standards, protocols, procedures and other technical requirements based on such recommendations necessary to enable alerting capability for commercial mobile radio service, or CMRS, providers that voluntarily elect to transmit emergency alerts. Under the Act, a CMRS carrier can elect not to participate in providing such alerting capability. If a CMRS carrier elects to participate, the carrier may not charge separately for the alerting capability and the CMRS carrier's liability related to or any harm resulting from the transmission of, or failure to transmit, an emergency is limited. Within a relatively short period of time after receiving the recommendations from the advisory committee, the FCC is obligated to complete its rulemaking implementing such rules. Adoption of such requirements, however, could require us to purchase new or additional equipment and may also require consumers to purchase new handsets. Until the FCC rules, we do not know if it will adopt such requirements, and if it does, what their impact will be on our network and service.

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***FCC approval for the sale of our stock, if required, may not be forthcoming or may result in adverse conditions to the business or to the holders of our stock.***

If the sale of our stock would cause a change in control of us under the Communications Act of 1934, as amended and the FCC's rules, regulations or policies promulgated thereunder, the prior approval of the FCC would be required prior to any such sale. There can be no assurance that, at the time the sale is contemplated, the FCC would grant such an approval, or that the FCC would grant such an approval without adverse conditions.

## **Risks Related to the Offering**

***There has been no prior market for our common stock, our stock price may be volatile, and after the offering you may not be able to sell your shares at or above the offering price.***

Before this offering, our common stock has not been publicly traded, and an active trading market may not develop or be sustained after this offering. You may not be able to sell your shares at or above the offering price, which has been determined by negotiations between representatives of the underwriters and us. The price at which our common stock will trade after this offering is likely to be highly volatile and may fluctuate substantially because of a number of factors, such as:

- actual or anticipated fluctuations in our or our competitors operating results;
- changes in or our failure to meet securities analysts' expectations;
- announcements of technological innovations;
- entry of new competitors into our markets;
- introduction of new products and services by us or our competitors;
- significant developments with respect to intellectual property rights;
- additions or departures of key personnel;
- conditions and trends in the communications and high technology markets;
- volatility in stock market prices and volumes, which is particularly common among securities of telecommunications companies;
- general stock market conditions;
- the general state of the U.S. and world economies;
- the announcement, commencement, bidding and closing of auctions for new spectrum; and
- actions occurring in and the outcome of litigation between Leap and us.

In addition, in recent years, the stock market has experienced significant price and volume fluctuations. This volatility has had a significant impact on the trading price of securities issued by many companies, including companies in our industry. The changes frequently occur irrespective of the operating performance of the affected companies. Hence,

the trading price of our common stock could fluctuate based upon factors that have little or nothing to do with our business.

*A substantial portion of our outstanding shares, other than the shares sold in this offering, will be restricted from immediate resale but may be sold into the market beginning 180 days after this offering. Any future sales of our common stock may depress our stock price.*

Sales of a substantial number of shares of our common stock into the public market after the offering, or the perception that these sales could occur, could adversely affect our stock price or could impair our



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ability to obtain capital through an offering of equity securities. After the offering, we will have outstanding shares of common stock. The shares sold in this offering will be freely tradable without restriction or further registration under the Securities Act of 1933, except for any shares purchased by our affiliates as that term is defined by Rule 144. An aggregate of of the remaining shares of common stock outstanding will be restricted from resale until days after this offering. In addition, shares, which represent approximately of our total outstanding shares of common stock, will be restricted as that term is defined by Rule 144. You should read Shares Eligible for Future Sale for a more complete discussion of these matters.

***As a new investor, you will experience immediate and substantial dilution in the value of the common stock.***

The initial public offering price of our common stock will be substantially higher than the book value per share of the outstanding common stock. As a result, investors purchasing common stock in this offering will incur immediate dilution of \$ per share, assuming that we sell shares at an initial public offering price of \$ per share. An aggregate unrealized gain of approximately \$ million will be incurred by our current stockholders as a result of the initial public offering, assuming an initial offering price of \$ per share.

***We may need additional equity capital, and raising additional capital may dilute existing stockholders.***

We believe that our existing capital resources, including the anticipated proceeds of this offering, together with internally generated cash flows will enable us to maintain our current and planned operations, including the build-out of certain of the Auction 66 Markets. However, we may choose to, or be required to, raise additional funds to complete construction and fund the operations of certain of the Auction 66 Markets or due to unforeseen circumstances. If our capital requirements vary materially from those currently planned, we may require additional equity financing sooner than anticipated. This financing may not be available in sufficient amounts or on terms acceptable to us and may be dilutive to existing stockholders. If adequate funds are not available or are not available on acceptable terms, our ability to fund our future growth, take advantage of unanticipated opportunities, develop or enhance services or products, or otherwise respond to competitive pressures would be significantly limited.

***After this offering, our directors, executive officers and principal stockholders will continue to have substantial control over matters requiring stockholder approval and may not vote in the same manner as our other stockholders.***

Following this offering, it is anticipated that our executive officers, directors and their affiliates will beneficially own or control approximately % of our common stock. Together with other entities owning 5% or more of our outstanding shares of common stock, this group will control shares of common stock, or approximately % of the outstanding shares of our stock. As a result, if such persons act together, they will have the ability to have substantial control over all matters submitted to our stockholders for approval, including the election and removal of directors and the approval of any merger, consolidation or sales of all or substantially all of our assets. These stockholders may make decisions that are adverse to your interests. In addition, persons affiliated with these stockholders constitute of the members of our board of directors. See our discussion under the caption Security Ownership of Principal and Selling Stockholders for more information about ownership of our outstanding shares.

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***Our certificate of incorporation, bylaws and Delaware corporate law will contain provisions which could delay or prevent a change in control even if the change in control would be beneficial to our stockholders.***

Delaware law as well as our certificate of incorporation and bylaws will contain provisions that could delay or prevent a change in control of our company, even if it were beneficial to our stockholders to do so. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions:

authorize the issuance of preferred stock that can be created and issued by the board of directors without prior stockholder approval to increase the number of outstanding shares and deter or prevent a takeover attempt;

prohibit stockholder action by written consent, requiring all stockholder actions to be taken at a meeting of our stockholders;

require shareholder meetings to only be called by the President or at the written request of a majority of the directors then in office and not the shareholders;

prohibit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;

provide that our board of directors is divided into three classes, each serving three-year terms; and

establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law imposes restrictions on business combinations such as mergers between us and a holder of 15% or more of our voting stock. See Description of Capital Stock Anti-Takeover Effects of Delaware Law and Our Restated Certificate of Incorporation and Restated Bylaws.

***Conflicts of interest may arise because some of our directors are principals of our stockholders, and we have waived our rights to certain corporate opportunities.***

Our board of directors includes representatives from Accel Partners, TA Associates, Madison Dearborn Capital Partners and M/C Venture Partners. Those stockholders and their respective affiliates may invest in entities that directly or indirectly compete with us or companies in which they are currently invested may already compete with us. As a result of these relationships, when conflicts between the interests of those stockholders or their respective affiliates and the interests of our other stockholders arise, these directors may not be disinterested. Under Delaware law, transactions that we enter into in which a director or officer has a conflict of interest are generally permissible so long as (1) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our board of directors and a majority of our disinterested directors approves the transaction, (2) the material facts relating to the director's or officer's relationship or interest as to the transaction are disclosed to our stockholders and a majority of our disinterested stockholders approves the transaction, or (3) the transaction is otherwise fair to us. Also, pursuant to the terms of our certificate of incorporation, our non-employee directors, including the representatives from Accel Partners, TA Associates, Madison Dearborn Capital Partners and M/C Venture Partners, are not required to offer us any corporate opportunity of which they become aware and could take any such opportunity for themselves or offer it to other companies in which they have an investment, unless such opportunity is expressly offered to them in their capacity as a director of our company. See Description of Capital Stock Corporate Opportunities.



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*We have substantial discretion as to how to use the offering proceeds, and the investment of these proceeds may not yield a favorable return.*

We will have considerable flexibility in how the net proceeds of this offering are used, including investing in the Auction 66 Markets and for general corporate purposes. You will not have an opportunity as part of this investment decision to assess whether the proceeds are being used appropriately. These investments may not yield the same return as prior investments by us. In addition, we may use the proceeds to acquire additional licenses or assets which may require that we raise additional capital to construct the licenses or utilize the assets. If we use the proceeds in a way that yields lower return on capital than our prior investments or requires additional capital, it could dilute the price of our investment or could have a material adverse effect on our financial results.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Any statements made in this prospectus that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements and should be evaluated as such. Forward-looking statements include information concerning possible or assumed future results of operations, including statements that may relate to our plans, objectives, strategies, goals, future events, future revenues or performance, capital expenditures, financing needs and other information that is not historical information. These forward-looking statements often include words such as anticipate, expect, suggests, plan, believe, intend, estimates, targets, projects, forecast, and other similar expressions. These forward-looking statements are contained throughout this prospectus, including the Prospectus Summary, Risk Factors, Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and Business.

We base these forward-looking statements or projections on our current expectations, plans and assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances. As you read and consider this prospectus, you should understand that these forward-looking statements or projections are not guarantees of future performance or results. Although we believe that these forward-looking statements and projections are based on reasonable assumptions at the time they are made, you should be aware that many factors could affect our actual financial results, performance or results of operations and could cause actual results to differ materially from those expressed in the forward-looking statements and projections. Factors that may materially affect such forward-looking statements and projections include:

the highly competitive nature of our industry;

the rapid technological changes in our industry;

our ability to maintain adequate customer care and manage our churn rate;

our ability to sustain the growth rates we have experienced to date;

our ability to access the funds necessary to build and operate our Auction 66 Markets;

the costs associated with being a public company and our ability to comply with the internal control and reporting obligations of public companies;

our ability to manage our rapid growth, train additional personnel and improve our controls and procedures;

our ability to secure the necessary spectrum and network infrastructure equipment;

our ability to clear the Auction 66 Market spectrum of incumbent licensees;

our ability to adequately enforce or protect our intellectual property rights;

governmental regulation of our services and the costs of compliance and our failure to comply with such regulations;

our capital structure, including our indebtedness amounts;

changes in consumer preferences or demand for our products;  
our inability to attract and retain key members of management; and  
other factors described in this prospectus under Risk Factors.

The forward-looking statements and projections are subject to and involve risks, uncertainties and assumptions and you should not place undue reliance on these forward-looking statements and projections.

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All future written and oral forward-looking statements and projections attributable to us or persons acting on our behalf are expressly qualified in their entirety by our cautionary statements. We do not intend to, and do not undertake a duty to, update any forward-looking statement or projection in the future to reflect the occurrence of events or circumstances, except as required by law.

**MARKET AND OTHER DATA**

Market data and other statistical information used throughout this prospectus are based on independent industry publications, government publications, reports by market research firms and other published independent sources. Some data and other information is also based on our good faith estimates, which are derived from our review of internal surveys and independent sources, including information provided to us by the U.S. Census Bureau. Although we believe these sources are reliable, we have not independently verified the data or information obtained from these sources. By including such market data and information, we do not undertake a duty to provide such data in the future or to update such data when such data is updated.

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**USE OF PROCEEDS**

We estimate that the net proceeds to us from our sale of \_\_\_\_\_ shares of common stock in this offering will be approximately \$ \_\_\_\_\_, at an assumed initial public offering price of \$ \_\_\_\_\_ per share (the midpoint of the range set forth on the cover of this prospectus), and after deducting underwriting discounts and commissions and estimated transaction fees and expenses payable by us. A \$1.00 increase or decrease in the initial public offering price per share would increase or decrease the expected net proceeds by approximately \$ \_\_\_\_\_ million. We will not receive any proceeds from the sale of common stock by the selling stockholders.

We intend to use the net proceeds to us primarily to build-out our network and launch our services in certain of our recently acquired Auction 66 Markets, with a primary focus on the New York, Philadelphia, Boston and Las Vegas metropolitan areas, as well as for general corporate purposes. Our management will have broad discretion in the allocation of the net proceeds of this offering. The amounts actually expended and the timing of such expenditures will depend on a number of factors, including our realization of the different elements of our growth strategy and the amount of cash generated by our operations.

Until such time as we have identified specific uses for the net proceeds of this offering and have spent such funds, we will invest the net proceeds in short-term, investment grade securities.

**DIVIDEND POLICY**

We have never paid or declared any regular dividends on our common stock and do not intend to declare or pay regular dividends on our common stock in the foreseeable future. The terms of our senior secured credit facility restrict our ability to declare or pay dividends. We generally intend to retain the future earnings, if any, to invest in our business. Subject to Delaware law, our board of directors will determine the payment of future dividends on our common stock, if any, and the amount of any dividends in light of:

- any applicable contractual restrictions limiting our ability to pay dividends;
- our earnings and cash flows;
- our capital requirements;
- our financial condition; and
- other factors our board of directors deems relevant.



**Table of Contents****CAPITALIZATION**

We have provided in the table below our consolidated cash, cash equivalents and short-term investments and capitalization as of September 30, 2006 on an actual basis and on an as adjusted basis giving effect to:

the conversion of our outstanding shares of Series D and Series E preferred stock, including accrued but unpaid dividends as of September 30, 2006;

the entry into our senior secured credit facility, and the borrowing of \$1.6 billion thereunder;

the consummation of the sale of our senior notes;

the repayment of all amounts owed under our first and second lien credit agreements and bridge credit facilities; and

the consummation of this offering at a price equal to the mid-point of the range and use of the net proceeds therefrom as set forth under Use of Proceeds.

Each \$1.00 increase or decrease in the offering price per share would increase or decrease the as adjusted figure shown below for cash, cash equivalents and short-term investments, additional paid-in capital, total stockholders equity and total capitalization by approximately \$ , after deducting estimated underwriting discounts and commissions. This table should be read in conjunction with Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	<b>As of September 30, 2006</b>	
	<b>Actual</b>	<b>As Adjusted</b>
	<b>(In Thousands)</b>	
Cash, cash equivalents and short-term investments	\$ 345,811	
Long-Term Debt:		
Senior secured first lien term loan	\$ 550,000	
Senior secured second lien term loan	350,000	
Bridge credit agreement	200,000	
Senior secured credit facility		1,600,000
Senior notes		1,000,000
Other	2,594	
<b>Total Long-Term Debt</b>	<b>\$ 1,102,594</b>	<b>\$ 2,600,000</b>
Series D Preferred Stock(1)	\$ 437,955	\$
Series E Preferred Stock(2)	\$ 50,294	\$
Stockholders' Equity:		
Preferred stock(3)	\$	\$
Common stock(4)	5	
Additional paid-in capital	157,712	

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Retained earnings	268,762	
Accumulated other comprehensive income	1,210	1,210
Total Stockholders' Equity	\$ 427,689	
Total Capitalization	\$ 2,018,532	

(1) Par value \$0.0001 per share, 4,000,000 shares designated and 3,500,993 shares issued and outstanding, actual; no shares designated, issued or outstanding, pro forma as adjusted.

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- (2) Par value \$0.0001 per share, 500,000 shares designated and 500,000 shares issued and outstanding, actual; no shares designated, issued or outstanding, pro forma as adjusted.
- (3) Par value \$0.0001 per share, 25,000,000 shares authorized, 4,000,000 of which have been designated as Series D Preferred Stock and 500,000 of which have been designated as Series E Preferred Stock, no shares of preferred stock other than Series D&E Preferred Stock issued and outstanding, actual; 100,000,000 shares authorized but no shares issued or outstanding, pro forma as adjusted.
- (4) Par value \$0.0001 per share, 300,000,000 shares authorized and 52,071,221 shares issued and outstanding, actual; 1,000,000,000 shares authorized and            issued and outstanding, pro forma as adjusted. The number of shares of common stock outstanding after this offer excludes:            shares of our common stock issuable upon exercise of options outstanding as of            , at a weighted average exercise price of            per share, of which options to purchase            shares were exercisable as of that date;            shares of our common stock available for future grant under our equity compensation plans as of            .

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**DILUTION**

If you invest in our common stock, you will experience dilution to the extent of the difference between the public offering price per share you pay in this offering and the pro forma net tangible book value per share of our common stock immediately after the completion of this offering.

Dilution results from the fact that the per share offering price of the common stock is substantially in excess of the book value per share attributable to the existing stockholders for the presently outstanding stock. Our net tangible book value as of \_\_\_\_\_ was approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ per share of common stock. Net tangible book value per share is equal to our total tangible assets minus total liabilities, divided by the number of shares of common stock outstanding as of \_\_\_\_\_.

Our pro forma net tangible book value per share as of \_\_\_\_\_ was approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ per share of common stock, assuming conversion of all outstanding shares of Series D preferred stock and Series E preferred stock into common stock.

After giving effect to the sale of the \_\_\_\_\_ shares of common stock we are offering at an assumed initial public offering price of \$ \_\_\_\_\_ per share (the midpoint of the price range as set forth on the cover page of this prospectus), and after deducting underwriting discounts and commissions and our estimated offering expenses, our pro forma as adjusted net tangible book value would have been approximately \$ \_\_\_\_\_ million, or approximately \$ \_\_\_\_\_ per share of common stock. This represents an immediate increase in pro forma net tangible book value of approximately \$ \_\_\_\_\_ per share to existing stockholders and an immediate dilution of approximately \$ \_\_\_\_\_ per share to new investors.

The following table illustrates this immediate dilution of \$ \_\_\_\_\_ per share to new investors purchasing shares of common stock in this offering on a per share basis:

Assumed initial public offering price per share		\$
Net tangible book value per share as of _____	\$	
Pro forma net tangible book value per share as of _____		
Increase in net tangible book value per share attributable to new investors purchasing shares in this offering		
Pro forma as adjusted net tangible book value per share after this offering		
Dilution of pro forma net tangible book value per share to new investors		\$

Each \$1.00 increase or decrease in the offering price per share would increase or decrease the as adjusted pro forma net tangible book value by \$ \_\_\_\_\_ per share and the dilution to investors in the offering by \$ \_\_\_\_\_ per share, assuming that the number of shares offered in this offering, as set forth on the cover page of this prospectus, remains the same. The pro forma information discussed above is illustrative only. Our net tangible book value following the completion of the offering is subject to adjustment based on the actual offering price of our common stock and other terms of this offering determined at pricing.



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The following table summarizes, on a pro forma as adjusted basis as of \_\_\_\_\_, after giving effect to this offering, the total number of shares of our common stock purchased from us and the total consideration and average price per share paid by existing stockholders and by new investors:

	<b>Shares Purchased</b>		<b>Total Consideration</b>		<b>Average</b>
	<b>Number</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Price</b>
					<b>Per Share</b>
Existing stockholders		%		%	\$
New investors					\$
<b>Total</b>		<b>100.0%</b>		<b>100.0%</b>	

If the underwriters exercise their over-allotment option in full, the following will occur:

the pro forma as adjusted percentage of shares of our common stock held by existing stockholders will decrease to approximately % of the total number of pro forma as adjusted shares of our common stock outstanding after this offering; and

the pro forma as adjusted number of shares of our common stock held by new public investors will increase to \_\_\_\_\_, or approximately % of the total pro forma as adjusted number of shares of our common stock outstanding after this offering.

The tables and calculations above are based on shares outstanding as of \_\_\_\_\_, assuming conversion of all outstanding shares of Series D and Series E preferred stock into common stock, and exclude:

shares of our common stock issuable upon exercise of options outstanding as of \_\_\_\_\_, at a weighted average exercise price of \_\_\_\_\_ per share, of which options to purchase \_\_\_\_\_ shares were exercisable as of that date; and

shares of our common stock available for future grant under our equity compensation plans as of that date.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following tables set forth selected consolidated financial data. We derived our selected consolidated financial data as of and for the years ended December 31, 2004 and 2005 from our consolidated financial statements, which were audited by Deloitte & Touche LLP. We derived our selected consolidated financial data as of and for the years ended December 31, 2002 and 2003 from our consolidated financial statements, which were audited by PricewaterhouseCoopers LLP. We derived our selected consolidated financial data as of and for the year ended December 31, 2001 from our unaudited consolidated financial statements. We derived our selected consolidated financial data as of and for the nine months ended September 30, 2005 and 2006 from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. You should read the selected consolidated financial data in conjunction with Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included elsewhere in this prospectus.

	2001	Year Ended December 31,			2005	Nine Months Ended September 30,	
		2002	2003	2004		2005	2006
		(In Thousands)					
<b>Statement of Operations Data:</b>							
Revenues:							
Service revenues	\$	\$ 102,293	\$ 369,851	\$ 616,401	\$ 872,100	\$ 631,209	\$ 916,179
Equipment revenues		27,048	81,258	131,849	166,328	118,990	177,592
Total revenues		129,341	451,109	748,250	1,038,428	750,199	1,093,771
Operating expenses:							
Cost of service (excluding depreciation and amortization disclosed separately below)		63,567	122,211	200,806	283,212	201,940	313,510
Cost of equipment Selling, general and administrative expenses (excluding depreciation and amortization disclosed separately below)	28,451	55,161	94,073	131,510	162,476	116,206	171,921
Depreciation and amortization	208	21,472	42,428	62,201	87,895	61,895	96,187
(Gain) loss on disposal of assets		(279,659)	392	3,209	(218,203)	(218,292)	10,763

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Total operating expenses	28,659	(32,951)	409,936	620,492	616,251	372,278	923,279
Income (loss) from operations	(28,659)	162,292	41,173	127,758	422,177	377,921	170,492
Other expense (income):							
Interest expense	10,491	6,720	11,115	19,030	58,033	40,867	67,408
Accretion of put option in majority-owned subsidiary				8	252	187	564
Interest and other income	(2,046)	(964)	(996)	(2,472)	(8,658)	(4,876)	(15,106)
Loss (gain) on extinguishment of debt	7,109	703	(603)	(698)	46,448	46,448	(244)
Total other expense	15,554	6,459	9,516	15,868	96,075	82,626	52,622
Income (loss) before provision for income taxes and cumulative effect of change in accounting principle	(44,213)	155,833	31,657	111,890	326,102	295,295	117,870
Provision for income taxes		(25,528)	(16,179)	(47,000)	(127,425)	(115,460)	(47,245)
Income (loss) before cumulative effect of change in accounting principle	(44,213)	130,305	15,478	64,890	198,677	179,835	70,625
Cumulative effect of change in accounting, net of tax			(120)				
Net income (loss)	(44,213)	130,305	15,358	64,890	198,677	179,835	70,625



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	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
	(In Thousands)						
Accrued dividends on Series D Preferred Stock	(4,963)	(10,619)	(18,493)	(21,006)	(21,006)	(15,711)	(15,711)
Accrued dividends on Series E Preferred Stock					(1,019)	(263)	(2,244)
Accretion on Series D Preferred Stock	(494)	(473)	(473)	(473)	(473)	(355)	(355)
Accretion on Series E Preferred Stock					(114)	(30)	(254)
Net income (loss) applicable to Common Stock	\$ (49,670)	\$ 119,213	\$ (3,608)	\$ 43,411	\$ 176,065	\$ 163,476	\$ 52,061

	Year Ended December 31,					Nine Months Ended September 30,	
	2001	2002	2003	2004	2005	2005	2006
	(In Thousands, Except Share and Per Share Data)						
Basic net income (loss) per common share(1):							
Income (loss) before cumulative effect of change in accounting principle	\$ (1.42)	\$ 2.16	\$ (0.10)	\$ 0.55	\$ 2.12	\$ 2.02	\$ 0.57
Cumulative effect of change in accounting, net of tax			(0.00)				

Basic net income (loss) per common share	\$	(1.42)	\$	2.16	\$	(0.10)	\$	0.55	\$	2.12	\$	2.02	\$	0.57
Diluted net income (loss) per common share(1):														
Income (loss) before cumulative effect of change in accounting principle	\$	(1.42)	\$	1.56	\$	(0.10)	\$	0.46	\$	1.87	\$	1.74	\$	0.56
Cumulative effect of change in accounting, net of tax						(0.00)								
Diluted net income (loss) per common share	\$	(1.42)	\$	1.56	\$	(0.10)	\$	0.46	\$	1.87	\$	1.74	\$	0.56
Weighted average shares(1):														
Basic		34,874,716		36,236,434		36,443,962		42,240,684		45,117,465		43,517,417		51,890,687
Diluted		34,874,716		50,072,699		36,443,962		50,211,229		51,203,530		50,417,637		53,158,789
<b>Other Financial Data:</b>														
Net cash (used in) provided by operating activities	\$	(32,401)	\$	(50,672)	\$	112,605	\$	150,379	\$	283,216	\$	247,015	\$	284,688
Net cash (used in) investment activities		24,183		(88,311)		(306,868)		(190,881)		(905,228)		(789,109)		(489,255)

Net cash provided by (used in) financing activities	41,708	157,039	201,951	(5,433)	712,244	564,777	208,123
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	2001	2002	As of December 31,		2005	As of September 30,	
			2003	2004		2005	2006
	(In Thousands)						
<b>Balance Sheet Data:</b>							
Cash, cash equivalents & short-term investments	\$ 42,688	\$ 60,724	\$ 254,838	\$ 59,441	\$ 503,131	\$ 338,204	\$ 345,811
Property and equipment, net	169,459	352,799	485,032	636,368	831,490	767,498	1,207,982
Total assets	324,008	554,705	898,939	965,396	2,158,981	1,946,785	2,626,174
Long-term debt (including current maturities)	48,548	51,649	195,755	184,999	905,554	754,279	1,102,594
Series D Cumulative Convertible Redeemable Participating Preferred Stock	123,331	294,423	378,926	400,410	421,889	416,476	437,955
Series E Cumulative Convertible Redeemable Participating Preferred Stock					47,796	46,981	50,294
Stockholders equity (deficit)	(51,477)	69,397	71,333	125,434	367,906	295,028	427,689

(1) See Notes 17 and 10 to the annual and interim consolidated financial statements, respectively, included elsewhere in this prospectus for an explanation of the calculation of basic and diluted net income (loss) per common share. The calculation of basic and diluted net income (loss) per common share for the years ended December 31, 2001 and 2002 are not included in Note 17 to the annual consolidated financial statements.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from the results contemplated in these forward-looking statements as a result of factors including, but not limited to, those under Risk Factors and Liquidity and Capital Resources.

**Company Overview**

Except as expressly stated, the financial condition and results of operations discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations are those of MetroPCS Communications, Inc. and its wholly-owned and majority-owned subsidiaries.

We are a wireless telecommunications carrier that currently offers wireless broadband personal communication services, or PCS, primarily in the greater Atlanta, Dallas/Ft. Worth, Detroit, Miami, San Francisco, Sacramento and Tampa/Sarasota/Orlando metropolitan areas. We launched service in the greater Atlanta, Miami and Sacramento metropolitan areas in the first quarter of 2002; in San Francisco in September 2002; in Tampa/Sarasota in October 2005; in Dallas/Ft. Worth in March 2006; in Detroit in April 2006; and Orlando in November 2006. In 2005, Royal Street Communications, LLC (Royal Street), a company in which we own 85% of the limited liability company member interests and with which we have a wholesale arrangement allowing us to sell MetroPCS-branded services to the public, was granted licenses by the Federal Communications Commission, or FCC, in Los Angeles and various metropolitan areas throughout northern Florida. Royal Street is in the process of constructing its network infrastructure in its licensed metropolitan areas. We commenced commercial services in Orlando and certain portions of northern Florida in November 2006 and we expect to begin offering services in Los Angeles in the second or third quarter of 2007 through our arrangements with Royal Street.

As a result of the significant growth we have experienced since we launched operations, our results of operations to date are not necessarily indicative of the results that can be expected in future periods. Moreover, we expect that our number of customers will continue to increase, which will continue to contribute to increases in our revenues and operating expenses. In September 2006, we were declared the high bidder on AWS licenses covering a total unique population of 117 million at the conclusion of FCC Auction 66 with total aggregate winning bids of approximately \$1.4 billion. The Auction 66 licenses were granted on November 29, 2006. Approximately 69 million of the total licensed population associated with our Auction 66 licenses represents expansion opportunities in geographic areas outside of our Core and Expansion Markets, which we refer to as our Auction 66 Markets. These new expansion opportunities in our Auction 66 Markets cover six of the 25 largest metropolitan areas in the United States. The balance of our Auction 66 Markets, which cover a population of approximately 48 million, supplements or expands the geographic boundaries of our existing operations in Dallas/Ft. Worth, Detroit, Los Angeles, San Francisco and Sacramento. We currently plan to focus on building out approximately 40 million of the total population in our Auction 66 Markets with a primary focus on the New York, Philadelphia, Boston and Las Vegas metropolitan areas. Of the approximate 40 million total population, we are targeting launch of operations with an initial covered population of approximately 30 to 32 million by late 2008 or early 2009. Total estimated capital expenditures to the launch of these operations are expected to be between \$18 and \$20 per covered population, which equates to a total capital investment of approximately \$550 million to \$650 million. Total estimated expenditures, including capital expenditures, to become free cash flow positive, defined as Adjusted EBITDA less capital expenditures, is expected to be approximately \$29 to \$30 per covered population, which equates to \$875 million to \$1.0 billion based on an

estimated initial covered population of approximately 30 to 32 million. We believe that our existing cash, cash equivalents and short-term

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investments, proceeds from this offering, and our anticipated cash flows from operations will be sufficient to fully fund this planned expansion.

We sell products and services to customers through our Company-owned retail stores as well as indirectly through relationships with independent retailers. We offer service which allows our customers to place unlimited local calls from within our local service area and to receive unlimited calls from any area while in our local service area, through flat rate monthly plans starting at \$30 per month. For an additional \$5 to \$15 per month, our customers may select a service plan that offers additional services, such as unlimited nationwide long distance service, voicemail, caller ID, call waiting, text messaging and picture and multimedia messaging. We offer flat rate monthly plans at \$30, \$35, \$40 and \$45 as fully described under Business MetroPCS Service Plans. All of these plans require payment in advance for one month of service. If no payment is made in advance for the following month of service, service is discontinued at the end of the month that was paid for by the customer. For additional fees, we also provide international long distance and text messaging, ringtones, games and content applications, unlimited directory assistance, ring back tones, nationwide roaming, mobile Internet browsing and other value-added services. As of September 30, 2006, over 80% of our customers have selected either our \$40 or \$45 rate plans. Our flat rate plans differentiate our service from the more complex plans and long-term contract requirements of traditional wireless carriers. In addition the above products and services are offered by us in the Royal Street markets. Our arrangements with Royal Street are based on a wholesale model under which we purchase network capacity from Royal Street to allow us to offer our standard products and services in the Royal Street markets to MetroPCS customers under the MetroPCS brand name.

## **Critical Accounting Policies and Estimates**

The following discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP. You should read this discussion and analysis in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this prospectus. The preparation of these consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities at the date of the financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

### ***Revenue Recognition***

Our wireless services are provided on a month-to-month basis and are paid in advance. We recognize revenues from wireless services as they are rendered. Amounts received in advance are recorded as deferred revenue. Suspending service for non-payment is known as hotlining. We do not recognize revenue on hotlined customers.

Revenues and related costs from the sale of accessories are recognized at the point of sale. The cost of handsets sold to indirect retailers are included in deferred charges until they are sold to and activated by customers. Amounts billed to indirect retailers for handsets are recorded as accounts receivable and deferred revenue upon shipment by us and are recognized as equipment revenues when service is activated by customers.





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Our customers have the right to return handsets within a specified time or after a certain amount of use, whichever occurs first. We record an estimate for returns as contra-revenue at the time of recognizing revenue. Our assessment of estimated returns is based on historical return rates. If our customers' actual returns are not consistent with our estimates of their returns, revenues may be different than initially recorded.

Effective July 1, 2003, we adopted Emerging Issues Task Force ( EITF ) No. 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, ( EITF No. 00-21 ), which is being applied on a prospective basis. EITF No. 00-21 also supersedes certain guidance set forth in U.S. Securities and Exchange Commission Staff Accounting Bulletin Number 101, *Revenue Recognition in Financial Statements*, ( SAB 101 ). SAB 101 was amended in December 2003 by Staff Accounting Bulletin Number 104, *Revenue Recognition*. The consensus addresses the accounting for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables are divided into separate units of accounting and the consideration received is allocated among the separate units of accounting based on their relative fair values.

We determined that the sale of wireless services through our direct and indirect sales channels with an accompanying handset constitutes revenue arrangements with multiple deliverables. Upon adoption of EITF No. 00-21, we began dividing these arrangements into separate units of accounting, and allocating the consideration between the handset and the wireless service based on their relative fair values. Consideration received for the handset is recognized as equipment revenue when the handset is delivered and accepted by the customer. Consideration received for the wireless service is recognized as service revenues when earned.

Prior to July 1, 2003, activation fees were deferred and amortized over the estimated customer life. On October 1, 2003, we changed our estimated customer life from 25 months to 14 months, based on historical disconnect rates, resulting in an increase in activation revenues of \$5.1 million in the fourth quarter of 2003 over amounts that would have been recognized using the prior estimated life.

### ***Allowance for Uncollectible Accounts Receivable***

We maintain allowances for uncollectible accounts for estimated losses resulting from the inability of our independent retailers to pay for equipment purchases and for amounts estimated to be uncollectible for intercarrier compensation. We estimate allowances for uncollectible accounts from independent retailers based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of a material portion of our independent retailers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. In circumstances where we are aware of a specific carrier's inability to meet its financial obligations to us, we record a specific allowance for intercarrier compensation against amounts due, to reduce the net recognized receivable to the amount we reasonably believe will be collected. Total allowance for uncollectible accounts receivable at September 30, 2006 was approximately 7% of the total amount of gross accounts receivable.

### ***Inventories***

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value or replacement cost based upon assumptions about future demand and market conditions. Total inventory reserves for obsolescent and unmarketable inventory were not significant at September 30, 2006. If actual market conditions are less favorable than those projected, additional inventory write-downs may be required.

### ***Deferred Income Tax Asset and Other Tax Reserves***

We assess our deferred tax asset and record a valuation allowance, when necessary, to reduce our deferred tax asset to the amount that is more likely than not to be realized. We have considered future

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taxable income, taxable temporary differences and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to earnings in the period we made that determination.

We establish reserves when, despite our belief that our tax returns are fully supportable, we believe that certain positions may be challenged and ultimately modified. We adjust the reserves in light of changing facts and circumstances. Our effective tax rate includes the impact of income tax related reserve positions and changes to income tax reserves that we consider appropriate. A number of years may elapse before a particular matter for which we have established a reserve is finally resolved. Unfavorable settlement of any particular issue may require the use of cash or a reduction in our net operating loss carryforwards. Favorable resolution would be recognized as a reduction to the effective rate in the year of resolution. Tax reserves as of September 30, 2006 were \$26.2 million of which \$7.3 million and \$18.9 million are presented on the consolidated interim balance sheet in accounts payable and accrued expenses and other long-term liabilities, respectively.

### ***Property and Equipment***

Depreciation on property and equipment is applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service, which are ten years for network infrastructure assets including capitalized interest, three to seven years for office equipment, which includes computer equipment, three to seven years for furniture and fixtures and five years for vehicles. Leasehold improvements are amortized over the shorter of the remaining term of the lease and any renewal periods reasonably assured or the estimated useful life of the improvement. The estimated life of property and equipment is based on historical experience with similar assets, as well as taking into account anticipated technological or other changes. If technological changes were to occur more rapidly than anticipated or in a different form than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation expense in future periods. Likewise, if the anticipated technological or other changes occur more slowly than anticipated, the life of the assets could be extended based on the life assigned to new assets added to property and equipment. This could result in a reduction of depreciation expense in future periods.

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. Factors we consider important that could trigger an impairment review include significant underperformance relative to historical or projected future operating results or significant changes in the manner of use of the assets or in the strategy for our overall business. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. When we determine that the carrying value of a long-lived asset is not recoverable, we measure any impairment based upon a projected discounted cash flow method using a discount rate we determine to be commensurate with the risk involved and would be recorded as a reduction in the carrying value of the related asset and charged to results of operations. If actual results are not consistent with our assumptions and estimates, we may be exposed to an additional impairment charge associated with long-lived assets. The carrying value of property and equipment was \$1.2 billion as of September 30, 2006.

### ***PCS Licenses and Microwave Relocation Costs***

We operate broadband PCS networks under licenses granted by the FCC for a particular geographic area on spectrum allocated by the FCC for broadband PCS services. The PCS licenses included the obligation through April 2005 to relocate existing fixed microwave users of our licensed spectrum if our spectrum interfered with their systems and/or reimburse other carriers (according to FCC rules) that relocated prior users if the relocation benefits our system. Additionally, we incurred costs related to microwave relocation in



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constructing our PCS network. The PCS licenses and microwave relocation costs are recorded at cost. Although PCS licenses are issued with a stated term, generally ten years, the renewal of FCC licenses is generally a routine matter without substantial cost and we have determined that no legal, regulatory, contractual, competitive, economic, or other factors currently exist that limit the useful life of our PCS licenses. The carrying value of PCS licenses and microwave relocation costs was \$690.7 million as of September 30, 2006.

Our primary indefinite-lived intangible assets are our PCS licenses. Based on the requirements of Statement of Financial Accounting Standards ( SFAS ) No. 142, *Goodwill and other Intangible Assets*, ( SFAS No. 142 ) we test investments in our PCS licenses for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value of our PCS licenses might be impaired. We perform our annual PCS license impairment test as of each September 30th. The impairment test consists of a comparison of the estimated fair value with the carrying value. We estimate the fair value of our PCS licenses using a discounted cash flow model. Cash flow projections and assumptions, although subject to a degree of uncertainty, are based on a combination of our historical performance and trends, our business plans and management s estimate of future performance, giving consideration to existing and anticipated competitive economic conditions. Other assumptions include our weighted average cost of capital and long-term rate of growth for our business. We believe that our estimates are consistent with assumptions that marketplace participants would use to estimate fair value. We corroborate our determination of fair value of the PCS licenses, using the discounted cash flow approach described above, with other market-based valuation metrics. Furthermore, we segregate our PCS licenses by regional clusters for the purpose of performing the impairment test because each geographical region is unique. An impairment loss would be recorded as a reduction in the carrying value of the related indefinite-lived intangible asset and charged to results of operations. Historically, we have not experienced significant negative variations between our assumptions and estimates when compared to actual results. However, if actual results are not consistent with our assumptions and estimates, we may be required to record to an impairment charge associated with indefinite-lived intangible assets. Although we do not expect our estimates or assumptions to change significantly in the future, the use of different estimates or assumptions within our discounted cash flow model when determining the fair value of our PCS licenses or using a methodology other than a discounted cash flow model could result in different values for our PCS licenses and may affect any related impairment charge. The most significant assumptions within our discounted cash flow model are the discount rate, our projected growth rate and management s future business plans. A change in management s future business plans or disposition of one or more PCS licenses could result in the requirement to test certain other PCS licenses. If any legal, regulatory, contractual, competitive, economic or other factors were to limit the useful lives of our indefinite-lived PCS licenses, we would be required to test these intangible assets for impairment in accordance with SFAS No. 142 and amortize the intangible asset over its remaining useful life.

For the license impairment test performed as of September 30, 2006 the fair value of the PCS licenses was in excess of its carrying value. A 10% change in the estimated fair value of the PCS licenses would not have impacted the results of our annual license impairment test.

***Share-Based Payments***

We account for share-based awards exchanged for employee services in accordance with SFAS No. 123(R), *Share-Based Payment*, ( SFAS No. 123(R) ). Under SFAS No. 123(R), share-based compensation cost is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee s requisite service period. We adopted SFAS No. 123(R), as required, on January 1, 2006. Prior to 2006, we recognized stock-based compensation expense for employee share-based awards based on their intrinsic value on the date of grant pursuant to Accounting Principles Board ( APB ) Opinion No. 25, *Accounting for Stock Issued to Employees*, ( APB No. 25 ) and followed the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*, ( SFAS No. 148 ),



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which amends the disclosure requirements of SFAS No. 123, *Accounting for Stock-Based Compensation*, ( SFAS No. 123 ).

We adopted SFAS No. 123(R) using a modified prospective approach. Under the modified prospective approach, prior periods are not revised for comparative purposes. The valuation provisions of SFAS No. 123(R) apply to new awards and to awards that are outstanding on the effective date and subsequently modified or cancelled. Compensation expense, net of estimated forfeitures, for awards outstanding at the effective date is recognized over the remaining service period using the compensation cost calculated under SFAS No. 123 in prior periods.

We have granted nonqualified stock options. Most of our stock option awards include a service condition that relates only to vesting. The stock option awards generally vest in one to four years from the grant date. Compensation expense is amortized on a straight-line basis over the requisite service period for the entire award, which is generally the maximum vesting period of the award.

The determination of the fair value of stock options using an option-pricing model is affected by our common stock valuation as well as assumptions regarding a number of complex and subjective variables. The methods used to determine these variables are generally similar to the methods used prior to 2006 for purposes of our pro forma information under SFAS No. 148. Factors that our Board of Directors considers in determining the fair market value of our common stock, include the recommendation of our finance and planning committee and of management based on certain data, including discounted cash flow analysis, comparable company analysis and comparable transaction analysis, as well as contemporaneous valuation reports. The volatility assumption is based on a combination of the historical volatility of our common stock and the volatilities of similar companies over a period of time equal to the expected term of the stock options. The volatilities of similar companies are used in conjunction with our historical volatility because of the lack of sufficient relevant history equal to the expected term. The expected term of employee stock options represents the weighted-average period the stock options are expected to remain outstanding. The expected term assumption is estimated based primarily on the stock options' vesting terms and remaining contractual life and employees' expected exercise and post-vesting employment termination behavior. The risk-free interest rate assumption is based upon observed interest rates on the grant date appropriate for the term of the employee stock options. The dividend yield assumption is based on the expectation of no future dividend payouts by us.

As share-based compensation expense under SFAS No. 123(R) is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We estimate stock-based compensation expense related to the adoption of SFAS No. 123(R) to be approximately \$10.6 million for the year ending December 31, 2006.

The value of the options is determined by using a Black-Scholes pricing model that includes the following variables: 1) exercise price of the instrument, 2) fair market value of the underlying stock on date of grant, 3) expected life, 4) estimated volatility and 5) the risk-free interest rate. The Company utilized the following weighted-average assumptions in estimating the fair value of the options grants for the nine months ended September 30, 2006 and the year ended December 31, 2005:

	<b>September 30, 2006</b>	<b>December 31, 2005</b>
Expected dividends	0.00%	0.00%
Expected volatility	45.00%	50.00%
Risk-free interest rate	4.76%	4.24%

Expected lives in years		5.00		5.00
Weighted-average fair value of options:				
Granted at fair value	\$	10.12	\$	10.32
Weighted-average exercise price of options:				
Granted at fair value	\$	22.12	\$	21.39



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The Black-Scholes model requires the use of subjective assumptions including expectations of future dividends and stock price volatility. Such assumptions are only used for making the required fair value estimate and should not be considered as indicators of future dividend policy or stock price appreciation. Because changes in the subjective assumptions can materially affect the fair value estimate, and because employee stock options have characteristics significantly different from those of traded options, the use of the Black-Scholes option pricing model may not provide a reliable estimate of the fair value of employee stock options.

During the twelve month period ended December 31, 2005 and the nine month period ended September 30, 2006, the following awards were granted under the Company's Option Plans:

<b>Grants Made During the Quarter Ended</b>	<b>Number of Options Granted</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Market Value per Share</b>	<b>Weighted Average Intrinsic Value per Share</b>
March 31, 2005	20,000	\$ 18.94	\$ 18.94	\$ 0.00
June 30, 2005				
September 30, 2005	1,640,795	\$ 21.41	\$ 21.41	\$ 0.00
December 31, 2005	285,383	\$ 21.46	\$ 21.46	\$ 0.00
March 31, 2006	956,663	\$ 21.46	\$ 21.46	\$ 0.00
June 30, 2006	178,175	\$ 22.63	\$ 22.63	\$ 0.00
September 30, 2006	139,475	\$ 26.00	\$ 26.00	\$ 0.00

Compensation expense is recognized over the requisite service period for the entire award, which is generally the maximum vesting period of the award.

The fair value of the common stock was determined contemporaneously with the option grants.

Based on an expected initial public offering price of \$ , the intrinsic value of the options outstanding at September 30, 2006, was \$ million, of which \$ million related to vested options and \$ million related to unvested options.

Determining the fair value of our common stock requires making complex and subjective judgments. Factors we consider in our common stock valuation are recent sales of stock to third-parties, contemporaneous enterprise valuation ranges provided by third parties and reviewed by management, the liquidation preference of our outstanding preferred stock, significant milestones achieved in the business, as well as the overall economic climate of the wireless industry.

**Customer Recognition and Disconnect Policies**

When a new customer subscribes to our service, the first month of service and activation fee is included with the handset purchase. Under GAAP, we are required to allocate the purchase price to the handset and to the wireless service revenue. Generally, the amount allocated to the handset will be less than our cost, and this difference is included in Cost Per Gross Addition, or CPGA. We recognize new customers as gross customer additions upon activation of service. Prior to January 23, 2006, we offered our customers the Metro Promise, which allowed a customer to return a newly purchased handset for a full refund prior to the earlier of 7 days or 60 minutes of use.

Beginning on January 23, 2006, we expanded the terms of the Metro Promise to allow a customer to return a newly purchased handset for a full refund prior to the earlier of 30 days or 60 minutes of use. Customers who return their phones under the Metro Promise are reflected as a reduction to gross customer additions. Customers' monthly service payments are due in advance every month. Our customers must pay their monthly service amount by the payment date or their service will be suspended, or hotlined, and the customer will not be able to make or receive calls on our network. However, a hotlined customer is still able to make E-911 calls in the event of an emergency. There is no service grace period. Any call attempted by a hotlined customer is routed directly to our interactive voice response system and

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customer service center in order to arrange payment. If the customer pays the amount due within 30 days of the original payment date then the customer's service is restored. If a hotlined customer does not pay the amount due within 30 days of the payment date the account is disconnected and counted as churn. Once an account is disconnected we charge a \$15 reconnect fee upon reactivation to reestablish service and the revenue associated with this fee is deferred and recognized over the estimated life of the customer.

## **Revenues**

We derive our revenues from the following sources:

*Service.* We sell wireless broadband PCS services. The various types of service revenues associated with wireless broadband PCS for our customers include monthly recurring charges for airtime, monthly recurring charges for optional features (including nationwide long distance and text messaging, ringtones, games and content applications, unlimited directory assistance, ring back tones and nationwide roaming) and charges for long distance service. Service revenues also include intercarrier compensation and nonrecurring activation service charges to customers.

*Equipment.* We sell wireless broadband PCS handsets and accessories that are used by our customers in connection with our wireless services. This equipment is also sold to our independent retailers to facilitate distribution to our customers.

## **Costs and Expenses**

Our costs and expenses include:

*Cost of Service.* The major components of our cost of service are:

*Cell Site Costs.* We incur expenses for the rent of cell sites, network facilities, engineering operations, field technicians and related utility and maintenance charges.

*Intercarrier Compensation.* We pay charges to other telecommunications companies for their transport and termination of calls originated by our customers and destined for customers of other networks. These variable charges are based on our customers' usage and generally applied at pre-negotiated rates with other carriers, although some carriers have sought to impose such charges unilaterally.

*Variable Long Distance.* We pay charges to other telecommunications companies for long distance service provided to our customers. These variable charges are based on our customers' usage, applied at pre-negotiated rates with the long distance carriers.

*Cost of Equipment.* We purchase wireless broadband PCS handsets and accessories from third-party vendors to resell to our customers and independent retailers in connection with our services. We subsidize the sale of handsets to encourage the sale and use of our services. We do not manufacture any of this equipment.

*Selling, General and Administrative Expenses.* Our selling expense includes advertising and promotional costs associated with marketing and selling to new customers and fixed charges such as retail store rent and retail associates salaries. General and administrative expense includes support functions including, technical operations, finance, accounting, human resources, information technology and legal services. We record stock-based compensation expense in cost of service and selling, general and administrative expenses associated with employee stock options which is measured at the date of grant, based on the estimated fair value of the award. Prior to the adoption of SFAS No. 123(R), we recorded stock-based compensation expense at the end of each reporting period with respect to

our variable stock options.

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*Depreciation and Amortization.* Depreciation is applied using the straight-line method over the estimated useful lives of the assets once the assets are placed in service, which are ten years for network infrastructure assets and capitalized interest, three to seven years for office equipment, which includes computer equipment, three to seven years for furniture and fixtures and five years for vehicles. Leasehold improvements are amortized over the term of the respective leases, which includes renewal periods that are reasonably assured, or the estimated useful life of the improvement, whichever is shorter.

*Interest Expense and Interest Income.* Interest expense includes interest incurred on our borrowings, amortization of debt issuance costs and amortization of discounts and premiums on long-term debt. Interest income is earned primarily on our cash and cash equivalents.

*Income Taxes.* As a result of our operating losses and accelerated depreciation available under federal tax laws, we have paid no federal income taxes through September 30, 2006. In addition, we have paid an immaterial amount of state income tax through September 30, 2006.

## **Seasonality**

Our customer activity is influenced by seasonal effects related to traditional retail selling periods and other factors that arise from our target customer base. Based on historical results, we generally expect net customer additions to be strongest in the first and fourth quarters. Softening of sales and increased customer turnover, or churn, in the second and third quarters of the year usually combine to result in fewer net customer additions. However, sales activity and churn can be strongly affected by the launch of new markets and promotional activity, which have the ability to reduce or outweigh certain seasonal effects.

## **Operating Segments**

Operating segments are defined by SFAS No. 131 *Disclosure About Segments of an Enterprise and Related Information*, ( SFAS No. 131 ), as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Our chief operating decision maker is the Chairman of the Board and Chief Executive Officer.

As of September 30, 2006, we had eight operating segments based on geographic region within the United States: Atlanta, Dallas/Ft. Worth, Detroit, Miami, San Francisco, Sacramento, Tampa/Sarasota/Orlando and Los Angeles. Each of these operating segments provide wireless voice and data services and products to customers in its service areas or is currently constructing a network in order to provide these services. These services include unlimited local and long distance calling, voicemail, caller ID, call waiting, text messaging, picture and multimedia messaging, international long distance and text messaging, ringtones, games and content applications, unlimited directory assistance, ring back tones, nationwide roaming, mobile Internet browsing and other value-added services.

We aggregate our operating segments into two reportable segments: Core Markets and Expansion Markets.

Core Markets, which include Atlanta, Miami, San Francisco, and Sacramento, are aggregated because they are reviewed on an aggregate basis by the chief operating decision maker, they are similar in respect to their products and services, production processes, class of customer, method of distribution, and regulatory environment and currently exhibit similar financial performance and economic characteristics.

Expansion Markets, which include Dallas/Ft. Worth, Detroit, Tampa/Sarasota/Orlando and Los Angeles, are aggregated because they are reviewed on an aggregate basis by the chief operating decision maker, they are similar in respect to their products and services, production processes, class of



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customer, method of distribution, and regulatory environment and have similar expected long-term financial performance and economic characteristics.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. General corporate overhead, which includes expenses such as corporate employee labor costs, rent and utilities, legal, accounting and auditing expenses, is allocated equally across all operating segments. Corporate marketing and advertising expenses are allocated equally to the operating segments, beginning in the period during which we launch service in that operating segment. Expenses associated with our national data center are allocated based on the average number of customers in each operating segment. There are no transactions between reportable segments.

Interest expense, interest income, gain/loss on extinguishment of debt and income taxes are not allocated to the segments in the computation of segment operating profit for internal evaluation purposes.

**Results of Operations*****Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005***

Set forth below is a summary of certain financial information by reportable operating segment for the periods indicated:

<b>Reportable Operating Segment Data</b>	<b>Nine Months Ended September 30, 2006                      2005 (In Thousands)</b>		<b>Change</b>
<b>REVENUES:</b>			
Service revenues:			
Core Markets	\$ 831,053	\$ 631,208	32%
Expansion Markets	85,126	1	**
Total	\$ 916,179	\$ 631,209	45%
Equipment revenues:			
Core Markets	\$ 149,200	\$ 118,973	25%
Expansion Markets	28,392	17	**
Total	\$ 177,592	\$ 118,990	49%
<b>OPERATING EXPENSES:</b>			
Cost of service (excluding depreciation and amortization disclosed separately below)(1):			
Core Markets	\$ 244,636	\$ 197,425	24%
Expansion Markets	68,874	4,515	**
Total	\$ 313,510	\$ 201,940	55%
Cost of equipment:			

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Core Markets	\$ 261,258	\$ 210,431	24%
Expansion Markets	69,640	98	**
Total	\$ 330,898	\$ 210,529	57%
Selling, general and administrative expenses (excluding depreciation and amortization disclosed separately below)(1):			
Core Markets	\$ 114,021	\$ 112,137	2%
Expansion Markets	57,900	4,069	**
Total	\$ 171,921	\$ 116,206	48%



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Reportable Operating Segment Data	Nine Months Ended September 30,		Change
	2006	2005	
	(In Thousands)		
Adjusted EBITDA (Deficit)(2):			
Core Markets	\$ 364,585	\$ 233,491	56%
Expansion Markets	(79,393)	(8,665)	**
Depreciation and amortization:			
Core Markets	\$ 80,467	\$ 60,158	34%
Expansion Markets	13,381	721	**
Other	2,339	1,016	130%
Total	\$ 96,187	\$ 61,895	55%
Stock-based compensation expense:			
Core Markets	\$ 4,246	\$ 3,302	29%
Expansion Markets	3,504		**
Total	\$ 7,750	\$ 3,302	135%
Income (loss) from operations:			
Core Markets	\$ 269,735	\$ 388,572	(31)%
Expansion Markets	(96,904)	(9,635)	**
Other	(2,339)	(1,016)	130%
Total	\$ 170,492	\$ 377,921	(55)%

\*\* Not meaningful. The Expansion Markets reportable segment had no significant operations during 2005.

- (1) Cost of service and selling, general and administrative expenses include stock-based compensation expense. For the nine months ended September 30, 2006, cost of service includes \$1.0 million and selling, general and administrative expenses includes \$6.8 million of stock-based compensation expense.
- (2) Core and Expansion Markets Adjusted EBITDA (deficit) is presented in accordance with SFAS No. 131 as it is the primary financial measure utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Operating Segments.

*Service Revenues.* Service revenues increased \$285.0 million, or 45%, to \$916.2 million for the nine months ended September 30, 2006 from \$631.2 million for the nine months ended September 30, 2005. The increase is due to increases in Core Markets and Expansion Markets service revenues as follows:

*Core Markets.* Core Markets service revenues increased \$199.9 million, or 32%, to \$831.1 million for the nine months ended September 30, 2006 from \$631.2 million for the nine months ended September 30, 2005. The increase in service revenues is primarily attributable to net additions of approximately 435,000 customers

accounting for \$157.8 million of the Core Markets increase, coupled with the migration of existing customers to higher price rate plans accounting for \$42.1 million of the Core Markets increase.

The increase in customers migrating to higher priced rate plans is primarily the result of our emphasis on offering additional services under our \$45 rate plan which includes unlimited nationwide long distance and various unlimited data features. In addition, this migration is expected to continue as our higher priced rate plans become more attractive to our existing customer base.

*Expansion Markets.* Expansion Markets service revenues were \$85.1 million for the nine months ended September 30, 2006. These revenues are attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005, the Dallas/Ft. Worth metropolitan area in March 2006 and the

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Detroit metropolitan area in April 2006. Net additions in the Expansion Markets totaled approximately 442,000 customers.

*Equipment Revenues.* Equipment revenues increased \$58.6 million, or 49%, to \$177.6 million for the nine months ended September 30, 2006 from \$119.0 million for the nine months ended September 30, 2005. The increase is due to increases in Core Markets and Expansion Markets equipment revenues as follows:

*Core Markets.* Core Markets equipment revenues increased \$30.2 million, or 25%, to \$149.2 million for the nine months ended September 30, 2006 from \$119.0 million for the nine months ended September 30, 2005. The increase is attributable to higher priced handset models accounting for \$17.0 million of the increase, coupled with the increase in gross customer additions during the year of approximately 118,000 customers for \$13.2 million of the increase.

*Expansion Markets.* Expansion Markets equipment revenues were \$28.4 million for the nine months ended September 30, 2006. These revenues are attributable to approximately 470,000 gross customer additions due to the launch of the Tampa/Sarasota, Dallas/Ft. Worth and Detroit metropolitan areas.

The increase in handset model availability is primarily the result of our emphasis on enhancing our product offerings and appealing to our customer base in connection with our wireless services.

*Cost of Service.* Cost of service increased \$111.6 million, or 55%, to \$313.5 million for the nine months ended September 30, 2006 from \$201.9 million for the nine months ended September 30, 2005. The increase is due to increases in Core Markets and Expansion Markets cost of service as follows:

*Core Markets.* Core Markets cost of service increased \$47.2 million, or 24%, to \$244.6 million for the nine months ended September 30, 2006 from \$197.4 million for the nine months ended September 30, 2005. The increase was primarily attributable to a \$10.2 million increase in long distance costs, a \$7.2 million increase in FUSF fees, a \$5.4 million increase in cell site and switch facility lease expense, a \$4.7 million increase in intercarrier compensation, a \$4.8 million increase in customer service expense, and a \$3.4 million increase in employee costs, all of which are a result of the 25% growth in our Core Markets customer base and the addition of approximately 335 cell sites to our existing network infrastructure.

*Expansion Markets.* Expansion Markets cost of service increased \$64.4 million to \$68.9 million for the nine months ended September 30, 2006 from \$4.5 million for the nine months ended September 30, 2005. The increase was attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005, the Dallas/Ft. Worth metropolitan area in March 2006 and the Detroit metropolitan area in April 2006, which contributed net customer additions of approximately 389,300 customers during the nine months ended September 30, 2006. These activities resulted in a \$15.4 million increase in cell site and switch facility lease expense, a \$10.6 million increase in employee costs, a \$8.7 million increase in intercarrier compensation, \$5.0 million in customer service expense, \$5.0 million in long distance costs and \$2.1 million in billing expenses.

*Cost of Equipment.* Cost of equipment increased \$120.4 million, or 57%, to \$330.9 million for the nine months ended September 30, 2006 from \$210.5 million for the nine months ended September 30, 2005. The increase is due to increases in Core Markets and Expansion Markets cost of equipment as follows:

*Core Markets.* Core Markets cost of equipment increased \$50.8 million, or 24%, to \$261.3 million for the nine months ended September 30, 2006 from \$210.5 million for the nine months ended September 30, 2005. The increase is due to increased gross customer additions in our Core Markets, a 39% increase in sales of new

handsets to our existing customers as well as an increase in the average handset cost per unit which related to an increase in sales of higher priced handset models during the first nine months of 2006.

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*Expansion Markets.* Expansion Markets cost of equipment was \$69.6 million for the nine months ended September 30, 2006. This cost is attributable to the sale of handsets to approximately 470,200 new customers as well as the sale of new handsets to existing customers in the Tampa/Sarasota, Dallas/Ft. Worth and Detroit metropolitan areas.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$55.7 million, or 48%, to \$171.9 million for the nine months ended September 30, 2006 from \$116.2 million for the nine months ended September 30, 2005. The increase is due to increases in Core Markets and Expansion Markets selling, general and administrative expenses as follows:

*Core Markets.* Core Markets selling, general and administrative expenses increased \$1.9 million, or 2%, to \$114.0 million for the nine months ended September 30, 2006 from \$112.1 million for the nine months ended September 30, 2005. Selling expenses increased by \$7.0 million, or approximately 16% for the first nine months of 2006 compared to the nine months ended September 30, 2005. General and administrative expenses decreased \$5.1 million, or approximately 7% for the nine months ended September 30, 2006 compared to the same period in 2005. The increase in selling expenses is primarily due to an increase in advertising and market research expenses which were incurred to support the growth in the Core Markets. This increase in selling expenses was offset by a decrease in general and administrative expenses, which were higher in 2005 because they included approximately \$5.9 million in legal and accounting expenses associated with an internal investigation related to material weaknesses in our internal control over financial reporting as well as financial statement audits related to our restatement efforts.

*Expansion Markets.* Expansion Markets selling, general and administrative expenses increased \$53.8 million to \$57.9 million for the nine months ended September 30, 2006 from \$4.1 million for the nine months ended September 30, 2005. Selling expenses increased by \$22.0 million for the first nine months of 2006 compared to the nine months ended September 30, 2005. This increase in selling expenses was related to marketing and advertising expenses associated with the launch of the Dallas/Ft. Worth and Detroit metropolitan areas. General and administrative expenses increased by \$31.8 million for the nine months ended September 30, 2006 compared to the same period in 2005 due to labor, rent, legal and professional fees and various administrative expenses incurred in relation to the launch of the Dallas/Ft. Worth, Detroit and Tampa/Sarasota metropolitan areas and build-out expenses related to Orlando and Los Angeles.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$34.3 million, or 55%, to \$96.2 million for the nine months ended September 30, 2006 from \$61.9 million for the nine months ended September 30, 2005. The increase is primarily due to increases in Core Markets and Expansion Markets depreciation expense as follows:

*Core Markets.* Core Markets depreciation and amortization expense increased \$20.3 million, or 34%, to \$80.5 million for the nine months ended September 30, 2006 from \$60.2 million for the nine months ended September 30, 2005. The increase related primarily to an increase in network infrastructure assets placed into service between September 30, 2005 and September 30, 2006. We added approximately 335 cell sites in our Core Markets during this period to increase the capacity of our existing network and expand our footprint.

*Expansion Markets.* Expansion Markets depreciation and amortization expense increased \$12.7 million to \$13.4 million for the nine months ended September 30, 2006 from \$0.7 million for the nine months ended September 30, 2005. The increase is attributable to network infrastructure assets placed into service as a result of the launch of the Tampa/Sarasota, Dallas/Ft. Worth and Detroit metropolitan areas.



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<b>Consolidated Data</b>	<b>Nine Months Ended September 30,</b>		<b>Change</b>
	<b>2006</b>	<b>2005</b>	
	<b>(In Thousands)</b>		
Loss (gain) on disposal of assets	\$ 10,763	\$ (218,292)	(105)%
(Gain) loss on extinguishment of debt	(244)	46,448	(101)%
Interest expense	67,408	40,867	65%
Provision for income taxes	47,245	115,460	(59)%
Net income	70,625	179,835	(61)%

*Loss (Gain) on Disposal of Assets.* In May 2005, we completed the sale of a 10 MHz portion of our 30 MHz PCS license in the San Francisco-Oakland-San Jose basic trading area for cash consideration of \$230.0 million. The sale of PCS spectrum resulted in a gain on disposal of asset in the amount of \$228.2 million.

*(Gain) Loss on Extinguishment of Debt.* In May 2005, we repaid all of the outstanding debt under our FCC notes, Senior Notes and bridge credit agreement. As a result, we recorded a \$1.9 million loss on the extinguishment of the FCC notes; a \$34.0 million loss on extinguishment of the Senior Notes; and a \$10.4 million loss on the extinguishment of the bridge credit agreement.

*Interest Expense.* Interest expense increased \$26.5 million, or 65%, to \$67.4 million for the nine months ended September 30, 2006 from \$40.9 million for the nine months ended September 30, 2005. The increase in interest expense was primarily due to increased average principal balance outstanding as a result of additional borrowings of \$150.0 million under our Credit Agreements in the fourth quarter of 2005 and an additional \$200.0 million under the secured bridge credit facility in the third quarter of 2006. Interest expense also increased due to the weighted average interest rate increasing to 10.67% for the nine months ended September 30, 2006 compared to 8.85% for the nine months ended September 30, 2005. The increase in interest expense was partially offset by the capitalization of \$11.6 million of interest during the nine months ended September 30, 2006, compared to \$2.3 million of interest capitalized during the same period in 2005. We capitalize interest costs associated with our PCS licenses and property and equipment beginning with pre-construction period administrative and technical activities, which includes obtaining building permits. The amount of such capitalized interest depends on the carrying values of the PCS licenses and construction in progress involved in those markets and the duration of the construction process. With respect to our PCS licenses, capitalization of interest costs ceases at the point in time in which the asset is ready for its intended use, which generally coincides with the market launch date. In the case of our property and equipment, capitalization of interest costs ceases at the point in time in which the network assets are placed into service. We expect capitalized interest to be significant during the construction of our additional Expansion Markets and related network assets.

*Provision for Income Taxes.* Income tax expense for nine months ended September 30, 2006 decreased to \$47.2 million, which is approximately 40% of our income before provision for income taxes. For the nine months ended September 30, 2005 the provision for income taxes was \$115.5 million, or approximately 39% of income before provision for income taxes. The nine months ended September 30, 2005 included a gain on the sale of a 10 MHz portion of our 30 MHz PCS license in the San Francisco-Oakland-San Jose basic trading area in the amount of \$228.2 million.

*Net Income.* Net income decreased \$109.2 million, or 61%, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The significant decrease is primarily attributable to our nonrecurring sale of a 10 MHz portion of our 30 MHz PCS license in the San Francisco-Oakland-San Jose basic trading area in May 2005 for cash consideration of \$230.0 million. The sale of PCS spectrum resulted in a gain on disposal of asset in

the amount of \$139.2 million, net of income taxes. Net income for the nine months ended September 30, 2006, excluding the tax effected impact of the gain on the



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sale the PCS license, increased approximately 74%, which was primarily due to the approximately 43% growth in average customers compared to the nine months ended September 30, 2005.

***Year Ended December 31, 2005 Compared to Year Ended December 31, 2004***

Set forth below is a summary of certain financial information by reportable operating segment for the periods indicated. For the year ended December 31, 2004, the consolidated financial information represents the Core Markets reportable operating segment, as the Expansion Markets reportable operating segment had no operations until 2005.

<b>Reportable Operating Segment Data</b>	<b>2005</b>	<b>2004</b>	<b>Change</b>
	<b>(In Thousands)</b>		
<b>REVENUES:</b>			
Service revenues:			
Core Markets	\$ 868,681	\$ 616,401	41%
Expansion Markets	3,419		**
Total	\$ 872,100	\$ 616,401	41%
Equipment revenues:			
Core Markets	\$ 163,738	\$ 131,849	24%
Expansion Markets	2,590		**
Total	\$ 166,328	\$ 131,849	26%
<b>OPERATING EXPENSES:</b>			
Cost of service (excluding depreciation and amortization disclosed separately below):			
Core Markets	\$ 271,437	\$ 200,806	35%
Expansion Markets	11,775		**
Total	\$ 283,212	\$ 200,806	41%
Cost of equipment:			
Core Markets	\$ 293,702	\$ 222,766	32%
Expansion Markets	7,169		**
Total	\$ 300,871	\$ 222,766	35%
Selling, general and administrative expenses (excluding depreciation and amortization disclosed separately below)(1):			
Core Markets	\$ 153,321	\$ 131,510	17%
Expansion Markets	9,155		**
Total	\$ 162,476	\$ 131,510	24%
Adjusted EBITDA (Deficit)(2):			
Core Markets	\$ 316,555	\$ 203,597	55%

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Expansion Markets	(22,090)		**
Depreciation and amortization:			
Core Markets	\$ 84,436	\$ 61,286	38%
Expansion Markets	2,030		**
Other	1,429	915	56%
Total	\$ 87,895	\$ 62,201	41%
Stock-based compensation expense:			
Core Markets	\$ 2,596	\$ 10,429	(75)%
Expansion Markets			
Total	\$ 2,596	\$ 10,429	(75)%
Income (loss) from operations:			
Core Markets	\$ 219,777	\$ 128,673	71%
Expansion Markets	(24,370)		**
Other	226,770	(915)	**
Total	\$ 422,177	\$ 127,758	230%

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\*\* Not meaningful. The Expansion Markets reportable segment had no operations until 2005.

- (1) Selling, general and administrative expenses include stock-based compensation expense disclosed separately.
- (2) Core and Expansion Markets Adjusted EBITDA (deficit) is presented in accordance with SFAS No. 131 as it is the primary financial measure utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Operating Segments.

*Service Revenues.* Service revenues increased \$255.7 million, or 41%, to \$872.1 million for the year ended December 31, 2005 from \$616.4 million for the year ended December 31, 2004. The increase is due to increases in Core Markets and Expansion Markets service revenues as follows:

*Core Markets.* Core Markets service revenues increased \$252.3 million, or 41%, to \$868.7 million for the year ended December 31, 2005 from \$616.4 million for the year ended December 31, 2004. The increase in service revenues is primarily attributable to net additions of approximately 473,000 customers accounting for \$231.8 million of the Core Markets increase, coupled with the migration of existing customers to higher priced rate plans accounting for \$20.5 million of the Core Markets increase.

The increase in customers migrating to higher priced rate plans is primarily the result of our emphasis on offering additional services under our \$45 rate plan which includes unlimited nationwide long distance and various unlimited data features. In addition, this migration is expected to continue as our higher priced rate plans become more attractive to our existing customer base.

*Expansion Markets.* Expansion Markets service revenues were \$3.4 million for the year ended December 31, 2005. These revenues are attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005. Net additions in the Tampa/Sarasota metropolitan area totaled approximately 53,000 customers.

*Equipment Revenues.* Equipment revenues increased \$34.5 million, or 26%, to \$166.3 million for the year ended December 31, 2005 from \$131.8 million for the year ended December 31, 2004. The increase is due to increases in Core Markets and Expansion Markets equipment revenues as follows:

*Core Markets.* Core Markets equipment revenues increased \$31.9 million, or 24%, to \$163.7 million for the year ended December 31, 2005 from \$131.8 million for the year ended December 31, 2004. The increase in revenues was primarily attributable to an increase in sales to new customers of \$32.6 million, a 60% increase over 2004. During the year ended December 31, 2005, Core Markets gross customer additions increased 30% to approximately 1,478,500 customers compared to 2004.

*Expansion Markets.* Expansion Markets equipment revenues were \$2.6 million for the year ended December 31, 2005. These revenues are attributable to approximately 53,600 gross customer additions due to the launch of the Tampa/Sarasota metropolitan area in October 2005.

*Cost of Service.* Cost of service increased \$82.4 million, or 41%, to \$283.2 million for the year ended December 31, 2005 from \$200.8 million for the year ended December 31, 2004. The increase is due to increases in Core Markets and Expansion Markets cost of service as follows:

*Core Markets.* Core Markets cost of service increased \$70.6 million, or 35%, to \$271.4 million for the year ended December 31, 2005 from \$200.8 million for the year ended December 31, 2004. The increase was

primarily attributable to a \$12.9 million increase in intercarrier compensation, a \$12.3 million increase in long distance costs, a \$9.5 million increase in cell site and switch facility lease expense, a \$5.6 million increase in customer service expense, a \$3.9 million increase in billing expenses and \$2.6 million increase in employee costs, which were a result of the 34% growth in our customer base and the addition of 315 cell sites to our existing network infrastructure.

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*Expansion Markets.* Expansion Markets cost of service was \$11.8 million for the year ended December 31, 2005. These expenses are attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005, which contributed net additions of approximately 53,000 customers during 2005. Cost of service included employee costs of \$4.1 million, cell site and switch facility lease expense of 3.4 million, repair and maintenance expense of \$1.6 million and intercarrier compensation of \$1.0 million.

*Cost of Equipment.* Cost of equipment increased \$78.1 million, or 35%, to \$300.9 million for the year ended December 31, 2005 from \$222.8 million for the year ended December 31, 2004. The increase is due to increases in Core Markets and Expansion Markets cost of equipment as follows:

*Core Markets.* Core Markets cost of equipment increased \$70.9 million, or 32%, to \$293.7 million for the year ended December 31, 2005 from \$222.8 million for the year ended December 31, 2004. The increase in cost of equipment is due to the 30% increase in gross customer additions during 2005 compared to the year ended December 31, 2004.

*Expansion Markets.* Expansion Markets cost of equipment was \$7.2 million for the year ended December 31, 2005. This cost is attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005, which resulted in approximately 53,600 activations during 2005.

*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$31.0 million, or 24%, to \$162.5 million for the year ended December 31, 2005 from \$131.5 million for the year ended December 31, 2004. The increase is due to increases in Core Markets and Expansion Markets selling, general and administrative expenses as follows:

*Core Markets.* Core Markets selling, general and administrative expenses increased \$21.8 million, or 17%, to \$153.3 million for the year ended December 31, 2005 from \$131.5 million for the year ended December 31, 2004. Selling expenses increased by \$6.3 million, or 12% for the year ended December 31, 2005 compared to 2004. General and administrative expenses increased by \$15.5 million, or 20%, during 2005 compared to 2004. The significant increase in general and administrative expenses was primarily driven by increases in accounting and auditing fees of \$4.9 million and increases in professional service fees of \$3.6 million due to substantial legal and accounting expenses associated with an internal investigation related to material weaknesses in our internal control over financial reporting as well as financial statement audits related to our restatement efforts. We also experienced a \$6.6 million increase in labor costs associated with new employee additions necessary to support the growth in our business. These increases were offset by a \$7.8 million decrease in stock-based compensation expense.

*Expansion Markets.* Expansion Markets selling, general and administrative expenses were \$9.2 million for the year ended December 31, 2005. Selling expenses were \$3.5 million and general and administrative expenses were \$5.7 million for 2005. These expenses are comprised of marketing and advertising expenses as well as labor, rent, professional fees and various administrative expenses associated with the launch of the Tampa/Sarasota metropolitan area in October 2005 and build-out of the Dallas/Ft. Worth and Detroit metropolitan areas.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$25.7 million, or 41%, to \$87.9 million for the year ended December 31, 2005 from \$62.2 million for the year ended December 31, 2004. The increase is primarily due to increases in Core Markets and Expansion Markets depreciation expense as follows:

*Core Markets.* Core Markets depreciation and amortization expense increased \$23.1 million, or 38%, to \$84.4 million for the year ended December 31, 2005 from \$61.3 million for the year ended December 31, 2004. The increase related primarily to an increase in network infrastructure assets placed into service during 2005, compared to the year ended December 31, 2004. We added 315 cell

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sites in our Core Markets during the year ended December 31, 2005 to increase the capacity of our existing network and expand our footprint.

*Expansion Markets.* Expansion Markets depreciation and amortization expense was \$2.0 million for the year ended December 31, 2005. This expense is attributable to network infrastructure assets placed into service as a result of the launch of the Tampa/Sarasota metropolitan area.

<b>Consolidated Data</b>	<b>2005</b>	<b>2004</b>	<b>Change</b>
	<b>(In Thousands)</b>		
Loss (gain) on disposal of assets	\$ (218,203)	\$ 3,209	**
(Gain) loss on extinguishment of debt	46,448	(698)	**
Interest expense	58,033	19,030	205%
Provision for income taxes	127,425	47,000	171%
Net income	198,677	64,890	206%

\*\* Not meaningful

*Loss (Gain) on Disposal of Assets.* In May 2005, we completed the sale of a 10 MHz portion of our 30 MHz PCS license in the San Francisco-Oakland-San Jose basic trading area for cash consideration of \$230.0 million. The sale of PCS spectrum resulted in a gain on disposal of asset in the amount of \$228.2 million.

*(Gain) Loss on Extinguishment of Debt.* In May 2005, we repaid all of the outstanding debt under our FCC notes, Senior Notes and bridge credit agreement. As a result, we recorded a \$1.9 million loss on the extinguishment of the FCC notes; a \$34.0 million loss on extinguishment of the Senior Notes; and a \$10.4 million loss on the extinguishment of the bridge credit agreement.

*Interest Expense.* Interest expense increased \$39.0 million, or 205%, to \$58.0 million for the year ended December 31, 2005 from \$19.0 million for the year ended December 31, 2004. The increase was primarily attributable to \$40.9 million in interest expense related to our Credit Agreements that were executed on May 31, 2005 as well as the amortization of the deferred debt issuance costs in the amount of \$3.6 million associated with the Credit Agreements. On May 31, 2005, we paid all of our outstanding obligations under our FCC notes and Senior Notes, which generally had lower interest rates than our Credit Agreements.

*Provision for Income Taxes.* Income tax expense for year ended December 31, 2005 increased to \$127.4 million, which is approximately 39% of our income before provision for income taxes. For the year ended December 31, 2004 the provision for income taxes was \$47.0 million, or approximately 42% of income before provision for income taxes. The increase in our income tax expense in 2005 was attributable to our increased operating profits. The decrease in the effective tax rate from 2004 to 2005 relates primarily to the increase in book income which lowers the effective rate of tax items included in the calculation.

*Net Income.* Net income increased \$133.8 million, or 206%, for the year ended December 31, 2005 compared to the year ended December 31, 2004. The significant increase in net income is primarily attributable to our nonrecurring sale of a 10 MHz portion of our 30 MHz PCS license in the San Francisco-Oakland-San Jose basic trading area in May 2005 for cash consideration of \$230.0 million. The sale of PCS spectrum resulted in a gain on disposal of asset in the amount of \$139.2 million, net of income taxes. In addition, growth in average customers of approximately 37% during 2005 also contributed to the increase in net income for the year ended December 31, 2005. These increases

were partially offset by a \$46.5 million loss on extinguishment of debt.



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For the years ended December 31, 2004 and 2003, the consolidated summary information presented below represents Core Markets reportable segment information, as the Expansion Markets reportable segment had no operations until 2005.

Set forth below is a summary of certain financial information for the periods indicated:

	<b>2004</b>	<b>2003</b>	<b>Change</b>
	<b>(In Thousands)</b>		
Revenues			
Service revenues	\$ 616,401	\$ 369,851	67%
Equipment revenues	131,849	81,258	62%
Cost of service (excluding depreciation and amortization disclosed separately below)	200,806	122,211	64%
Cost of equipment	222,766	150,832	48%
Selling, general and administrative expenses (excluding depreciation and amortization disclosed separately below)	131,510	94,073	40%
Depreciation and amortization	62,201	42,428	47%
Interest expense	19,030	11,115	71%
Provision for income taxes	47,000	16,179	191%
Net income	64,890	15,358	323%

*Service Revenues.* Service revenues increased \$246.5 million, or 67%, to \$616.4 million for the year ended December 31, 2004 from \$369.9 million for the year ended December 31, 2003. The increase is primarily attributable to the addition of approximately 422,000 customers accounting for \$159.7 million of the increase, coupled with the migration of existing customers to higher priced rate plans accounting for \$86.8 million of the increase.

The increase in customers migrating to higher priced rate plans is primarily the result of our emphasis on offering additional services under our \$45 rate plan, which includes unlimited nationwide long distance and various unlimited data features. In addition, this migration is expected to continue as our higher priced rate plans become more attractive to our existing customer base.

*Equipment Revenues.* Equipment revenues increased \$50.6 million, or 62%, to \$131.9 million for the year ended December 31, 2004 from \$81.3 million for the year ended December 31, 2003. The increase is attributable to higher priced handset models accounting for \$28.7 million of the increase; coupled with the increase in gross customer additions during the year of approximately 240,000 customers accounting for \$21.9 million of the increase.

The increase in handset model availability is primarily the result of our emphasis on enhancing our product offerings and appealing to our customer base in connection with our wireless services.

*Cost of Service.* Cost of service increased \$78.6 million, or 64%, to \$200.8 million for the year ended December 31, 2004 from \$122.2 million for the year ended December 31, 2003. The increase was attributable to the addition of approximately 422,000 customers during the year. Additionally, employee costs, cell site and switch facility lease expense and repair and maintenance expense increased as a result of the growth of our business and the expansion of our network.

*Cost of Equipment.* Cost of equipment increased \$71.9 million, or 48%, to \$222.7 million for the year ended December 31, 2004 from \$150.8 million for the year ended December 31, 2003. The increase in cost of equipment was due to a slight increase in the average handset cost per unit which related to an increase in sales of higher priced handset models in 2004. In addition, we experienced an increase in the number of handsets sold to new customers during the year.

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*Selling, General and Administrative Expenses.* Selling, general and administrative expenses increased \$37.4 million, or 40%, to \$131.5 million for the year ended December 31, 2004 from \$94.1 million for the year ended December 31, 2003. Selling, general and administrative expenses include stock-based compensation expense, which increased \$4.8 million, or 87%, to \$10.4 million for the year ended December 31, 2004 from \$5.6 million for the year ended December 31, 2003. This increase was primarily related to the extension of the exercise period of stock options for a terminated employee in the amount of approximately \$3.6 million. The remaining increase was a result of an increase in the estimated fair market value of our stock used for valuing stock options accounted for under variable accounting. Selling expenses increased by \$8.6 million as a result of increased sales and marketing activities. General and administrative expenses increased by \$25.6 million primarily due to the increase in our administrative costs associated with our customer base and to network expansion, a \$8.1 million increase in professional fees including legal and accounting services, a \$3.7 million increase in employee salaries and benefits, a \$3.6 million increase in bank service charges, a \$0.5 million increase in rent expense, a \$1.2 million increase in personal property tax expense, and a \$1.1 million increase in property insurance. Of the \$8.1 million increase in professional fees, approximately \$3.2 million was related to the preparation of a registration statement for an initial public offering of our Common Stock to the public. These costs were expensed, as this initial public offering was not completed and the registration statement was withdrawn.

*Depreciation and Amortization.* Depreciation and amortization expense increased \$19.8 million, or 47%, to \$62.2 million for the year ended December 31, 2004 from \$42.4 million for the year ended December 31, 2003. The increase related primarily to an increase in network infrastructure assets placed into service in 2004. In-service base stations and switching equipment increased by approximately \$237.2 million during the year ended December 31, 2004. In addition, we had 460 more cell sites in service at December 31, 2004 than at December 31, 2003. We expect depreciation to continue to increase due to the additional cell sites, switches and other network equipment that we plan to place in service to meet future customer growth and usage.

*Interest Expense.* Interest expense increased \$7.9 million, or 71%, to \$19.0 million for the year ended December 31, 2004 from \$11.1 million for the year ended December 31, 2003. The increase was primarily attributable to interest expense on our \$150.0 million Senior Notes that were issued in September 2003.

*Provision for Income Taxes.* Income tax expense for year ended December 31, 2004 increased to \$47.0 million, which is approximately 42% of our income before provision for income taxes. For the year ended December 31, 2003 the provision for income taxes was \$16.2 million, or approximately 51% of income before provision for income taxes. The increase in our income tax expense in 2004 was attributable to our increased operating profits. The decrease in the effective tax rate from 2003 to 2004 relates primarily to the increase in book income which lowers the effective rate of tax items included in the calculation. In addition, the 2003 income tax provision includes a charge required under California law to partially reduce the 2003 California net operating loss carryforwards. However, this statutory requirement did not exist in 2004.

*Net Income.* Net income increased \$49.5 million, or 323%, for the year ended December 31, 2004 compared to the year ended December 31, 2003. The increase in net income is primarily attributable to growth in average customers of approximately 56% for the year ended December 31, 2004 compared to the same period in 2003 in addition to the migration of existing customers to higher priced rate plans.

**Table of Contents****Quarterly Results of Operations**

The following tables present our unaudited condensed consolidated quarterly statement of operations data for the year ended December 31, 2005 and for the three months ended March 31, 2006, June 30, 2006 and September 30, 2006. We derived our quarterly results of operations data from our unaudited consolidated financial statements.

	<b>March 31, 2005</b>	<b>June 30, 2005</b>	<b>Three Months Ended September 30, 2005</b>	<b>December 31, 2005</b>
	<b>(In Thousands)</b>			
<b>REVENUES:</b>				
Service revenues	\$ 196,898	\$ 212,697	\$ 221,615	\$ 240,891
Equipment revenues	39,058	37,992	41,940	47,338
Total revenues	235,956	250,689	263,555	288,229
<b>OPERATING EXPENSES:</b>				
Cost of service (excluding depreciation and amortization expense shown separately below)	63,735	65,944	72,261	81,272
Cost of equipment	68,101	65,287	77,140	90,342
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	37,849	39,342	39,016	46,270
Depreciation and amortization	19,270	20,714	21,911	26,001
Loss (gain) on disposal of assets	1,160	(224,901)	5,449	88
Total operating expenses	190,115	(33,614)	215,777	243,973
Income from operations	45,841	284,303	47,778	44,256
<b>OTHER EXPENSE (INCOME):</b>				
Interest expense	8,036	15,761	17,069	17,167
Accretion of put option in majority-owned subsidiary	62	62	62	64
Interest and other income	(557)	(1,215)	(3,105)	(3,781)
Loss on extinguishment of debt	867	45,581		
Total other expense	8,408	60,189	14,026	13,450
Income before provision for income taxes	37,433	224,114	33,752	30,806
Provision for income taxes	(14,633)	(87,632)	(13,196)	(11,965)
Net income	\$ 22,800	\$ 136,482	\$ 20,556	\$ 18,841

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	<b>Three Months Ended</b>		
	<b>March 31,</b>	<b>June 30,</b>	<b>September</b>
	<b>2006</b>	<b>2006</b>	<b>30,</b>
	<b>(In Thousands)</b>		
<b>REVENUES:</b>			
Service revenues	\$ 275,416	\$ 307,843	\$ 332,920
Equipment revenues	54,045	60,351	63,196
<b>Total revenues</b>	<b>329,461</b>	<b>368,194</b>	<b>396,116</b>
<b>OPERATING EXPENSES:</b>			
Cost of service (excluding depreciation and amortization expense shown separately below)	92,489	107,497	113,524
Cost of equipment	100,911	112,005	117,982
Selling, general and administrative expenses (excluding depreciation and amortization expense shown separately below)	51,437	60,264	60,220
Depreciation and amortization	27,260	32,316	36,611
Loss (gain) on disposal of assets	10,365	2,013	(1,615)
<b>Total operating expenses</b>	<b>282,462</b>	<b>314,095</b>	<b>326,722</b>
Income from operations	46,999	54,099	69,394
<b>OTHER EXPENSE (INCOME):</b>			
Interest expense	20,885	21,713	24,811
Accretion of put option in majority-owned subsidiary	157	203	203
Interest and other income	(4,572)	(6,147)	(4,386)
Gain on extinguishment of debt	(217)	(27)	
<b>Total other expense</b>	<b>16,253</b>	<b>15,742</b>	<b>20,628</b>
Income before provision for income taxes	30,746	38,357	48,766
Provision for income taxes	(12,377)	(15,368)	(19,500)
<b>Net income</b>	<b>\$ 18,369</b>	<b>\$ 22,989</b>	<b>\$ 29,266</b>

**Performance Measures**

In managing our business and assessing our financial performance, we supplement the information provided by financial statement measures with several customer-focused performance metrics that are widely used in the wireless industry. These metrics include average revenue per user per month, or ARPU, which measures service revenue per customer; cost per gross customer addition, or CPGA, which measures the average cost of acquiring a new customer; cost per user per month, or CPU, which measures the non-selling cash cost of operating our business on a per customer basis; and churn, which measures turnover in our customer base. For a reconciliation of Non-GAAP performance measures and a further discussion of the measures, please read [Reconciliation of Non-GAAP Financial Measures](#) below.

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The following table shows annual metric information for 2003, 2004 and 2005 and information for the nine months ended September 30, 2005 and 2006.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
Customers:					
End of period	976,899	1,398,732	1,924,621	1,739,787	2,616,532
Net additions	463,415	421,833	525,889	341,055	691,911
Churn:					
Average monthly rate	4.6%	4.9%	5.1%	5.0%	4.7%
ARPU	\$ 37.49	\$ 41.13	\$ 42.40	\$ 42.34	\$ 42.91
CPGA	\$ 100.46	\$ 103.78	\$ 102.70	\$ 101.46	\$ 116.56
CPU	\$ 18.21	\$ 18.95	\$ 19.57	\$ 19.15	\$ 19.65

*Customers.* Net customer additions were 691,911 for the nine months ended September 30, 2006, compared to 341,055 for the nine months ended September 30, 2005, an increase of 103%. Total customers were 2,616,532 as of September 30, 2006, an increase of 50% over the customer total as of September 30, 2005 and 36% over the customer total as of December 31, 2005. Net customer additions were 525,889 for the year ended December 31, 2005, bringing our total customers to approximately 1.9 million as of December 31, 2005, an increase of 38% over the total customers as of December 31, 2004. Net customer additions were 421,833 for the year ended December 31, 2004. Total customers at December 31, 2004 were approximately 1.4 million, an increase of 43% over total customers at December 31, 2003. These increases are primarily attributable to the continued demand for our service offering.

*Churn.* As we do not require a long-term service contract, our churn percentage is expected to be higher than traditional wireless carriers that require customers to sign a one- to two-year contract with significant early termination fees. Average monthly churn represents (a) the number of customers who have been disconnected from our system during the measurement period less the number of customers who have reactivated service, divided by (b) the sum of the average monthly number of customers during such period. We classify delinquent customers as churn after they have been delinquent for 30 days. In addition, when an existing customer establishes a new account in connection with the purchase of an upgraded or replacement phone and does not identify themselves as an existing customer, we count that phone leaving service as a churn and the new phone entering service as a gross customer addition. Churn for the nine months ended September 30, 2006 was 4.7% compared to 5.0% for the nine months ended September 30, 2005. Based upon a change in the allowable return period from 7 days to 30 days, we revised our definition of gross customer additions to exclude customers that discontinue service in the first 30 days of service. This revision reduces deactivations and gross customer additions commencing March 23, 2006, and reduces churn. Churn computed under the original 7 day allowable return period would have been 5.2% for the nine months ended September 30, 2006. Our average monthly rate of customer turnover, or churn, was 5.1%, 4.9% and 4.6% for the years ended December 31, 2005, 2004 and 2003, respectively. Average monthly churn rates for selected traditional wireless carriers ranges from 1.0% to 2.6% for post-pay customers and over 6.0% for pre-pay customers based on public filings or press releases.

*Average Revenue Per User.* ARPU represents (a) service revenues less activation revenues, E-911, Federal Universal Service Fund, or FUSF, and vendor's compensation charges for the measurement period, divided by (b) the sum of the average monthly number of customers during such period. ARPU was \$42.91 and \$42.34 for the nine months ended September 30, 2006 and 2005, respectively, an increase of \$0.57, or 1%. ARPU was \$42.40 and \$41.13 for the years

ended December 31, 2005 and 2004, respectively, an increase of \$1.27, or 3%. ARPU increased \$3.64, or approximately 10%, during 2004 from \$37.49 for the year ended December 31, 2003. The increase in ARPU was primarily the result of attracting customers to higher priced service plans, which include unlimited nationwide long distance for \$40 per month as well as

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unlimited nationwide long distance and certain calling and data features on an unlimited basis for \$45 per month.

*Cost Per Gross Addition.* CPGA is determined by dividing (a) selling expenses plus the total cost of equipment associated with transactions with new customers less activation revenues and equipment revenues associated with transactions with new customers during the measurement period by (b) gross customer additions during such period. Retail customer service expenses and equipment margin on handsets sold to existing customers when they are identified, including handset upgrade transactions, are excluded, as these costs are incurred specifically for existing customers. CPGA costs have increased to \$116.56 for the nine months ended September 30, 2006 from \$101.46 for the nine months ended September 30, 2005, which was primarily driven by the selling expenses associated with the launch of the Dallas/Ft. Worth and Detroit metropolitan areas. In addition, on January 23, 2006, we revised the terms of our return policy from 7 days to 30 days, and as a result we revised our definition of gross customer additions to exclude customers that discontinue service in the first 30 days of service. This revision, commencing March 23, 2006, reduces deactivations and gross customer additions and increases CPGA. CPGA computed under the original 7 day allowable return period would have been \$109.84 for the nine months ended September 30, 2006. CPGA was \$102.70 and \$103.78 for the years ended December 31, 2005 and 2004, respectively. The \$1.08, or 1%, decrease in CPGA was the result of the higher rate of growth in customer activations and the relatively fixed nature of the expenses associated with those activations. CPGA increased \$3.32 or 3% in 2004 from \$100.46 for the year ended December 31, 2003. The increase in CPGA was the result of a decrease in activation revenues partially offset by lower per unit handset subsidies.

*Cost Per User.* CPU is cost of service and general and administrative costs (excluding applicable non-cash stock-based compensation expense included in cost of service and general and administrative expense) plus net loss on handset equipment transactions unrelated to initial customer acquisition (which includes the gain or loss on sale of handsets to existing customers and costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers)), divided by sum of the average monthly number of customers during such period. CPU for the nine months ended September 30, 2006 and 2005 was \$19.65 and \$19.15, respectively. CPU for the years ended December 31, 2005, 2004 and 2003 was \$19.57, \$18.95 and \$18.21, respectively. We continue to achieve cost benefits due to the increasing scale of our business. However, these benefits have been offset by a combination of the construction and launch expenses associated with our Expansion Markets, which contributed approximately \$3.48 of additional CPU for the nine month period ended September 30, 2006. In addition, CPU has increased historically due to costs associated with higher ARPU service plans such as those related to unlimited nationwide long distance. During the years ended December 31, 2004 and 2005, CPU was impacted by substantial legal and accounting expenses in the amount of approximately \$1.5 million and \$5.9 million, respectively, associated with an internal investigation related to material weaknesses in our internal control over financial reporting as well as financial statement audits related to our restatement efforts.



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The following table shows quarterly metric information for the year ended December 31, 2005 and for the three months ended March 31, 2006, June 30, 2006, and September 30, 2006.

	Three Months Ended						
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	March 31, 2006	June 30, 2006	September 30, 2006
Customers:							
End of period	1,567,969	1,645,174	1,739,787	1,924,621	2,170,059	2,418,909	2,616,532
Net additions	169,236	77,205	94,613	184,834	245,437	248,850	197,623
Churn(1):							
Average monthly rate	4.3%	5.1%	5.6%	5.2%	4.4%	4.5%	5.0%
ARPU	\$ 42.57	\$ 42.32	\$ 42.16	\$ 42.55	\$ 43.12	\$ 42.86	\$ 42.78
CPGA(1)	\$ 100.15	\$ 101.63	\$ 102.56	\$ 105.50	\$ 106.26	\$ 122.20	\$ 120.29
CPU	\$ 19.33	\$ 18.50	\$ 19.61	\$ 20.67	\$ 20.11	\$ 19.78	\$ 19.15

- (1) On January 23, 2006, we revised the terms of our return policy from 7 days to 30 days, and as a result we revised our definition of gross customer additions to exclude customers that discontinue service in the first 30 days of service. This revision, commencing March 23, 2006, reduces deactivations and gross customer additions, which reduces churn and increases CPGA. Churn computed under the original 7 day allowable return period would have been 4.5%, 5.2% and 5.7% for the three month periods ended March 31, 2006, June 30, 2006 and September 30, 2006, respectively. CPGA computed under the original 7 day allowable return period would have been \$105.33, \$113.11, and \$110.43 for the three month periods ended March 31, 2006, June 30, 2006, and September 30, 2006, respectively.

**Core Markets Performance Measures**

Set forth below is a summary of certain key performance measures for the periods indicated for our Core Markets:

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(Dollars in Thousands)				
Core Markets Customers:					
End of period	976,899	1,398,732	1,871,665	1,739,441	2,174,264
Net additions	463,415	421,833	472,933	340,709	302,599
Core Markets Adjusted EBITDA	\$ 89,566	\$ 203,597	\$ 316,555	\$ 233,491	\$ 364,585
Core Markets Adjusted EBITDA as a Percent of Service Revenues	24.2%	33.0%	36.4%	37.0%	43.9%

We launched our service initially in 2002 in the greater Miami, Atlanta, Sacramento and San Francisco metropolitan areas. Our Core Markets have a licensed population of approximately 25 million, of which our networks currently cover approximately 22 million. In addition, we had positive adjusted earnings before interest, taxes, depreciation and amortization, gain/loss on disposal of assets, accretion of put option in majority-owned subsidiary, gain/loss on extinguishment of debt, cumulative effect of change in accounting principle and non-cash stock-based compensation, or Adjusted EBITDA, in our Core Markets after only four full quarters of operations.

*Customers.* Net customer additions in our Core Markets were 302,599 for the nine months ended September 30, 2006, compared to 340,709 for the nine months ended September 30, 2005. Total customers were 2,174,264 as of September 30, 2006, an increase of 25% over the customer total as of September 30, 2005 and 16% over the customer total as of December 31, 2005. Net customer additions in our Core Markets were 472,933 for the year ended December 31, 2005, bringing our total customers to approximately 1.9 million as of December 31, 2005, an increase of 34% over the total customers as of December 31, 2004. Net customer additions in our Core Markets were 421,833 for the year ended December 31, 2004. Total



			<b>Nine Months</b>	
			<b>Ended September 30,</b>	
<b>Year Ended December 31,</b>				
<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>	<b>2006</b>
<b>(Dollars in Thousands)</b>				

## Expansion Markets Customers:

End of period		52,956	346	442,268
Net additions		52,956	346	389,312
Expansion Markets Adjusted EBITDA (Deficit)		\$ (22,090)	\$ (8,665)	\$ (79,393)

*Customers.* Net customer additions in our Expansion Markets were 389,312 for the nine months ended September 30, 2006. Total customers were 442,268 as of September 30, 2006, an increase of 735% over the customer total as of December 31, 2005. The increase in 2006 is primarily attributable to the launch of the Dallas/Ft. Worth metropolitan area in March 2006 and the Detroit metropolitan area in April 2006. Net

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customer additions in our Expansion Markets were 52,956 for the year ended December 31, 2005, which is attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005.

*Adjusted EBITDA (Deficit).* Adjusted EBITDA is presented in accordance with SFAS No. 131 as it is the primary performance metric for which our reportable segments are evaluated and it is utilized by management to facilitate evaluation of our ability to meet future debt service, capital expenditures and working capital requirements and to fund future growth. For the nine months ended September 30, 2006, Expansion Markets Adjusted EBITDA deficit was \$79.4 million compared to \$8.7 million for the same period in 2005. Expansion Market Adjusted EBITDA deficit for the year ended December 31, 2005 was \$22.1 million. The increases in Adjusted EBITDA deficit, when compared to the same periods in the previous year, are attributable to the launch of the Tampa/Sarasota metropolitan area in October 2005, the launch of the Dallas/Ft. Worth metropolitan area in March 2006 and the launch of the Detroit metropolitan area in April 2006, as well as expenses associated with the construction of the Orlando metropolitan area, portions of northern Florida, and the Los Angeles metropolitan area.

The following table shows a summary of certain quarterly key performance measures for the periods indicated for our Expansion Markets.

	<b>Three Months Ended</b>						
	<b>March 31, 2005</b>	<b>June 30, 2005</b>	<b>September 30, 2005</b>	<b>December 31, 2005</b>	<b>March 31, 2006</b>	<b>June 30, 2006</b>	<b>September 30, 2006</b>
	<b>(Dollars in Thousands)</b>						
Expansion Markets							
Customers:							
End of period			346	52,956	114,509	299,741	442,268
Net additions			346	52,610	61,553	185,232	142,527
Expansion Markets							
Adjusted EBITDA							
(Deficit)	\$ (901)	\$ (2,105)	\$ (5,659)	\$ (13,425)	\$ (22,685)	\$ (36,596)	\$ (20,112)

**Reconciliation of Non-GAAP Financial Measures**

We utilize certain financial measures and key performance indicators that are not calculated in accordance with GAAP to assess our financial and operating performance. A non-GAAP financial measure is defined as a numerical measure of a company's financial performance that (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the comparable measure calculated and presented in accordance with GAAP in the statement of income or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the comparable measure so calculated and presented.

Average revenue per user, or ARPU, cost per gross addition, or CPGA, and cost per user, or CPU, are non-GAAP financial measures utilized by our management to judge our ability to meet our liquidity requirements and to evaluate our operating performance. We believe these measures are important in understanding the performance of our operations from period to period, and although every company in the wireless industry does not define each of these measures in precisely the same way, we believe that these measures (which are common in the wireless industry) facilitate key liquidity and operating performance comparisons with other companies in the wireless industry. The following tables reconcile our non-GAAP financial measures with our financial statements presented in accordance with GAAP.

ARPU We utilize average revenue per user, or ARPU, to evaluate our per-customer service revenue realization and to assist in forecasting our future service revenues. ARPU is calculated exclusive of activation revenues, as these amounts are a component of our costs of acquiring new customers and are included in our calculation of CPGA. ARPU is also calculated exclusive of E-911, FUSF and vendor s compensation charges, as these are generally pass through charges that we collect from our customers and remit to the appropriate government agencies.

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Average number of customers for any measurement period is determined by dividing (a) the sum of the average monthly number of customers for the measurement period by (b) the number of months in such period. Average monthly number of customers for any month represents the sum of the number of customers on the first day of the month and the last day of the month divided by two. The following table shows the calculation of ARPU for the periods indicated.

	<b>Year Ended December 31,</b>			<b>Nine Months</b>	
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Ended September 30,</b>	<b>2006</b>
	<b>(In Thousands, Except Average Number of Customers and ARPU)</b>				
<b>Calculation of Average Revenue Per User (ARPU):</b>					
Service revenues	\$ 369,851	\$ 616,401	\$ 872,100	\$ 631,209	\$ 916,179
Less:					
Activation revenues	(14,410)	(7,874)	(6,808)	(4,988)	(6,026)
E-911, FUSF and vendor s compensation charges	(6,527)	(12,522)	(26,221)	(18,875)	(29,222)
Net service revenues	\$ 348,914	\$ 596,005	\$ 839,071	\$ 607,346	\$ 880,931
Divided by:					
Average number of customers	775,605	1,207,521	1,649,208	1,593,848	2,281,261
ARPU	\$ 37.49	\$ 41.13	\$ 42.40	\$ 42.34	\$ 42.91

	<b>Three Months Ended</b>			
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>
	<b>(In Thousands, Except Average Number of Customers and ARPU)</b>			
<b>Calculation of Average Revenue Per User (ARPU):</b>				
Service revenues	\$ 196,898	\$ 212,697	\$ 221,615	\$ 240,891
Less:				
Activation revenues	(1,581)	(1,656)	(1,751)	(1,821)
E-911, FUSF and vendor s compensation charges	(6,075)	(6,286)	(6,513)	(7,346)
Net service revenues	\$ 189,242	\$ 204,755	\$ 213,351	\$ 231,724
Divided by: Average number of customers	1,481,839	1,612,932	1,686,774	1,815,288
ARPU	\$ 42.57	\$ 42.32	\$ 42.16	\$ 42.55





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**Three Months Ended**  
**March 31,                  June 30,                  September 30,**  
**2006                          2006                          2006**  
**(In Thousands, Except Average Number of**  
**Customers and ARPU)**

**Calculation of Average Revenue Per User (ARPU):**

Service revenues	\$ 275,416	\$ 307,843	\$ 332,920
Less:			
Activation revenues	(1,923)	(1,979)	(2,123)
E-911, FUSF and vendor s compensation charges	(8,958)	(10,752)	(9,512)
Net service revenues	\$ 264,535	\$ 295,112	\$ 321,285
Divided by: Average number of customers	2,045,110	2,295,249	2,503,423
ARPU	\$ 43.12	\$ 42.86	\$ 42.78

CPGA We utilize cost per gross customer addition, or CPGA, to assess the efficiency of our distribution strategy, validate the initial capital invested in our customers and determine the number of months to recover our customer acquisition costs. This measure also allows us to compare our average acquisition costs per new customer to those of other wireless broadband PCS providers. Activation revenues and equipment revenues related to new customers are deducted from selling expenses in this calculation as they represent amounts paid by customers at the time their service is activated that reduce our acquisition cost of those customers. Additionally, equipment costs associated with existing customers, net of related revenues, are excluded as this measure is intended to reflect only the acquisition costs related to new customers. The following table reconciles total costs used in the calculation of CPGA to selling expenses, which we consider to be the most directly comparable GAAP financial measure to CPGA.

**Year Ended December 31,                          Nine Months**  
**2003                  2004                  2005                  Ended September 30,**  
**2005                  2006**  
**(In Thousands, Except Gross Customer Additions and CPGA)**

**Calculation of Cost Per Gross Addition (CPGA):**

Selling expenses	\$ 44,006	\$ 52,605	\$ 62,396	\$ 43,863	\$ 72,796
Less:					
Activation revenues	(14,410)	(7,874)	(6,808)	(4,988)	(6,026)
Less:					
Equipment revenues	(81,258)	(131,849)	(166,328)	(118,990)	(177,592)
Add:					
Equipment revenue not associated with new customers	13,228	54,323	77,010	55,324	80,571
Add:					
Cost of equipment	150,832	222,766	300,871	210,529	330,898
Less:					
	(22,549)	(72,200)	(109,803)	(77,910)	(108,292)

Equipment costs not associated  
with new customers

Gross addition expenses	\$ 89,849	\$ 117,771	\$ 157,338	\$ 107,828	\$ 192,355
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	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(In Thousands, Except Gross Customer Additions and CPGA)				
Divided by:					
Gross customer additions	894,348	1,134,762	1,532,071	1,062,772	1,650,282
CPGA	\$ 100.46	\$ 103.78	\$ 102.70	\$ 101.46	\$ 116.56

	Three Months Ended September			
	March 31, 2005	June 30, 2005	30, 2005	December 31, 2005
	(In Thousands, Except Gross Customer Additions and CPGA)			

**Calculation of Cost Per Gross Addition (CPGA):**

Selling expenses	\$ 14,115	\$ 14,482	\$ 15,266	\$ 18,533
Less:				
Activation revenues	(1,581)	(1,656)	(1,751)	(1,821)
Less:				
Equipment revenues	(39,058)	(37,992)	(41,940)	(47,338)
Add:				
Equipment revenue not associated with new customers	16,666	17,767	20,891	21,687
Add:				
Cost of equipment	68,101	65,287	77,140	90,342
Less:				
Equipment costs not associated with new customers	(22,080)	(24,881)	(30,949)	(31,893)
Gross addition expenses	\$ 36,163	\$ 33,007	\$ 38,657	\$ 49,510
Divided by:				
Gross customer additions	361,079	324,777	376,916	469,299
CPGA	\$ 100.15	\$ 101.63	\$ 102.56	\$ 105.50

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	<b>Three Months Ended</b>		
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>
	<b>(In Thousands, Except Gross Customer Additions and CPGA)</b>		
<b>Calculation of Cost Per Gross Addition (CPGA):</b>			
Selling expenses	\$ 20,298	\$ 26,437	\$ 26,062
Less:			
Activation revenues	(1,923)	(1,979)	(2,123)
Less:			
Equipment revenues	(54,045)	(60,351)	(63,196)
Add:			
Equipment revenue not associated with new customers	24,864	26,904	28,802
Add:			
Cost of equipment	100,911	112,005	117,982
Less:			
Equipment costs not associated with new customers	(35,364)	(34,669)	(38,259)
Gross addition expenses	\$ 54,741	\$ 68,347	\$ 69,268
Divided by:			
Gross customer additions	515,153	559,309	575,820
CPGA	\$ 106.26	\$ 122.20	\$ 120.29

CPU Cost per user, or CPU, is cost of service and general and administrative costs (excluding applicable non-cash stock-based compensation expense included in cost of service and general and administrative expense) plus net loss on equipment transactions unrelated to initial customer acquisition (which includes the gain or loss on sale of handsets to existing customers and costs associated with handset replacements and repairs (other than warranty costs which are the responsibility of the handset manufacturers)) exclusive of E-911, FUSF and vendor s compensation charges, divided by the sum of the average monthly number of customers during such period. CPU does not include any depreciation and amortization expense. Management uses CPU as a tool to evaluate the non-selling cash expenses associated with ongoing business operations on a per customer basis, to track changes in these non-selling cash costs over time, and to help evaluate how changes in our business operations affect non-selling cash costs per customer. In addition, CPU provides management with a useful measure to compare our non-selling cash costs per customer with those of other wireless providers. We believe investors use CPU primarily as a tool to track changes in our non-selling cash costs over time and to compare our non-selling cash costs to those of other wireless providers. Other wireless carriers may calculate this measure differently. The following table

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reconciles total costs used in the calculation of CPU to cost of service, which we consider to be the most directly comparable GAAP financial measure to CPU.

	<b>Year Ended December 31,</b>			<b>Nine Months</b>	
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Ended September 30,</b>	<b>2006</b>
	<b>(In Thousands, Except Average Number of Customers and CPU)</b>				
<b>Calculation of Cost Per User (CPU):</b>					
Cost of service	\$ 122,211	\$ 200,806	\$ 283,212	\$ 201,940	\$ 313,510
Add:					
General and administrative expense	50,067	78,905	100,080	72,343	99,125
Add:					
Net loss on equipment transactions unrelated to initial customer acquisition	9,320	17,877	32,791	22,586	27,721
Less:					
Stock-based compensation expense included in cost of service and general and administrative expense	(5,573)	(10,429)	(2,596)	(3,302)	(7,750)
Less:					
E-911, FUSF and vendor s compensation revenues	(6,527)	(12,522)	(26,221)	(18,875)	(29,222)
 Total costs used in the calculation of CPU	 \$ 169,498	 \$ 274,637	 \$ 387,266	 \$ 274,692	 \$ 403,384
Divided by:					
Average number of customers	775,605	1,207,521	1,649,208	1,593,848	2,281,261
 CPU	 \$ 18.21	 \$ 18.95	 \$ 19.57	 \$ 19.15	 \$ 19.65

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	<b>Three Months Ended</b>			
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2005</b>	<b>2005</b>	<b>2005</b>	<b>2005</b>
	<b>(In Thousands, Except Average Number of Customers and CPU)</b>			
<b>Calculation of Cost Per User (CPU):</b>				
Cost of service	\$ 63,735	\$ 65,944	\$ 72,261	\$ 81,272
Add:				
General and administrative expense	23,734	24,860	23,750	27,737
Add:				
Net loss on equipment transactions unrelated to initial customer acquisition	5,414	7,114	10,058	10,206
Less:				
Stock-based compensation expense included in general and administrative expense	(865)	(2,100)	(337)	706
Less:				
E-911, FUSF and vendor s compensation revenues	(6,075)	(6,286)	(6,513)	(7,346)
Total costs used in the calculation of CPU	\$ 85,943	\$ 89,532	\$ 99,219	\$ 112,575
Divided by:				
Average number of customers	1,481,839	1,612,932	1,686,774	1,815,288
CPU	\$ 19.33	\$ 18.50	\$ 19.61	\$ 20.67

	<b>Three Months Ended</b>		
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>
	<b>2006</b>	<b>2006</b>	<b>2006</b>
	<b>(In Thousands, Except Average Number of Customers and CPU)</b>		
<b>Calculation of Cost Per User (CPU):</b>			
Cost of service	\$ 92,489	\$ 107,497	\$ 113,524
Add:			
General and administrative expense	31,139	33,827	34,158
Add:			
Net loss on equipment transactions unrelated to initial customer acquisition	10,500	7,765	9,457
Less:			
Stock-based compensation expense included in cost of service and general and administrative expense	(1,811)	(2,158)	(3,781)
Less:			
E-911, FUSF and vendor s compensation revenues	(8,958)	(10,752)	(9,512)
Total costs used in the calculation of CPU	\$ 123,359	\$ 136,179	\$ 143,846

Divided by:

Average number of customers	2,045,110	2,295,249	2,503,423
CPU	\$ 20.11	\$ 19.78	\$ 19.15

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**Liquidity and Capital Resources**

Our principal sources of liquidity are our existing cash, cash equivalents and short-term investments, cash generated from operations, proceeds from our recent sale of senior notes and our senior secured credit facility. At September 30, 2006, we had a total of approximately \$345.8 million in cash, cash equivalents and short-term investments. We believe that our existing cash, cash equivalents and short-term investments, proceeds from this offering, and our anticipated cash flows from operations will be sufficient to fully fund our projected operating and capital requirements for our existing business, currently planned expansion, planned enhancements of network capacity and upgrades for EVDO Revision A with VoIP, and service of our debt incurred in November 2006.

Our strategy has been to offer our services in major metropolitan areas and their surrounding areas, which we refer to as clusters. We are seeking opportunities to enhance our current market clusters and to provide service in new geographic areas. From time to time, we may purchase spectrum and related assets from third parties or the FCC. We participated as a bidder in FCC Auction 66 and in November 2006 we were granted eight licenses for a total aggregate purchase price of approximately \$1.4 billion. See [Business Auction 66 Markets](#).

As a result of the acquisition of the spectrum licenses from Auction 66 and the opportunities that these licenses provide for us to expand our operations into major metropolitan markets, we will require significant additional capital in the future to finance the construction and initial operating costs associated with such licenses, including clearing costs associated with non-governmental incumbent licenses which we currently estimate to be between approximately \$40 million and \$60 million. We generally do not intend to commence the construction of any individual license area until we have sufficient funds available to provide for the related construction and operating costs associated with such license area. We currently plan to focus on building out approximately 40 million of the total population in our Auction 66 Markets with a primary focus on the New York, Philadelphia, Boston and Las Vegas metropolitan areas. Of the approximate 40 million total population, we are targeting launch of operations with an initial covered population of approximately 30 to 32 million by late 2008 or early 2009. Total estimated capital expenditures to the launch of these operations are expected to be between \$18 and \$20 per covered population which equates to a total capital investment of approximately \$550 million to \$650 million. Total estimated expenditures, including capital expenditures, to become free cash flow positive, defined as Adjusted EBITDA less capital expenditures, are expected to be approximately \$29 to \$30 per covered population, which equates to \$875 million to \$1.0 billion based on an estimated initial covered population of approximately 30 to 32 million. We believe that our existing cash, cash equivalents and short-term investments, proceeds from this offering, and our anticipated cash flows from operations will be sufficient to fully fund this planned expansion. Moreover, we have made no commitments for capital expenditures and we have the ability to reduce the rate of capital expenditure deployment.

The construction of our network and the marketing and distribution of our wireless communications products and services have required, and will continue to require, substantial capital investment. Capital outlays have included license acquisition costs, capital expenditures for construction of our network infrastructure, costs associated with clearing and relocating non-governmental incumbent licenses, funding of operating cash flow losses incurred as we launch services in new metropolitan areas and other working capital costs, debt service and financing fees and expenses. Our capital expenditures for the first nine months of 2006 were approximately \$453.9 million and aggregate capital expenditures for 2005 were approximately \$266.5 million. These expenditures were primarily associated with the construction of the network infrastructure in our Expansion Markets and our efforts to increase the service area and capacity of our existing Core Markets network through the addition of cell sites and switches. We believe the increased service area and capacity in existing markets will improve our service offering, helping us to attract additional customers and increase revenues. In addition, we believe our new Expansion Markets have attractive demographics which will result in increased revenues.





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As of September 30, 2006, we owed an aggregate of \$900 million under our Credit Agreements. In addition, in connection with our payment of the purchase price for the Auction 66 licenses in October 2006, certain of our subsidiaries borrowed \$1.25 billion under a secured bridge credit facility and an additional \$250 million under a unsecured bridge credit facility. See Bridge Credit Facilities below. The funds borrowed under the bridge credit facilities were used primarily to pay the aggregate purchase price of approximately \$1.4 billion for the licenses we purchased in Auction 66. In November 2006, we consummated the sale of \$1.0 billion in aggregate principal amount of 91/4% senior notes and entered into a senior secured credit facility, pursuant to which we may borrow up to \$1.7 billion. We borrowed \$1.6 billion under our senior secured credit facility concurrently with the closing of the sale of the senior notes and used the amount borrowed, together with the net proceeds from the sale of the senior notes, to repay all amounts owed under the Credit Agreements and the bridge credit facilities and to pay the related premiums, fees and expenses and we intend to use the remaining amounts for general corporate purposes.

Our senior secured credit facility calculates consolidated Adjusted EBITDA as: consolidated net income *plus* depreciation and amortization; gain (loss) on disposal of assets; non-cash expenses; gain (loss) on extinguishment of debt; provision for income taxes; interest expense; and certain expenses of MetroPCS Communications *minus* interest and other income and non-cash items increasing consolidated net income.

We consider Adjusted EBITDA, as defined above, to be an important indicator to investors because it provides information related to our ability to provide cash flows to meet future debt service, capital expenditures and working capital requirements and fund future growth. We present this discussion of Adjusted EBITDA because covenants in our senior secured credit facility contain ratios based on this measure. If our Adjusted EBITDA were to decline below certain levels, covenants in our senior secured credit facility that are based on Adjusted EBITDA, including our maximum senior secured leverage ratio covenant, may be violated and could cause, among other things, an inability to incur further indebtedness and in certain circumstances a default or mandatory prepayment under our senior secured credit facility. Our maximum senior secured leverage ratio is required to be less than 4.5 to 1.0 based on Adjusted EBITDA plus the impact of certain new markets. The maximum senior secured leverage ratio is calculated as the ratio of senior secured indebtedness to Adjusted EBITDA, as defined by our senior secured credit facility. In addition, consolidated Adjusted EBITDA is also utilized, among other measures, to determine management's compensation levels. Adjusted EBITDA is not a measure calculated in accordance with GAAP, and should not be considered a substitute for, operating income (loss), net income (loss), or any other measure of financial performance reported in accordance with GAAP. In addition, Adjusted EBITDA should not be construed as an alternative to, or more meaningful than cash flows from operating activities, as determined in accordance with GAAP.

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The following table shows the calculation of our consolidated Adjusted EBITDA, as defined in our senior secured credit facility, for the years ended December 31, 2003, 2004 and 2005 and for the nine months ended September 30, 2005 and 2006.

	Year Ended December 31,			Nine Months	
	2003	2004	2005	Ended September 30, 2005	2006
	(In Thousands)				
<b>Calculation of Consolidated Adjusted EBITDA:</b>					
Net income	\$ 15,358	\$ 64,890	\$ 198,677	\$ 179,835	\$ 70,625
Adjustments:					
Depreciation and amortization	42,428	62,201	87,895	61,895	96,187
Loss (gain) on disposal of assets	392	3,209	(218,203)	(218,292)	10,763
Stock-based compensation expense(1)	5,573	10,429	2,596	3,302	7,750
Interest expense	11,115	19,030	58,033	40,867	67,408
Accretion of put option in majority-owned subsidiary(1)		8	252	187	564
Interest and other income	(996)	(2,472)	(8,658)	(4,876)	(15,106)
(Gain) loss on extinguishment of debt	(603)	(698)	46,448	46,448	(244)
Provision for income taxes	16,179	47,000	127,425	115,460	47,245
Cumulative effect of change in accounting principle, net of tax(1)	120				
<b>Consolidated Adjusted EBITDA</b>	<b>\$ 89,566</b>	<b>\$ 203,597</b>	<b>\$ 294,465</b>	<b>\$ 224,826</b>	<b>\$ 285,192</b>

(1) Represents a non-cash expense, as defined by our senior secured credit facility.

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In addition, for further information, the following table reconciles consolidated Adjusted EBITDA, as defined in our senior secured credit facility, to cash flows from operating activities for the years ended December 31, 2003, 2004 and 2005 and for the nine months ended September 30, 2005 and 2006.

	Year Ended December 31,			Nine Months Ended September 30,	
	2003	2004	2005	2005	2006
	(In Thousands)				
<b>Reconciliation of Net Cash Provided by Operating Activities to Consolidated Adjusted EBITDA:</b>					
Net cash provided by operating activities	\$ 112,605	\$ 150,379	\$ 283,216	\$ 247,015	\$ 284,688
Adjustments:					
Interest expense	11,115	19,030	58,033	40,867	67,408
Non-cash interest expense	(3,073)	(2,889)	(4,285)	(3,766)	(3,702)
Interest and other income	(996)	(2,472)	(8,658)	(4,876)	(15,106)
Provision for uncollectible accounts receivable	(110)	(125)	(129)	38	(64)
Deferred rent expense	(2,803)	(3,466)	(4,407)	(3,091)	(5,365)
Cost of abandoned cell sites	(824)	(1,021)	(725)	(251)	(2,069)
Accretion of asset retirement obligation	(127)	(253)	(423)	(103)	(469)
Loss (gain) on sale of investments		(576)	190	(49)	1,875
Provision for income taxes	16,179	47,000	127,425	115,460	47,245
Deferred income taxes	(18,716)	(44,441)	(125,055)	(113,580)	(41,792)
Changes in working capital	(23,684)	42,431	(30,717)	(52,838)	(47,457)
<b>Consolidated Adjusted EBITDA</b>	<b>\$ 89,566</b>	<b>\$ 203,597</b>	<b>\$ 294,465</b>	<b>\$ 224,826</b>	<b>\$ 285,192</b>

In connection with the closing of the sale of the senior notes, the entry into our senior secured credit facility and the repayment of all amounts outstanding under our Credit Agreements and bridge credit facilities, we consummated a concurrent restructuring transaction. As a result of the restructuring transaction, MetroPCS Wireless, Inc. became a wholly-owned direct subsidiary of MetroPCS, Inc. (formerly MetroPCS V, Inc.), which is a wholly-owned direct subsidiary of MetroPCS Communications, Inc. MetroPCS Communications, Inc. and MetroPCS, Inc. guaranteed the senior notes and the obligations under the senior secured credit facility. MetroPCS, Inc. also pledged the capital stock of MetroPCS Wireless, Inc. as security for the obligations under the senior secured credit facility. All of our FCC licenses and our 85% limited liability company member interest in Royal Street are now held by MetroPCS Wireless, Inc. and its wholly-owned subsidiaries.

**Operating Activities**

Cash provided by operating activities was \$284.7 million during the nine months ended September 30, 2006 compared to \$247.0 million during the nine months ended September 30, 2005. The increase was primarily attributable to a 74%

increase in net income during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, excluding the impact of a \$139.2 million gain, net of tax, on the nonrecurring sale of a 10 MHz portion of our 30 MHz PCS license for the San Francisco Oakland San Jose basic trading area. The timing of payments on accounts payable and accrued expenses in the nine months ended September 30, 2006, as well as an increase in deferred revenues as a result of the 50% increase in customers during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 also contributed to the increase in cash provided by operating activities.

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Cash provided by operating activities was \$283.2 million during the year ended December 31, 2005 compared to cash provided by operating activities of \$150.4 million during the year ended December 31, 2004. The increase was primarily attributable to a significant increase in net income, including a \$228.2 million gain on the sale of a 10 MHz portion of our 30MHz PCS license for the San Francisco Oakland San Jose basic trading area, and the timing of payments on accounts payable and accrued expenses in the year ended December 31, 2005, partially offset by interest payments on the Credit Agreements that were executed in May 2005.

Cash provided by operating activities was \$150.4 million during the year ended December 31, 2004 compared to cash provided by operating activities of \$112.6 million during the year ended December 31, 2003. The increase was primarily attributable to an increase in the net income, partially offset by an increase of \$66.1 million used in cash due to changes in working capital compared to the year ended December 31, 2003. This increase is primarily due to increases in inventories and the timing of payments on accounts payable and accrued expenses.

***Investing Activities***

Cash used in investing activities was \$489.3 million during the nine months ended September 30, 2006 compared to \$789.1 million during the nine months ended September 30, 2005. The decrease was due primarily to a \$419.1 million increase in net proceeds from investments and a \$303.8 million decrease in purchases of FCC licenses, partially offset by a \$249.4 million increase in purchases of property and equipment related to the construction of the Expansion Markets.

Cash used in investing activities was \$905.2 million during the year ended December 31, 2005 compared to \$190.9 million during the year ended December 31, 2004. This increase was due primarily to a \$416.9 million increase in the purchase of FCC licenses, an increase in purchases of investments in the amount of \$580.8 million, and a \$27.5 million increase in purchases of property and equipment, partially offset by proceeds of \$230.0 million from the sale of a 10 MHz portion of our 30 MHz PCS license for the San Francisco-Oakland-San Jose basic trading area.

Cash used in investing activities was \$190.9 million during the year ended December 31, 2004, compared to \$306.9 million for the year ended December 31, 2003. The decrease during 2004 is primarily attributable to a \$284.6 million increase in proceeds from the sale and maturity of investments, as well as a \$50.5 million decrease in the purchases of investments, partially offset by an increase in purchases of property and equipment in the amount of \$133.1 million.

***Financing Activities***

Cash provided by financing activities was \$208.1 million during the nine months ended September 30, 2006 compared to \$564.8 million during the nine months ended September 30, 2005. This decrease was due primarily to the net proceeds from the Credit Agreements as well as net proceeds from the issuance of Series E Preferred Stock in the amount of \$46.7 million during the first nine months of 2005.

Cash provided by financing activities during the year ended December 31, 2005 was \$712.2 million, compared to cash used in financing activities of \$5.4 million for the year ended December 31, 2004. The increase during 2005 is mainly attributable to proceeds from borrowings under our Credit Agreements of \$902.9 million as well as net proceeds from the issuance of Series E Preferred Stock in the amount of \$46.7 million. These proceeds are partially offset by various transactions including repayment of the FCC notes in the amount of \$33.4 million, repayment of the Senior Notes in the amount of \$178.9 million, which included a premium of \$28.9 million, and payment of debt issuance costs in the amount of \$29.5 million.

Cash used in financing activities during the year ended December 31, 2004 was \$5.4 million, compared to cash provided by financing activities of \$201.9 million for the year ended December 31, 2003. During 2003, we had net proceeds of \$145.5 million from the issuance of our Senior Notes and \$65.5 million from

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the issuance of Series D Preferred Stock, which are the primary reasons for the decrease in cash provided by financing activities in 2004.

***First and Second Lien Credit Agreements***

As of September 30, 2006, there was a total of \$900.0 million outstanding under the Credit Agreements, which is reported as long-term debt on the consolidated balance sheets included elsewhere in this prospectus.

The terms of the Credit Agreements required us to enter into an interest rate cap agreement in an amount equal to at least 50% of the aggregate debt outstanding thereunder. On June 27, 2005, we entered into a three-year interest rate cap agreement to mitigate the impact of interest rate changes. An interest rate cap represents a right to receive cash if interest rates rise above a contractual strike rate. At September 30, 2006, the interest rate cap agreement had a notional value of \$450.0 million and we will receive payments on a semiannual basis if the six-month LIBOR interest rate exceeds 3.75% through January 1, 2007 and 6.00% through the agreement maturity date of July 1, 2008. We paid \$1.9 million upon execution of the interest rate cap agreement. This financial instrument is reported in long-term investments at fair market value on the consolidated balance sheets included elsewhere in this prospectus, which was \$4.4 million as of September 30, 2006.

On November 3, 2006, we paid the lenders under the Credit Agreements \$931.5 million plus accrued interest of \$8.6 million to extinguish the aggregate outstanding principal balance under the Credit Agreements. As a result, we recorded a loss on extinguishment of debt in the amount of approximately \$42.7 million.

On November 21, 2006, we terminated the interest rate cap agreement that was required by our Credit Agreements. We received approximately \$4.3 million upon termination of the agreement. The proceeds from the termination of the agreement approximated carrying value and accordingly, no gain or loss was recognized upon disposition.

***Bridge Credit Facilities***

In July 2006, MetroPCS II, Inc., or MetroPCS II, an indirect wholly-owned subsidiary of MetroPCS Communications, Inc. (which has since merged into MetroPCS Wireless, Inc.), entered into an Exchangeable Senior Secured Credit Agreement and Guaranty Agreement, dated as of July 13, 2006, or the secured bridge credit facility. The aggregate credit commitments available under the secured bridge credit facility total \$1.25 billion. On July 14, 2006, the lenders funded \$200.0 million under the secured bridge credit facility. On October 3, 2006, the lenders funded an additional \$80.0 million under the secured bridge credit facility. On October 18, 2006, the lenders funded the remaining \$970.0 million under the secured bridge credit facility.

On November 3, 2006, MetroPCS II repaid the aggregate outstanding principal balance under the secured bridge credit facility of \$1.25 billion and accrued interest of \$5.9 million. As a result, MetroPCS II recorded a loss on extinguishment of debt of approximately \$7.0 million.

In October 2006, MetroPCS IV, Inc., an indirect wholly-owned subsidiary of MetroPCS Communications, Inc. (which has since merged into MetroPCS Wireless, Inc.), entered into an additional Exchangeable Senior Unsecured Bridge Credit Facility, or the unsecured bridge credit facility. The aggregate credit commitments available under the unsecured bridge credit facility total \$250 million. On October 18, 2006, the lenders funded the \$250 million available under the unsecured bridge credit facility.

On November 3, 2006, MetroPCS IV, Inc. repaid the aggregate outstanding principal balance under the unsecured bridge credit facility of \$250.0 million and accrued interest of \$1.2 million. As a result, MetroPCS IV, Inc. recorded a loss on extinguishment of debt of approximately \$2.4 million.





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***Senior Secured Credit Facility***

MetroPCS Wireless, Inc., an indirect wholly-owned subsidiary of MetroPCS Communications, Inc., entered into the senior secured credit facility on November 3, 2006. The senior secured credit facility consists of a \$1.6 billion term loan facility and a \$100 million revolving credit facility. The term loan facility is repayable in quarterly installments in annual aggregate amounts equal to 1% of the initial aggregate principal amount of \$1.6 billion. The term loan facility will mature seven years following the date of its execution in November 2006. The revolving credit facility will mature five years following the date of its execution in November 2006.

The facilities under the senior secured credit agreement are guaranteed by MetroPCS Communications, Inc., MetroPCS, Inc. and each of MetroPCS Wireless, Inc.'s direct and indirect present and future wholly-owned domestic subsidiaries. The facilities are not guaranteed by Royal Street or its subsidiaries, but MetroPCS Wireless, Inc. has pledged the promissory note given by Royal Street in connection with amounts borrowed by Royal Street from MetroPCS Wireless, Inc. and we pledged the limited liability company member interests we hold in Royal Street. The senior secured credit facility contains customary events of default, including cross defaults. The obligations are also secured by the capital stock of MetroPCS Wireless, Inc. as well as substantially all of the present and future assets of MetroPCS Wireless, Inc. and each of its direct and indirect present and future wholly-owned subsidiaries (except as prohibited by law and certain permitted exceptions).

Under the senior secured credit agreement, MetroPCS Wireless, Inc. will be subject to certain limitations, including limitations on its ability to incur additional debt, make certain restricted payments, sell assets, make certain investments or acquisitions, grant liens and pay dividends. MetroPCS Wireless, Inc. is also subject to certain financial covenants, including maintaining a maximum senior secured consolidated leverage ratio and, under certain circumstances, maximum consolidated leverage and minimum fixed charge coverage ratios. There is no prohibition on our ability to make investments in or loan money to Royal Street.

Amounts outstanding under our senior secured credit facility bear interest at a LIBOR rate plus a margin as set forth in the facility and the terms of the senior secured credit facility require us to enter into interest rate hedging agreements that fix the interest rate in an amount equal to at least 50% of our outstanding indebtedness, including the notes.

On November 21, 2006, MetroPCS Wireless, Inc. entered into a three-year interest rate protection agreement to manage its interest rate risk exposure and fulfill a requirement of its senior secured credit facility. The agreement is effective on February 1, 2007, covers a notional amount of \$1.0 billion and effectively converts this portion of MetroPCS Wireless, Inc.'s variable rate debt to fixed rate debt at an annual rate of 7.419%, leaving \$600.0 million in variable rate debt. The interest rate protection agreement expires on February 1, 2010.

***9 1/4% Senior Notes Due 2014***

On November 3, 2006, MetroPCS Wireless, Inc. also consummated the sale of \$1.0 billion principal amount of its 9 1/4% senior notes due 2014. The senior notes are unsecured obligations and are guaranteed by MetroPCS Communications, Inc., MetroPCS, Inc., and all of MetroPCS Wireless, Inc.'s direct and indirect wholly-owned subsidiaries, but are not guaranteed by Royal Street or its subsidiaries. Interest is payable on the senior notes on May 1 and November 1 of each year, beginning with May 1, 2007. MetroPCS Wireless, Inc. may, at its option, redeem some or all of the senior notes at any time on or after November 1, 2010 for the redemption prices set forth in the indenture governing the senior notes. In addition, MetroPCS Wireless, Inc. may also redeem up to 35% of the aggregate principal amount of the senior notes with the net cash proceeds of certain sales of equity securities, including the sale of common stock.



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***Capital Expenditures and Other Asset Acquisitions and Dispositions***

*Capital Expenditures.* We and Royal Street currently expect to incur approximately \$540 million in capital expenditures for the year ending December 31, 2006. We and Royal Street currently expect to incur approximately \$650 million in capital expenditures for the year ending December 31, 2007 in our Core and Expansion Markets. In addition, we expect to incur approximately \$175 million in capital expenditures for the year ending December 31, 2007 in our Auction 66 Markets.

During the nine months ended September 30, 2006, we and Royal Street incurred \$453.9 million in capital expenditures. These capital expenditures were primarily for the expansion and improvement of our existing network infrastructure and costs associated with the construction of the Expansion Markets.

During the year ended December 31, 2005, we had \$266.5 million in capital expenditures. These capital expenditures were primarily for the expansion and improvement of our existing network infrastructure and costs associated with the construction of the Tampa/Sarasota, Dallas/Ft. Worth and Detroit Expansion Markets.

*Other Acquisitions and Dispositions.* On April 19, 2004, we acquired four PCS licenses for an aggregate purchase price of \$11.5 million. The PCS licenses cover 15 MHz of spectrum in each of the basic trading areas of Modesto, Merced, Eureka, and Redding, California.

On October 29, 2004, we acquired two PCS licenses for an aggregate purchase price of \$43.5 million. The PCS licenses cover 10 MHz of spectrum in each of the basic trading areas of Tampa-St. Petersburg-Clearwater, Florida, and Sarasota-Bradenton, Florida.

On November 28, 2004, we executed a license purchase agreement by which we agreed to acquire 10 MHz of PCS spectrum in the basic trading area of Detroit, Michigan and certain counties of the basic trading area of Dallas/Ft. Worth, Texas for \$230.0 million pursuant to a two-step, tax-deferred, like-kind exchange transaction under Section 1031 of the Internal Revenue Code of 1986, as amended.

On December 20, 2004, we acquired a PCS license for a purchase price of \$8.5 million. The PCS license covers 20 MHz of PCS spectrum in the basic trading area of Daytona Beach, Florida.

On May 11, 2005, we completed the sale of a 10 MHz portion of our 30 MHz PCS license in the San Francisco Oakland San Jose basic trading area for cash consideration of \$230.0 million. The sale was structured as a like-kind exchange under Section 1031 of the Internal Revenue Code of 1986, as amended, through which our right, title and interest in and to the divested PCS spectrum was exchanged for the PCS spectrum acquired in Dallas/Ft. Worth, Texas and Detroit, Michigan through a license purchase agreement for an aggregate purchase price of \$230.0 million. The purchase of the PCS spectrum in Dallas/Ft. Worth and Detroit was accomplished in two steps with the first step of the exchange occurring on February 23, 2005 and the second step occurring on May 11, 2005 when we consummated the sale of 10 MHz of PCS spectrum for the San Francisco Oakland San Jose basic trading area. The sale of PCS spectrum resulted in a gain on disposal of asset in the amount of \$228.2 million.

On July 7, 2005, we acquired a 10 MHz F-Block PCS license for Grayson and Fannin counties in the basic trading area of Sherman-Denison, Texas for an aggregate purchase price of \$0.9 million.

On August 12, 2005, we acquired a 10 MHz F-Block PCS license in the basic trading area of Bakersfield, California for an aggregate purchase price of \$4.0 million.

On December 21, 2005, the FCC granted Royal Street 10 MHz of PCS spectrum in the Los Angeles, California; Orlando, Lakeland-Winter Haven, Jacksonville, Melbourne-Titusville, and Gainesville, Florida basic trading areas. Royal Street, as the high bidder in Auction 58, had paid approximately \$294.0 million to the FCC for these PCS licenses.

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On August 7, 2006, we acquired a 10 MHz PCS license in the basic trading area of Ocala, Florida in exchange for a 10 MHz portion of our 30 MHz PCS license in the basic trading area of Athens, Georgia. We paid \$0.2 million at the closing of this agreement.

In November 2006, we were granted licenses covering a total unique population of 117 million as a result of FCC Auction 66, for a total aggregate purchase price of approximately \$1.4 billion. Approximately 69 million of the total covered population associated with our Auction 66 Markets represents expansion opportunities in geographic areas outside of our Core and Expansion Markets. These new expansion opportunities in our Auction 66 Markets cover six of the 25 largest metropolitan areas in the United States. Our east coast expansion opportunities include the entire east coast corridor from Philadelphia to Boston, including New York City, as well as the entire states of New York, Connecticut and Massachusetts. In the western United States, our new expansion opportunities include the San Diego, Portland, Seattle and Las Vegas metropolitan areas. The balance of our Auction 66 Markets, which cover a population of approximately 48 million, supplements or expands the geographic boundaries of our existing operations in Dallas/Ft. Worth, Detroit, Los Angeles, San Francisco and Sacramento.

**Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements.

**Contractual Obligations and Commercial Commitments**

The following table provides aggregate information about our contractual obligations as of December 31, 2005. See Note 10 to our annual consolidated financial statements included elsewhere in this prospectus.

	Total	Payments Due by Period			
		Less Than 1 Year	1 - 3 Years (In thousands)	3 - 5 Years	More Than 5 Years
<b>Contractual Obligations(1):</b>					
Long-term debt, including current portion	\$ 902,690	\$ 2,690	\$	\$	\$ 900,000
Interest expense on long-term debt(2)	487,383	83,175	166,000	166,000	72,208
Operating leases	494,070	59,207	121,202	123,764	189,897
Total cash contractual obligations	\$ 1,884,143	\$ 145,072	\$ 287,202	\$ 289,764	\$ 1,162,105

- (1) Contractual obligations exclude obligations incurred in connection with the acquisition of licenses in Auction 66 which we were granted on November 29, 2006 for which we paid approximately \$1.4 billion.

In November 2006, we (i) repaid all amounts owed under our Credit Agreements; (ii) entered into a new Senior Secured Credit Facility and borrowed \$1.6 billion thereunder, and (iii) consummated the sale of \$1.0 billion principal amount of 9 1/4% Senior Notes due 2014.

- (2) Interest expense on long-term debt includes future interest payments on outstanding obligations under our Credit Agreements and microwave clearing obligations. The Credit Agreements bear interest at floating rates tied to a fixed spread to the London Inter Bank Offered Rate. The interest expense presented in this table is based on the rates at December 31, 2005 which were 8.25% for the First Lien Credit Agreement and 10.75% for the Second Lien Credit Agreement.

**Inflation**

We believe that inflation has not materially affected our operations.

**Table of Contents****Effect of New Accounting Standards**

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* ( SFAS No. 155 ). SFAS No. 155 permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends FASB Statement No. 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this statement is not expected to have a material effect on our financial condition or results of operations.

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140* ( SFAS No. 156 ). SFAS No. 156 amends SFAS No. 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS No. 156 permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under SFAS No. 156, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of SFAS No. 156 is required as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this statement is not expected to have a material effect on our financial condition or results of operations.

In July 2006, the FASB issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes*, ( FIN No. 48 ), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109. FIN No. 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We have not completed our evaluation of the effect of FIN No. 48.

In September 2006, the Securities and Exchange Commission ( SEC ) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements*, ( SAB 108 ), which addresses how the effects of prior year uncorrected misstatements should be considered when quantifying misstatements in current year financial statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is material, companies may record the effect as a cumulative effect adjustment to beginning of year retained earnings. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. We are required to adopt this interpretation by December 31, 2006. The adoption of this statement is not expected to have a material effect on our financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ( SFAS No. 157 ), which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We will be required to adopt SFAS No. 157 in the first quarter of fiscal year 2008. We have not completed our evaluation of the effect of SFAS No. 157.





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**Quantitative and Qualitative Disclosures about Market Risk**

Market risk is the potential loss arising from adverse changes in market prices and rates, including interest rates. We do not routinely enter into derivatives or other financial instruments for trading, speculative or hedging purposes, unless it is required by our credit agreements. We do not currently conduct business internationally, so we are generally not subject to foreign currency exchange rate risk.

As of November 30, 2006, we had \$1.6 billion in outstanding indebtedness under our senior secured credit facility that bears interest at floating rates based on the London Inter Bank Offered Rate, or LIBOR, plus 2.50%. The interest rate on the outstanding debt under our senior secured credit facility as of November 30, 2006 was 7.875%. On November 21, 2006, to manage our interest rate risk exposure and fulfill a requirement of our senior secured credit facility, we entered into a three-year interest rate protection agreement. This agreement is effective on February 1, 2007 and covers a notional amount of \$1.0 billion and effectively converts this portion of our variable rate debt to fixed rate debt at an annual rate of 7.419%, leaving \$600.0 million in variable rate debt. The interest rate swap agreement expires in 2010. If market LIBOR rates increase 100 basis points over the rates in effect at November 30, 2006, annual interest expense on the \$600.0 million in variable rate debt would increase \$6.0 million.

**Change in Accountants**

On June 13, 2005, PricewaterhouseCoopers LLP, or PwC, our independent auditor for 2002 and 2003, declined to stand for re-election as our independent registered public accounting firm. PwC's tenure as our independent registered public accounting firm was to end upon completion of the financial statement audit for 2004. On January 4, 2006, PwC was dismissed by us from performing the audit for the year ended December 31, 2004. Our audit committee participated in and approved the decision to change its independent registered public accounting firm for the audit for the year ended December 31, 2004.

PwC's reports on our consolidated financial statements as of and for the year ended December 31, 2003 did not contain any adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principle. During the fiscal year ended December 31, 2003 and through January 4, 2006, there were no disagreements with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of PwC, would have caused PwC to make reference thereto in their reports on the financial statements for such years.

As defined in Item 304(a)(1)(v) of Regulation S-K of the SEC, there was a reportable event related to five material weaknesses in our internal control over financial reporting for the fiscal year ended December 31, 2004. The material weaknesses related to deficiencies in our information technology and accounting control environments, insufficient tone at the top, a lack of automation in the revenue reporting process and deficiencies in our accounting for income taxes. The subject matter of the material weaknesses was discussed with PwC by our management and audit committee of the board of directors. We authorized PwC to fully respond to the inquiries of our newly appointed independent auditor, Deloitte & Touche, LLP, or Deloitte.

In August 2005, Deloitte was appointed by the audit committee of MetroPCS Communications' board of directors as its independent auditor for the audit of the fiscal year ending December 31, 2005. On January 4, 2006, Deloitte was appointed by the audit committee of MetroPCS Communications' board of directors as its independent auditor for the audit of the fiscal year ended December 31, 2004.

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**BUSINESS**

**General**

We offer wireless broadband personal communication services, or PCS, on a no long-term contract, flat rate, unlimited usage basis in selected major metropolitan markets in the United States. Since we launched our wireless service in 2002 we have been among the fastest growing wireless broadband PCS providers in the United States as measured by growth in subscribers and revenues. We reached one million customers in January 2004, 1.5 million customers in February 2005, two million customers in February 2006 and 2.5 million customers in August 2006. We currently offer our services in the greater San Francisco, Miami, Tampa/Sarasota/Orlando, Atlanta, Sacramento, Dallas/Ft. Worth, and Detroit metropolitan areas, which include a total licensed population of approximately 40 million. We launched service in the Miami, Atlanta and Sacramento metropolitan areas in the first quarter of 2002; in San Francisco in September 2002; in Tampa/Sarasota in October 2005; in Dallas/Ft. Worth in March 2006; in Detroit in April 2006; and, through a wholesale arrangement with Royal Street, in Orlando and portions of northern Florida in November 2006. In 2005, Royal Street, a company in which we own a non-controlling 85% limited liability company member interest, but only elect two of the five members of the management committee, was granted licenses by the FCC for the Los Angeles basic trading area and various basic trading areas throughout northern Florida. Royal Street is in the process of building infrastructure in Los Angeles and expects to commence commercial service in the second or third quarter of 2007. We have a wholesale arrangement that will allow us to sell MetroPCS-branded service to the public on up to 85% of the service capacity provided by the Royal Street systems.

Our wireless services target a mass market which we believe is largely underserved by traditional wireless carriers. Our service, branded under the MetroPCS name, allows customers to place unlimited local calls from within our service area, and to receive unlimited calls from any area while in our local service areas, under simple and affordable flat monthly rate plans starting at \$30 per month. For an additional \$5 to \$15 per month, our customers may select a service plan that offers additional services, such as the ability to place unlimited long distance calls from within our local service calling area to any number in the continental United States or unlimited voicemail, caller ID, call waiting, text messaging and picture and multimedia messaging. For additional fees, we also provide international long distance and text messaging, ringtones, ring back tones, downloads, games and content applications, mobile Internet browsing, unlimited directory assistance and other value-added services. Our customers also have access, on a prepaid basis, to nationwide roaming. Our rate plans differentiate our service from the more complex plans and long-term contracts required by most other traditional wireless carriers. Our customers pay for our service in advance, eliminating any customer-related credit exposure.

As of December 31, 2005, our customers in all metropolitan areas averaged approximately 2,000 minutes of use per month, compared to approximately 875 minutes per month for customers of the national wireless carriers. We believe that average monthly usage by our customers also exceeds the average monthly usage for typical wireline customers. Average usage by our customers indicates that a substantial number of our customers use our services as their primary telecommunications service, and our customer surveys indicate that a significant number of our customers use us as their primary or sole telecommunications service provider.

**Competitive Strengths**

Our business model has many competitive strengths that we believe distinguish us from our primary wireless broadband PCS competitors and will allow us to execute our business strategy successfully, including:

*Our Fixed Price Unlimited Service Plans.* We believe our service offering that provides unlimited usage from within a local calling area represents a compelling value proposition for our customers that

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differs from the offerings of the national wireless broadband PCS carriers and traditional wireline carriers. Our service model results in average per minute costs to our customers that are significantly lower than the average per minute costs of other traditional wireless broadband PCS carriers. We believe that many prospective customers refrain from subscribing to, or extensively utilizing, traditional wireless communications services because of high prices, long-term contract requirements, confusing calling plans and significant cash deposit requirements for credit challenged customers. Our simple, cost-effective rate plans, combined with our pay in advance no long-term contract service model, allow us to attract many of these customers.

*Our Densely Populated Markets.* We believe the high relative population density of our markets results in increased efficiencies in network deployment, operations and product distribution. We believe we have one of the highest aggregate population densities of any major wireless carrier in the United States in our Core and Expansion Markets. The aggregate population density across the licensed areas we currently serve and plan to serve in our Core Markets and Expansion Markets is approximately 321 people per square mile, which is nearly four times higher than the national average of 84 people per square mile. Our high relative population density and efficient network design resulted in cumulative capital expenditures per covered person as of September 30, 2006 of approximately \$42.00, which we believe enhances our overall return on capital. The opportunities on which we plan to focus initially in our Auction 66 Markets will have population density characteristics similar to our Core and Expansion Markets.

*Our Cost Leadership Position.* We believe we are one of the lowest cost providers of wireless broadband PCS services in the United States, which allows us to offer our services at affordable prices while maintaining cash profits per customer as a percentage of revenues per customer that are among the highest in the wireless industry. For the nine months ended September 30, 2006, our CPU was \$19.65, which represents an average cost per minute of service on our network of approximately one cent. For the nine months ended September 30, 2006, our CPGA was \$116.56, which we believe to be among the lowest in the industry. We believe our operating strategy, network design and rapidly increasing scale, together with the high relative population density of our markets, will continue to contribute to our cost leadership position. For a discussion of CPU and CPGA, and their respective reconciliations to cost of service and selling expenses, please read Summary Historical Financial and Operating Data and Management's Discussion and Analysis Reconciliation of Non-GAAP Financial Measures.

*Our Spectrum Portfolio.* We hold or have access to wireless licenses covering a population of approximately 140 million in the United States. These licenses cover nine of the top 12 and 14 of the top 25 most populous metropolitan areas in the United States, including New York (#1), Los Angeles (#2), San Francisco (#4), Dallas/Ft. Worth (#5), Philadelphia (#6), Atlanta (#9), Detroit (#10), Boston (#11), Miami (#12), Seattle (#15), San Diego (#16), Tampa (#20), Sacramento (#24) and Portland (#25), as well as Las Vegas (#31).

*Our Advanced CDMA Network.* We deploy an advanced CDMA network in each of our Core and Expansion Markets that is designed to provide the capacity necessary to satisfy the usage requirements of our customers. We believe CDMA technology provides us with substantially more voice and data capacity per MHz of spectrum than other commonly deployed wireless broadband PCS technology. We believe that the combination of our network technology, network design and spectrum depth will continue to allow us to serve efficiently the high usage demands of our rapidly growing customer base into the future.

**Business Strategy**

We believe the following components of our business strategy provide the foundation for our continued rapid growth:

*Continue to Target Underserved Customer Segments in our Markets.* We target a mass market which we believe is largely underserved by traditional wireless carriers. We believe that our rapid growth to over 2.6 million customers since our initial service launch in 2002 demonstrates the substantial demand in the



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United States for our innovative wireless services. We believe our rapid adoption rates and customer mix indicate that our service is expanding the overall size of the wireless market and better meeting the needs of many existing wireless users. Our average monthly usage by our customers for all markets is approximately 2,000 minutes per month, and our recent customer surveys indicate that over 80% of our customers use us as their primary phone service and that over 50% of our customers have eliminated their traditional landline phone service. Approximately 65% of our customers are first time wireless users, while the balance have switched to our service from another wireless carrier.

*Offer Affordable, Fixed Price Unlimited Service Plans With No Long-Term Service Contract Requirement.* We plan to continue to offer our fixed price, unlimited wireless service plans, which we believe represent an attractive and differentiated offering to a large segment of the population. Our service is designed to provide mobile functionality while eliminating the gap between traditional wireless and wireline pricing. We believe this stimulates the demand for our wireless service, contributes to the continuing growth of our subscriber base and will increase the overall wireless adoption levels in our markets.

*Remain One of the Lowest Cost Wireless Service Providers in the United States.* We believe our operating strategy, network design and high relative population density in our markets have enabled us to become, and will enable us to continue to be, one of the lowest cost providers of wireless broadband PCS services in the United States. We also believe our rapidly increasing scale will allow us to continue to drive our per-customer operating costs down in the future. In addition, we will seek to maintain operating costs per customer that are substantially below the operating costs of our national wireless broadband PCS competitors. We believe our industry leading cost position provides us and will continue to provide us with a sustainable competitive advantage.

*Expand into Attractive Markets.* We have been successful in acquiring or gaining access to spectrum in a number of new metropolitan areas which share the high relative population density and customer characteristics of our Core Markets. We believe our early experience in Tampa/Sarasota, Dallas/Ft. Worth and Detroit, where, as of September 30, 2006, we have added approximately 442,000 new subscribers since the launch of service, demonstrates our ability to successfully expand our service into new metropolitan areas.

## **Company History**

General Wireless, Inc., or GWI, was formed in 1994 for the purpose of bidding on, acquiring and operating broadband PCS licenses as a very small business under the FCC's designated entity rules. In 1995, GWI formed GW1, Inc. as a wholly-owned subsidiary, and shortly afterwards changed GW1, Inc.'s name to GWI PCS, Inc., or GWI PCS. In 1996, GWI PCS participated in the FCC's C-Block auctions of broadband PCS spectrum licenses and was declared the high bidder on licenses for the Miami, Atlanta, Sacramento and San Francisco metropolitan areas. In 1999, GWI PCS changed its name to MetroPCS Wireless, Inc. and GWI changed its name to MetroPCS, Inc.

In March 2004, MetroPCS, Inc. formed MetroPCS Communications as a wholly-owned subsidiary of MetroPCS, Inc. and in July 2004 a wholly-owned subsidiary of MetroPCS Communications, Inc., MPCS Holdco Merger Sub, Inc., merged into MetroPCS, Inc. and MetroPCS, Inc. was the surviving corporation. As a result of this merger, MetroPCS, Inc. became a wholly-owned subsidiary of MetroPCS Communications, Inc. In August 2006, MetroPCS Communications, Inc. formed MetroPCS V, Inc., as a wholly-owned subsidiary which indirectly, through a series of no longer existing wholly-owned subsidiaries, held all of the common stock of MetroPCS Wireless, Inc.

In November 2006, as part of the restructuring associated with the issuance of the senior notes and the senior secured credit facility, MetroPCS, Inc. was merged into MetroPCS Wireless, Inc., with MetroPCS Wireless, Inc. surviving, and MetroPCS V, Inc. was renamed MetroPCS, Inc. MetroPCS Wireless, Inc.'s business constitutes substantially all of the business of MetroPCS Communications, Inc. and its wholly-





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owned subsidiary, and parent of MetroPCS Wireless, Inc., MetroPCS, Inc. (formerly known as MetroPCS V, Inc.), and we continue to conduct business under the MetroPCS brand.

**Products and Services**

*Voice Services.* We provide affordable, reliable, high-quality wireless broadband PCS services through the pricing plans detailed in the chart below. All service plans are paid-in-advance and do not require a long-term contract. Our lowest priced \$30 per month service plan allows our customers to place unlimited local calls inside our calling area and to receive unlimited calls from anywhere in the world but without the ability to add additional features. For an additional \$5 to \$15 per month, a subscriber may select a service plan which provides more flexibility and options such as nationwide long distance calling, unlimited text messaging (domestic and international), voicemail, caller ID, call waiting, picture and multimedia messaging, data and other a la carte options on a prepaid basis. Our most popular service plans currently are our unlimited \$40 and \$45 rate plans which offer unlimited local and long distance calling, text and picture messaging, enhanced voice mail, caller ID, call waiting and 3-way calling. As of September 30, 2006, over 80% of our customers had selected either our \$40 or \$45 rate plans.

**MetroPCS Service Plans**

<b>Product</b>	<b>\$30/Month</b>	<b>\$35/Month</b>	<b>\$40/Month</b>	<b>\$45/Month</b>
Unlimited local calling	X	X	X	X
Unlimited nationwide long distance calling(1)			X	X
Unlimited domestic text messaging				X
Unlimited picture messaging				X
Enhanced voicemail				X
3-way calling				X
Caller ID				X
Call waiting				X
Additional calling features available		X	X	X

(1) Includes only the continental United States.

Our local outbound calling areas extend in most cases beyond the boundaries of our actual license area. For example, customers in our San Francisco and Sacramento markets may place unlimited local calls while inside our service area to areas throughout the majority of northern California without incurring toll charges. Our wireline competitors generally would impose toll charges for calls within this area, while our service treats these as local calls.

Customers who travel outside of our coverage area may roam onto other wireless networks in two ways. First, a customer may purchase service directly from a manual roaming provider in that area by providing the provider with a credit card number, which allows that provider to bill the customer directly for any roaming charges. If the customer chooses this option, we incur no costs, nor do we receive any revenues. Second, a customer may subscribe to our nationwide roaming service, branded as TravelTalk, under which we provide voice roaming service through agreements with other wireless carriers. We launched our TravelTalk roaming service on a prepaid basis in April 2006. Under this option, the customer makes a deposit in a prepaid account and may access our nationwide roaming service when traveling outside our local service area. We incur costs for providing, and earn revenue from, this nationwide roaming service in excess of our costs. Due to charges imposed by our roaming suppliers, our nationwide roaming service is not cost effective for customers who travel frequently outside our local service area, but the ability

to roam nationwide on a prepaid basis expands the market to those customers that may find occasional roaming beneficial.

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*Data Services.* Our data services include:

services provided through the Binary Runtime Environment for Wireless, or BREW, platform, including ringtones, games and content applications;

text messaging services (domestic and international), which allow the customer to send and receive alphanumeric messages that the handset can receive, store and display on demand;

multimedia messaging services, which allow the customer to send and receive messages containing photographs; and

mobile Internet browsing.

*Custom Calling Features.* We offer other custom calling features, including caller ID, call waiting, three-way calling, distinctive ringtones, ring back tones and voicemail.

*Advanced Handsets.* We sell a variety of handsets manufactured by nationally recognized handset manufacturers for use on our network, including models that provide color screens, camera phones and other features facilitating digital data. All of the handsets we offer are CDMA 1XRTT compliant and are capable of providing the location data mandated by the FCC's wireless E-911 rules and regulations.

## **Core and Expansion Markets**

Our strategy has been to offer our services in major metropolitan markets and their surrounding areas, which we refer to as clusters. Within our Core Markets we operate three separate clusters, which include Georgia (Atlanta), South Florida (Miami) and Northern California (San Francisco and Sacramento). We initially launched our service in South Florida, Georgia and the Sacramento area of Northern California in the first quarter of 2002 and launched the San Francisco metropolitan area in September of 2002. These Core Market clusters have a licensed population of approximately 26 million of which our networks currently cover 22 million. Our Core Market clusters have an average population density of 256 people per square mile, compared to the national average of 84, enjoy average annualized population growth of 1.8% compared to the national average of 1.1% and have a median household income of \$53,000 compared to a national average of \$47,000.

Beginning in the second half of 2004, we began to acquire licenses opportunistically for new markets that shared characteristics similar to our existing Core Markets. In addition to these acquisitions, we also entered into agreements with Royal Street, a company in which we own a non-controlling 85% limited liability company member interest, and which was granted broadband PCS licenses by the FCC in December 2005 following FCC Auction 58. For a discussion of Royal Street and Auction 58, please see Auction 58 and Royal Street. We have a wholesale agreement with Royal Street that allows us to purchase up to 85% of Royal Street's service capacity and sell it on a retail basis under the MetroPCS brand in geographic areas where Royal Street was granted FCC licenses. Our Expansion Markets include Tampa/Sarasota/Orlando, Dallas/Ft. Worth, Detroit, portions of Northern Florida, which are geographically complementary to our South Florida cluster, as well as Los Angeles, which is geographically complementary to our Northern California cluster. Within our Expansion Markets we operate or will operate four new separate clusters: Northern and Central Florida, Dallas/Ft. Worth, Detroit and Southern California. As of November 2006, we had launched our service in all of our major Expansion Markets except for Los Angeles, which we expect to launch in the second or third quarter of 2007 through our wholesale arrangement with Royal Street. Our Expansion Markets have a licensed population of 40 million, of which our networks currently cover 16 million people in the geographic areas we have launched to date, including our operations in Orlando and portions of northern Florida. Together, our Core and Expansion Markets have average population density of 321 people per square mile, compared to the national average

of 84, enjoy average annualized population growth of 1.7% compared to the national average of 1.1% and have a median household income of \$50,000 compared to a national average of \$47,000. We believe all of these Expansion Markets are particularly

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attractive because of their high population densities, attractive customer demographics, high historical and projected population growth rates, favorable business climates and long commuting times relative to national averages.

The table below provides a metropolitan area by metropolitan area overview of our Core and Expansion Markets (excluding Auction 66 Markets) including the FCC basic trading area (BTA) identification number, the number of people, or POPs, the POP density, the annualized POP growth rate, the spectrum depth and each metropolitan area's actual or expected launch date. For our Expansion Markets we have noted whether we are the FCC license holder in each metropolitan area or if we will provide our services in that metropolitan area through our agreements with Royal Street, which holds the license. It should also be noted that all of the licensed spectrum in our Core and Expansion Markets is in the 1900 MHz PCS band and that the metropolitan area classification in the table below conform to the FCC's basic trading area (BTA) geographic areas for PCS spectrum.

<b>Metropolitan Area</b>	<b>BTA</b>	<b>POPs ( '000s)</b>	<b>POP Density(2)</b>	<b>Annualized POP Growth(3)</b>	<b>MHz</b>	<b>Launch Date</b>
<b>Core Markets:</b>						
<b>Georgia:</b>						
Atlanta, GA	24	5,085.1	445	2.53%	20	Q1 2002
Gainesville, GA	160	295.6	170	3.15%	30	Q1 2002
Athens, GA	22	228.2	163	1.70%	20	Q1 2002
<b>South Florida:</b>						
Miami-Fort Lauderdale, FL	293	4,342.4	1,005	1.69%	30	Q1 2002
West Palm Beach, FL	469	1,308.1	412	2.05%	30	Q1 2002
Fort Myers, FL	151	729.5	191	2.61%	30	Q1 2004
Fort Pierce-Vero Beach, FL	152	486.9	272	2.13%	30	Q1 2004
Naples, FL	313	310.9	146	3.63%	30	Q1 2004
<b>Northern California:</b>						
San Fran.-Oak.-S.J., CA	404	7,458.9	540	0.57%	20	Q3 2002
Sacramento, CA	389	2,326.4	138	2.65%	30	Q1 2002
Stockton, CA	434	728.9	285	3.25%	30	Q1 2002
Modesto, CA	303	587.8	150	2.79%	15	Q1 2005
Salinas-Monterey, CA	397	429.0	128	1.21%	30	Q1 2002
Redding, CA	371	299.9	18	1.47%	30	Q4 2006
Merced, CA	291	262.7	75	2.53%	15	Q1 2005
Chico-Oroville, CA	79	244.1	80	1.13%	30	Q1 2002
Eureka, CA	134	155.5	34	0.18%	15	TBD
Yuba City-Marysville, CA	485	152.7	120	1.68%	30	Q1 2002

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<b>Metropolitan Area</b>	<b>BTA</b>	<b>POPs ( 000s)</b>	<b>POP Density(2)</b>	<b>Annualized POP Growth(3)</b>	<b>MHz</b>	<b>Launch Date</b>
<b>Expansion Markets:</b>						
<b>Central and Northern Florida:</b>						
Tampa-St. Petersburg, FL	440	2,869.4	566	1.59%	10	Q4 2005
Sarasota-Bradenton, FL	408	694.3	343	1.97%	10	Q4 2005
Daytona Beach, FL	107	548.6	311	1.92%	20	TBD
Ocala, FL	326	290.9	171	2.09%	10	TBD
Jacksonville, FL(1)	212	1,499.2	178	1.78%	10	TBD
Lakeland-Winter Haven, FL(1)	239	518.5	254	1.27%	10	Q4 2006
Melbourne-Titusville, FL(1)	289	521.5	484	1.65%	10	TBD
Gainesville, FL(1)	159	336.5	90	0.92%	10	TBD
Orlando, FL(1)	336	1,960.2	415	2.54%	10	Q4 2006
<b>Dallas/Ft. Worth:</b>						
Dallas/Ft. Worth, TX(4)	101	5,878.4	687	2.56%	10	Q1 2006
Sherman-Denison, TX(5)	418	188.2	66	0.99%	10	Q1 2006
<b>Detroit:</b>						
Detroit, MI	112	5,074.5	811	0.41%	10	Q2 2006
<b>Southern California:</b>						
Los Angeles, CA(1)	262	17,962.8	398	1.66%	10	Q2/Q3 2007
Bakersfield, CA	28	737.6	89	1.95%	10	TBD

Sources: Kagan 2005 Wireless Telecom Atlas and Databook and Company public filings.

(1) License granted to Royal Street.

(2) Calculated as number of POPs divided by square miles.

(3) Estimated average 2003-2008 annual population growth.

(4) The Dallas/Ft. Worth license is comprised of the counties which make up CMA9.

(5) Comprised of Grayson and Fannin counties only.

**Core and Expansion Market Launch Experience**

When we launched our Core Markets in 2002 we had limited access to capital. As a result, as we prepared to launch each market, we limited our initial network coverage, pre and post launch expenditures on advertising and the number of distribution outlets. This strategy allowed us to protect our limited capital and closely regulate our post launch investments in both additional network coverage as well as our costs of customer acquisition. Our licensed population coverage at the time of launch across our Core Markets was between approximately 65% and 70%. In addition, the CDMA 1XRTT technology we deployed in our network was relatively new at the time we launched our Core Markets. As a result, we were able to offer only a single handset and a single \$35 per month rate plan at the time we launched each of our Core Markets, which we believe limited the initial attractiveness of our service. In spite of these challenges, the demand for our service exceeded our initial expectations and the average customer penetration levels

of our Core Markets at the end of 12 months of operations for each of our Core Markets as a percentage of covered population was approximately 4%. In the fourth quarter of 2003, we were able to raise additional capital, which allowed us to expand our network coverage and increase our distribution presence. As of September 30, 2006, our Core Market operations had achieved customer penetration levels as a percentage of covered population of 9.8%, representing an increase of 1.6% in incremental penetration over the prior year.

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In early 2005, as we began to plan our network deployment and service launch in our Expansion Markets, we had sufficient liquidity to more effectively execute our build-out and launch strategy. We were also able to apply the lessons we learned from the launch and operations of our Core Markets to improve our execution plan for our Expansion Markets. As a result, we launched our Expansion Markets with higher initial population coverage of between approximately 80% and 90%. We also elected to deploy additional network equipment in certain high population areas in order to provide higher quality in-building coverage, increase by approximately 20% our average number of distribution locations per one million covered population at the time of launch, and offer a broader selection of monthly rate plans and handsets. These factors allowed us to initially target a larger population of potential customers and provide a more robust service offering at the launch dates. As a result of these changes, we are experiencing higher levels of initial customer penetration in our Expansion Markets than we experienced in our Core Markets, based on our performance to date in the Tampa/Sarasota/Orlando, Dallas, and Detroit metropolitan areas. Based on our experience to date and current industry trends, we believe our business model has the opportunity to achieve average penetration levels as a percent of covered population in excess of 15% in our Core and Expansion Markets.

Los Angeles, California, the second most populous market in the United States, is the only one of our major Expansion Markets that we have not yet launched. We plan to launch the Los Angeles metropolitan area in the second or third quarter of 2007. Los Angeles will represent the eighth top 25 metropolitan area launched by us. We believe that the Los Angeles metropolitan area could prove to be our most successful launch to date, based on its high population density and attractive demographics.

## **Auction 66 Markets**

At the conclusion of FCC Auction 66 in September 2006, we were declared the high bidder on eight additional FCC licenses for total aggregate winning bids of approximately \$1.4 billion, and in November 2006 we were granted all eight of these licenses. The spectrum licenses granted as a result of Auction 66 are in the advanced wireless services, or AWS, band which includes the 1710 to 1755 MHz frequencies as well as the 2110 to 2155 MHz frequencies. These frequency ranges are near the PCS band in which we operate our Core and Expansion Markets, and we believe this spectrum to have similar technical properties to the PCS spectrum we are currently licensed to operate. The licenses awarded by the FCC in Auction 66 were divided into geographic areas which are different from the geographic areas associated with PCS licenses. The map below describes the geographic coverage of our Auction 66 licenses and shows the relationship between these new licenses and our existing Core and Expansion Markets.



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Our Auction 66 licenses cover a total unique population of 117 million. New expansion opportunities in geographic areas outside of our Core and Expansion Markets represent approximately 69 million of the total covered population of our Auction 66 Markets. Our expansion opportunities as a result of Auction 66 cover six of the top 25 metropolitan market areas in the United States, including the entire east coast corridor from Philadelphia to Boston, including New York City, as well as the entire states of New York, Connecticut and Massachusetts. Together our east coast expansion opportunities cover a geographic area of 50 million people. In the Western United States our new expansion opportunities cover a geographic area of 19 million people, including the San Diego, Portland, Seattle and Las Vegas metropolitan areas.

The balance of our Auction 66 Markets, which covers a population of 48 million, supplements or expands the geographic boundaries of our existing operations in Dallas/Ft. Worth, Detroit, San Francisco and Sacramento, and Royal Street's license area in Los Angeles. Given our performance in the Core and Expansion Markets to date, we expect this additional spectrum to provide us with enhanced operating flexibility, reduced capital expenditure requirements in existing licensed areas and an expanded service area relative to our position prior to Auction 66. We intend to focus our build-out strategy in our new Auction 66 Markets initially on licenses with a total population of approximately 40 million in major metropolitan areas which we believe offer us the opportunity to achieve financial results similar to our existing Core and Expansion Markets, with a primary focus on the New York, Philadelphia, Boston and Las Vegas metropolitan areas. Of the approximately 40 million total population, we are targeting launch of operations with an initial population of approximately 30 to 32 million by late 2008 or early 2009.

	<b>License</b>	<b>Purchase Price</b>	<b>Spectrum MHz</b>	<b>Population</b>
REA 1	Northeast	\$ 552,694,000	10	50,058,090
REA 6	West	355,726,000	10	49,999,164
EA 10	New York-No. New Jer.-Long Island, NY-NJ-CT-PA-MA-VT(1)	363,945,000	10	25,712,577
EA 57	Detroit-Ann Arbor-Flint, MI	50,317,000	10	6,963,637
EA 127	Dallas/Ft. Worth, TX-AR-OK	49,766,000	10	7,645,530
EA 62	Grand Rapids-Muskegon-Holland, MI	7,920,000	10	1,881,991
EA 153	Las Vegas, NV-AZ-UT(1)	10,420,000	10	1,709,797
EA 88	Shreveport-Bossier City, LA-AR	622,000	10	573,616

Source: FCC Auction 66 Website

(1) Licenses overlap other Auction 66 licenses

The New York EA overlaps that portion of the Northeast REA surrounding the greater New York metropolitan area. The Las Vegas EA also overlaps that portion of the West REA that also covers Las Vegas. As a result, we have 20 MHz of spectrum in these metropolitan areas which we believe will facilitate a more capital efficient rollout and allow us to more effectively scale our operations.

There are incumbent governmental and non-governmental users in the AWS band. The relocation of incumbent governmental users will be funded by the proceeds of Auction 66, although certain governmental users will not be required to relocate. The non-governmental incumbent licensees will need to be relocated pursuant to the FCC's approved spectrum relocation order, which may require us to pay for their relocation expenses which we currently estimate to be approximately \$40 to \$60 million, and which requires voluntary registration for the first three years

before the commercial incumbents are subject to mandatory relocation.

**Auction 58 and Royal Street**

In January 2005, the FCC conducted Auction 58 for wireless broadband PCS spectrum. Auction 58 was the first significant FCC auction for wireless broadband PCS spectrum since Auction 35 in 2001. Auction 58,

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like other major auctions conducted by the FCC, was designed to allow small businesses, very small businesses and other so called designated entities, or DEs, to acquire spectrum and construct wireless networks to promote competition with existing carriers. To that end, the FCC designated certain blocks of wireless broadband PCS spectrum for which only DEs could apply. Qualified DEs were able to bid on these restricted or closed licenses which were not available to other bidders who did not qualify as DEs. In addition, very small business DEs were permitted to apply for and bid on open licenses with a bidding credit of 25% of the gross bid price. We entered into a cooperative arrangement with an unaffiliated very small business entrepreneur and invested in Royal Street, a DE that qualified to bid on closed licenses and was eligible for the 25% bidding credit on open licenses. We own a non-controlling 85% limited liability company member interest in Royal Street and may only elect only two of the five members to Royal Street's management committee, which has the full power to direct the management of Royal Street. C9 Wireless, LLC, or C9, has control over the operations of Royal Street because it has the right to elect three of the five members of Royal Street's management committee. C9 has the right to put all or part of its ownership interest in Royal Street to us, but due to regulatory restrictions, we have no corresponding right to call C9's ownership interest in Royal Street. The put right has been structured so that its exercise will not adversely affect Royal Street's continued eligibility as a very small business designated entity during periods where such eligibility is required. If C9 exercises its put right, we will be required to pay a fixed return on C9's invested capital in Royal Street, which fixed return diminishes annually beginning in the sixth year following the grant of Royal Street's FCC licenses. These put rights expire in June 2012.

Auction 58 was completed in February 2005, and Royal Street made its final payment to the FCC for the licenses it won in Auction 58 in March 2005. In December 2005, Royal Street was granted the following licenses on which Royal Street was the high bidder at the conclusion of Auction 58: Los Angeles, California; and Orlando, Jacksonville, Lakeland-Winter Haven, Melbourne-Titusville and Gainesville, Florida basic trading areas.

Royal Street holds all of the Auction 58 licenses and has entered into certain cooperative agreements with us relating to the financing, design, construction and operation of the networks. The Royal Street agreements are based on a wholesale model in which Royal Street plans to sell up to 85% of its engineered service capacity on a wholesale basis to us, which we in turn will market on a retail basis under the MetroPCS-brand to our customers within the covered area. In addition, the Royal Street agreements contemplate that MetroPCS, at Royal Street's request and at all times subject to Royal Street's direction and control, will build-out the networks, provide information to Royal Street relating to the budgets and business plans as well as arrange for administrative, clerical, accounting, credit, collection, operational, engineering, maintenance, repair, and technical services. We do not own or control the Royal Street licenses. However, pursuant to contractual arrangements with Royal Street, we have access, via the wholesale arrangement, to as much as 85% of the engineered service capacity of Royal Street's network with the remaining 15% reserved by Royal Street to sell to other parties.

Also, pursuant to another of the Royal Street agreements, upon Royal Street's request, we will provide financing for the acquisition and build-out of licenses won in Auction 58. As of November 30, 2006 the maximum amount that Royal Street may borrow from us under the loan agreement is approximately \$500 million. As of November 30, 2006 Royal Street has borrowed \$394 million from us under the loan agreement, approximately \$294 million of which was used for the acquisition of new licenses. Interest accrues under the loan agreement at a rate equal to 11% per annum, compounded quarterly. Royal Street has commenced repayment of that portion of the loans related to the Orlando and Lakeland-Winter Haven markets. The proceeds from this loan are to be used by Royal Street to make payments for the licenses won in Auction 58, to finance the build-out and operation of the Royal Street network infrastructure, and to make payments under the loan until Royal Street has positive free cash flow.

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### **License Term**

All of the broadband PCS licenses held by us and by Royal Street have an initial term of ten years after the initial grant date (which varies by license, but the initial San Francisco, Sacramento, Miami and Atlanta licenses were granted in January 1997), and, subject to applicable conditions, may be renewed at the end of their terms. The AWS licenses granted in Auction 66 have an initial term of fifteen years after the initial grant of the license. Each FCC license is essential to our and Royal Street's ability to operate and conduct our and Royal Street's business in the area covered by that license. We have filed renewal applications for our broadband PCS licenses as the windows to file renewal applications have opened. The applications are currently pending. For a discussion of general licensing requirements, please see General Licensing Requirements and Broadband Spectrum Allocations.

### **Distribution and Marketing**

We offer our products and services under the MetroPCS brand indirectly through approximately 2,000 independent retail outlets and directly to our customers through 93 Company-operated retail stores. Our indirect distribution outlets include a range of local, regional and national mass market retailers and specialty stores. A significant portion of our gross customer additions have been added through our indirect distribution outlets and for the nine months ended September 30, 2006, 84% of our gross customer additions were through indirect channels. We have over 2,000 locations where customers can make their monthly payments, and many of these locations also serve as distribution points for our products and services. Our cost to distribute through direct and indirect channels is substantially similar, and we believe our mix of indirect and direct distribution allows us to reach the largest number of potential customers in our markets at a low relative cost. We plan to increase our number of indirect distribution outlets and Company-operated stores in both Core and Expansion Markets and in new markets acquired in the future, such as the Auction 66 Markets.

We advertise locally to develop our brand and support our indirect and direct distribution channels. We advertise primarily through local radio, cable, television, outdoor and local print media. In addition, we believe we have benefited from a significant number of word-of-mouth customer referrals.

### **Customer Care, Billing and Support Systems**

We use several outsourcing solutions to efficiently deliver quality service and support to our customers as part of our strategy of establishing and maintaining our leadership position as a low cost telecommunications provider while ensuring high customer satisfaction levels. We outsource some or all of the following back office and support functions to nationally recognized third-party providers:

*Customer Care.* We have outsourcing contracts with two nationally recognized call center vendors. These call centers are staffed with professional and bilingual customer service personnel, who are available to assist our customers 24 hours a day, 365 days a year. We also provide automated voice response services to assist our customers with routine information requests. We believe providing quality customer service is an important element in overall customer satisfaction and retention, and we regularly review performance of our call center vendors.

*Billing.* We utilize a nationally recognized third-party billing platform, that bills, monitors and analyzes payments from our customers. We offer our customers the option of receiving web-based and short messaging service-based bills as well as traditional paper bills. We also offer our customers the option of automatic payment of their bills via credit or debit cards. Very few of our customers utilize paper bills and substantially all of our customers receive their bills through the short message service included with our wireless service.

*Payment Processing.* Customers may pay their bills by credit card, debit card, check or cash. We have over 2,000 locations where customers choosing to pay for their monthly service in cash can

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make their payments. Many of these locations also serve as distribution points for our products and services making them convenient for customer payments. Customers may also make payments at any of the Western Union locations throughout our metropolitan service areas.

*Logistics.* We outsource logistics associated with shipping handsets and accessories to our distribution channels to a nationally recognized logistics provider.

## **Network Operations**

We believe we were the first U.S. wireless broadband PCS carrier to have 100% of our customers on a CDMA 1XRTT network. We began building our network in 2001, shortly after other CDMA carriers began upgrading their networks to 1XRTT. As a result, we believe we deployed our network with third generation capabilities at a much lower cost than incurred by other carriers who were forced to undergo a technology migration to deploy second generation CDMA networks. Since all of our handsets are CDMA 1XRTT compliant, we receive the full capacity and quality benefits provided by CDMA 1XRTT across our entire network and customer base.

As of September 30, 2006, our network consists of 11 switches at eight switching centers and 3,030 operating cell sites. A switching center serves several purposes, including routing calls, managing call handoffs, managing access to the public telephone network and providing access to voicemail and other value-added services. Currently, almost all of our cell sites are co-located, meaning our equipment is located on leased facilities that are owned by third parties retaining the right to lease the facilities to additional carriers. Our switching centers and national operations center provide around-the-clock monitoring of our network base stations and switches.

Our switches connect to the public telephone network through fiber rings leased from third-parties, which facilitate the first leg of originating and terminating traffic between our equipment and local exchange and long distance carriers. We have negotiated interconnection agreements with relevant local exchange carriers in our service areas.

We use third-party providers for long distance services and the majority of the backhaul services. Backhaul services are the telecommunications services that we use to carry traffic to and from our cell sites and our switching facilities.

## **Network Technology**

Wireless digital signal transmission is accomplished by using various forms of frequency management technology, or air interface protocols. The FCC has not mandated a universal air interface protocol for wireless broadband PCS systems; rather, wireless broadband PCS systems in the United States operate under one of three dominant principle air interface protocols: CDMA; time division multiple access, or TDMA; or global system for mobile communications, or GSM. All three air interface protocols are incompatible with each other. Accordingly, a customer of a system that utilizes CDMA technology is unable to use a CDMA handset when traveling in an area not served by a CDMA-based wireless carrier, unless the customer carries a dual-band/dual-mode handset that permits the customer to use the alternate cellular system in that area. In addition, certain carriers also restrict customers from changing the programming of their phones to be used on other carriers' networks using the same air interface protocol.

We believe 10 MHz of spectrum to be sufficient to begin service in metropolitan areas using technology that divides the base station coverage area served by a transmitter receiver into three parts or sectors. However, in metropolitan areas with only 10 MHz of spectrum we have a network design capable of subdividing the service area into six parts or sectors and to deploy these six-sector cells in selected, high-demand areas. This will increase the capacity of the wireless base stations in these markets by doubling the number of sectors (segments of the circle representing the base station's broadcast area) over which a base station's antennas can handle calls simultaneously. Our vendors have informed us that cell sites using six



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sectors have been in operation for many years in the U.S., and we have obtained actual performance data on cell sites that have been operational for multiple years. We and Royal Street have commercially deployed six-sector cell sites in certain geographic areas in 2006, and we anticipate that Royal Street will deploy this technology in Los Angeles in 2007.

We believe that this technology uses spectrum more efficiently than any alternative commonly used wireless technology in 10 MHz. We also intend to buy EVRC-B, or 4G vocoder, handsets when available. 4G vocoder handsets allow for greater capacity in the network. We believe these handsets will be available in 2007. We currently intend to further enhance network capacity by upgrading our networks with EV-DO Revision A with Voice-Over-Internet-Protocol, or VoIP, which we anticipate will be available in 2008. When combined with six-sector technology, it is our expectation that new 4G vocoder and EV-DO Revision A with VoIP will more than double the effective available spectrum relative to three-sector, 1XRTT technology. Thus, we believe 10 MHz of spectrum has the effective capacity of 20 MHz using today's technologies. We anticipate that spectral efficiency will continue to improve over the next several years, allowing us to keep up with the increased usage of third-generation services.

As a result of Auction 66, we were granted licenses for additional spectrum in some of these metropolitan areas. We acquired this spectrum because the price of the spectrum was attractive when considering the additional cost that would have been incurred to employ the technologies described above to more fully utilize the existing 10 MHz. In many cases, our Auction 66 spectrum will allow us to enlarge our existing geographic service area, which we believe will further enhance the attractiveness of our services.

Our decision to use CDMA is based on several key advantages over other digital protocols, including the following:

*Higher network capacity.* Cellular technology capitalizes on reusing discrete amounts of spectrum at a cell site that can be used at another cell site in the system. We believe, based on studies by CDMA handset manufacturers, that our implementation of CDMA digital technology will eventually provide approximately seven to ten times the system capacity of analog technology and approximately three times the system capacity of TDMA and GSM systems, resulting in significant operating and cost efficiencies. Additionally, we believe that CDMA technology provides network capacity and call quality that is superior to other wireless technologies.

*Longer handset battery life.* While a digital handset using any of the three digital air interface protocols has a substantially longer battery life than an analog cellular handset, CDMA handsets can provide even longer periods between battery recharges than other commonly deployed digital PCS technologies.

*Fewer dropped calls.* CDMA systems transfer calls throughout the CDMA network using a soft hand-off, which connects a mobile customer's call with a new base station while maintaining a connection with the base station currently in use, and hard hand-off, which disconnects the call from the current base station when it connects to another base station. CDMA networks monitor the quality of the transmission received by multiple neighbor base stations simultaneously to select the best transmission path and to ensure that the call is not disconnected in one base station unless replaced by a stronger signal from another. Analog, TDMA and GSM networks only use a hard hand-off and disconnect the call from the current base station as it connects with a new one without any simultaneous connection to both base stations. Since CDMA allows for both hard and soft hand-off, it results in fewer dropped calls compared to other wireless technologies.

*Simplified frequency planning.* TDMA and GSM service providers spend considerable time and money on frequency planning because they must reuse frequencies to maximize network capacity. CDMA technology allows reuse of the same subset of allocated frequencies in every cell, substantially reducing the need for costly frequency planning.





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*Efficient migration path.* CDMA 1XRTT technology can be upgraded easily and cost-effectively for enhanced voice and data capabilities. The technology requires relatively low incremental investment for each step along the migration path with relatively modest incremental capital investment levels as demand for more robust data services or additional capacity develops.

*Privacy and security.* CDMA uses technology that requires accurate time and code phase knowledge to decode, increasing privacy and security.

**Competition**

We compete directly in each of our metropolitan areas with other wireless service providers, with wireline companies and increasingly with cable companies by providing a wireless alternative to traditional wireline service. The wireless industry is dominated by national carriers, such as Cingular Wireless, Verizon Wireless, Sprint Nextel and T-Mobile and their prepaid affiliates or brands, which have an estimated 84% of the national wireless market share as measured by number of subscribers, according to the Federal Communications Commission's Annual Report and Analysis of Competitive Market Conditions with Respect to Commercial Mobile Services, FCC 06-142, released September 29, 2006. National carriers typically offer post-paid plans that require long-term contracts and credit checks or deposits. Over the past few years, the wireless industry has seen an emergence of several new competitors that provide either pay-as-you-go or prepaid wireless services. Some of these competitors, such as Virgin Mobile USA, Amp'd Mobile and Tracfone, are non-facility based mobile virtual network operators, or MVNOs, that contract with wireless network operators to provide a separately branded wireless service. These MVNOs typically also charge by the minute rather than offering flat-rate plans. Some companies, such as Leap Wireless d/b/a Cricket and Sure West Wireless, are regional carriers with unlimited fixed-rate plans similar to ours. In addition, Sprint Nextel recently announced that it is evaluating whether to offer an unlimited local calling plan under its Boost brand. Other national wireless carriers also may decide in the future to offer unlimited wireless service offerings. Thus, we compete with both the national carriers, the prepaid, pay-as-you-go service providers and in some cases regional and local carriers. We believe that competition for subscribers among wireless communications providers is based mostly on price, service area, services and features, call quality and customer service. The wireline industry is also dominated by large incumbent carriers, such as AT&T, Verizon, and BellSouth, and competitive local exchange or Voice-Over-Internet-Protocol, or VoIP, service providers, such as Vonage, McLeod USA, and XO Communications. The cable industry is also dominated by large carriers such as Time Warner Cable, Comcast and Cox Communications. These cable companies formed a joint venture along with Sprint Nextel and Bright House Networks called SpectrumCo LLC, or SpectrumCo, which bid on and acquired 20 MHz of advanced wireless service, or AWS, in a number of major metropolitan areas throughout the United States, including all of the major metropolitan areas which comprise our Core, Expansion and Auction 66 Markets.

Many of our wireless, wireline and cable competitors' resources are substantially greater, and their market shares are larger, than ours, which may affect our ability to compete successfully. Additionally, many of our wireless competitors offer larger coverage areas or nationwide calling plans that do not give rise to additional roaming charges, and the competitive pressures of the wireless communications industry have led them to offer service plans with growing bundles of minutes of use at lower per minute prices or price plans with unlimited nights and weekends. Our competitors' plans could adversely affect our ability to maintain our pricing, market penetration, growth and customer retention. In addition, large national wireless carriers have been reluctant to enter into roaming agreements at attractive rates with smaller and regional carriers like us, which limits our ability to serve certain market segments. Moreover, the FCC is pursuing policies making additional spectrum for wireless services available in each of our markets, which may increase the number of our wireless competitors and enhance our wireless competitors' ability to offer additional plans and services. Further, since many of our competitors are large companies, they can require handset manufacturers to provide the newest handsets exclusively to them. Our competitors also can afford to heavily



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subsidize the price of the subscriber's handset because they require long term contracts. These advantages may detract from our ability to attract customers from certain market segments.

We also compete with companies using other communications technologies, including paging, digital two-way paging, enhanced specialized mobile radio, domestic and global mobile satellite service, and wireline telecommunications services. These technologies may have advantages over our technology that customers may ultimately find more attractive. Additionally, we may compete in the future with companies that offer new technologies and market other services we do not offer or may not be available with our network technology, from our vendors or within our spectrum. Some of our competitors do or may bundle these other services together with their wireless communications service, which customers may find more attractive. Energy companies, utility companies, satellite companies and cable operators also are expanding their services to offer telecommunications services.

In the future, we may also face competition from mobile satellite service, or MSS, providers, as well as from resellers of these services. The FCC has granted to some MSS providers, and may grant others, the flexibility to deploy an ancillary terrestrial component to their satellite services. This added flexibility may enhance MSS providers' ability to offer more competitive mobile services. In addition, we also may face competition from providers of WiMax, which is capable of supporting wireless transmissions suitable for mobility applications.

**Seasonality**

Net customer additions are typically strongest in the first and fourth calendar quarters of the year. Softening of sales and increased churn in the second and third calendar quarters of the year usually combine to result in fewer net customer additions during the second and third calendar quarters. The following table sets forth our net subscriber additions and total subscribers from the first quarter of 2004 through the third quarter of 2006.

**MetroPCS Subscriber Statistics****(In 000s)**

	Net Additions			Subscribers		
	Core Markets	Expansion Markets	Consolidated	Core Markets	Expansion Markets	Consolidated
<b>2004</b>						
Q1	174		174	1,151		1,151
Q2	63		63	1,214		1,214
Q3	66		66	1,280		1,280
Q4	119		119	1,399		1,399
<b>2005</b>						
Q1	169		169	1,568		1,568
Q2	77		77	1,645		1,645
Q3	95		95	1,740		1,740
Q4	132	53	185	1,872	53	1,925
<b>2006</b>						
Q1	184	61	245	2,056	114	2,170
Q2	63	186	249	2,119	300	2,419
Q3	55	142	198	2,174	442	2,617

**Inflation**

We do not believe that inflation has had a material effect on our operations.

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### **Employees**

As of September 30, 2006, we had 1,860 employees. We believe our relationship with our employees is good. None of our employees is covered by a collective bargaining agreement or represented by an employee union.

### **Properties**

We currently maintain our executive offices in Dallas, Texas, and regional offices in Alameda, California; Sunrise, Florida; Norcross, Georgia; Folsom, California; Plano, Texas; Livonia, Michigan; Irvine, California; Tampa, Florida; and Orlando, Florida. As of September 30, 2006, we also operated 93 retail stores throughout our metropolitan areas. All of our regional offices, switch sites, retail stores and virtually all of our cell site facilities are leased from unaffiliated third parties. We believe these properties, which are being used for their intended purposes, are adequate and well-maintained.

### **Regulation**

The government regulates the wireless telecommunications industry extensively at both the federal level and, to varying degrees, at the state and local levels. Administrative rulemakings, legislation and judicial proceedings can affect this government regulation and may be significant to us. In recent years, the regulation of the communications industry has been in a state of flux as Congress, the FCC, state legislatures and state regulators have passed laws and promulgated policies to foster greater competition in telecommunications markets.

### **Federal Regulation**

Wireless telecommunications systems and services are subject to extensive federal regulation under the Communications Act of 1934, as amended, or the Communications Act, and the implementing regulations adopted thereunder by the FCC. These regulations and associated policies govern, among other things, applications for and renewals of licenses to construct and operate wireless communications systems, ownership of wireless licenses and the transfer of control or assignment of such licenses, the ongoing technical, operational and service requirements under which wireless licensees must operate, the rates, terms and conditions of service, the protection and use of customer information, roaming policies, the provision of certain services, such as E-911, and the interconnection of communications networks.

### **General Licensing Requirements and Broadband Spectrum Allocations**

The FCC awards certain broadband PCS licenses for geographic service areas called Major Trading Areas, or MTAs, and other broadband PCS licenses for Basic Trading Areas, or BTAs, defined by Rand McNally & Company. Under the broadband PCS licensing plan, the United States and its possessions and territories are divided into 493 BTAs, all of which are included within 51 MTAs. The FCC allocates 120 MHz of radio spectrum in the 1.9 GHz band for licensed broadband PCS. The FCC divided the 120 MHz of spectrum into two 30 MHz blocks, known as the A- and B-Blocks, licensed for each of the 51 MTAs, one 30 MHz block, known as the C-Block, licensed for each of the 493 BTAs, and three 10 MHz blocks, known as the D-, E- and F-Blocks, licensed for each of the 493 BTAs, for a total of more than 2,000 licenses. Each broadband PCS license authorizes operation on one of six frequency blocks allocated for broadband PCS. However, licensees are given the flexibility to partition their service areas and to disaggregate their spectrum into smaller areas or spectrum blocks with the approval of the FCC. The FCC also awarded two cellular licenses on a metropolitan statistical area, or MSA, and rural service area, or RSA, basis with 25 MHz of spectrum for each license. There are 306 MSAs and 428 RSAs in the United States. Licensees of cellular spectrum can offer PCS services in competition with broadband PCS licensees. Many of our competitors utilize a combination of cellular and broadband PCS spectrum to provide their services.



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In 2005, the FCC allocated an additional 90 MHz of spectrum to be used for AWS. Each AWS license authorizes operation on one of six frequency blocks. The FCC divided the 90 MHz of spectrum into two 10 MHz and one 20 MHz blocks licensed for each of 12 designated regional economic area groupings, or REAG, one 10 MHz and one 20 MHz block licensed for each of 176 designated economic areas, or EA, licenses, and a 20 MHz block licensed for each of 734 designated metropolitan statistical area/rural service area basis. The economic areas are geographic areas defined by the Regional Economic Analysis Division of the Bureau of Economic Analysis, U.S. Department of Commerce. Regional economic areas are collections of economic areas. Metropolitan statistical areas and rural service areas are defined by the Office of Management and Budget and the FCC, respectively. The FCC auctioned the AWS spectrum in a single multiple round auction which commenced on August 9, 2006. In November 2006, the FCC granted us 10 MHz REAG licenses in the Northeast and West, and 10 MHz EA licenses in New York, Detroit-Ann Arbor, Dallas/Ft. Worth, Las Vegas, Grand Rapids-Muskegon-Holland, Michigan, and Shreveport-Bossier City, Louisiana. See Business Ownership Restrictions.

The FCC sets construction benchmarks for broadband PCS and AWS licenses. All broadband PCS licensees, holding licenses originally granted as 30 MHz licenses, must construct facilities to provide service covering one-third of their service area's population within five years, and two-thirds of the population within ten years, of their initial license grant date. All broadband PCS licensees holding licenses which originally were granted as, or disaggregated to become, 10 MHz and 15 MHz licenses must construct facilities to provide service to 25% of the license area within five years of their initial license grant date, or make a showing of substantial service. While the FCC has granted limited extensions to and waivers of these requirements, licensees failing to meet these coverage requirements generally must forfeit their license. Either we or the previous licensee for each of our broadband PCS licenses has satisfied the applicable five-year coverage requirement for our licenses and the ten-year requirement for those licenses with license terms expiring in January 2007. All AWS licensees will be required to construct facilities to provide substantial service by the end of the initial 15-year license term.

The FCC generally grants broadband PCS licenses for ten-year terms that are renewable upon application to the FCC. AWS licenses are granted for an initial 15-year term and then are renewable for successive ten-year terms. Our initial PCS license terms ended in January 2007 and we have filed renewal applications for additional ten-year terms. All of the applications are currently pending. Our initial AWS license terms end in November 2021. The FCC may deny our broadband PCS and AWS license renewal applications for cause after appropriate notice and hearing. The FCC will award a renewal expectancy to us for our broadband PCS licenses if we meet specific past performance standards. To receive a renewal expectancy for our broadband PCS licenses, we must show that we have provided substantial service during our past license term, and have substantially complied with applicable FCC rules and policies and the Communications Act. The FCC defines substantial service as service which is sound, favorable and substantially above a mediocre service level only minimally warranting renewal. If we receive a renewal expectancy, it is very likely that the FCC will renew our existing broadband PCS licenses. If we do not receive a renewal expectancy, the FCC will accept competing applications for the license renewal period, subject to a comparative hearing, and may award the broadband PCS license for the next term to another entity. We believe we will be eligible for a renewal expectancy for our broadband PCS licenses that will be renewed in the near term, but cannot be certain because the applicable FCC standards are not precisely defined.

The FCC may deny applications for FCC licenses, and in extreme cases revoke FCC licenses, if it finds a licensee lacks the requisite qualifications to be a licensee. In making this determination, the FCC considers any adverse findings against the licensee or applicant in a judicial or administrative proceeding involving felonies, possession or sale of illegal drugs, fraud, antitrust violations or unfair competition, employment discrimination, misrepresentations to the FCC or other government agencies, or serious violations of the Communications Act or FCC regulations. We believe there are no activities and no judicial or administrative proceedings involving us that would warrant such a finding by the FCC.





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The FCC also has other broadband wireless spectrum allocation proceedings in process. In 2004, the FCC sought comment on service rules for an additional 20 MHz of AWS spectrum in the 1915-1920 MHz, 1995-2000 MHz, 2020-2025 MHz and 2175-2180 MHz bands and has indicated that it intends to initiate a further proceeding with regard to an additional 20 MHz of AWS spectrum in the 2155-2175 MHz band in the future. These proposed allocations present certain unique spectrum clearing and interference issues, and we cannot predict with any certainty the likely timing of these proposed allocations. The FCC also has allocated an additional 60 MHz of wireless broadband spectrum in the 700 MHz band and the FCC is now required by statute to commence auctioning this spectrum no later than January of 2008. On August 10, 2006, the FCC issued a Notice of Proposed Rulemaking seeking comment on possible changes to the 700 MHz band plan, including possible changes in the service area sizes for the 60 MHz of as yet unauctioned 700 MHz spectrum. We are participating in this proceeding and advocating a greater number of smaller license areas, but cannot predict the likely outcome or whether it will benefit or adversely affect us. On September 8, 2006, the FCC also sought comment on the existing licenses in the 700 MHz spectrum and the disposition of the 700 MHz spectrum returned by Nextel Communications. Furthermore, in December 2006, the FCC sought comment on the possible implementation of a nationwide broadband interoperable network in the 700 MHz band allocated for public safety use, which also could be used by commercial service providers on a secondary basis.

## **Transfer and Assignment of PCS Licenses**

The Communications Act requires prior FCC approval for assignments or transfers of control of any license or construction permit, with limited exceptions. The FCC may prohibit or impose conditions on assignments and transfers of control of licenses. We have managed to secure the requisite approval of the FCC to a variety of assignment and transfer proposals without undue delay. Although we cannot assure you that the FCC will approve or act in a timely fashion on any of our future requests to approve assignments or transfer of control applications, we have no reason to believe the FCC will not approve or grant such requests or applications in due course. Because an FCC license is necessary to lawfully provide wireless broadband service, FCC disapproval of any such request would adversely affect our business plans.

The FCC allows FCC licenses and service areas to be subdivided geographically or by bandwidth, with each divided license covering a smaller service area and/or less spectrum. Any such division is subject to FCC approval, which cannot be guaranteed. In addition, in May 2003, the FCC adopted a Report and Order to facilitate development of a secondary market for unused or underused wireless spectrum by imposing less restrictive standards on transferring and leasing of spectrum to third parties. These policies provide us with alternative means to obtain additional spectrum or dispose of excess spectrum, subject to FCC approval and applicable FCC conditions. These alternatives also allow our competitors to obtain additional spectrum or new competitors to enter our markets.

## **Ownership Restrictions**

Before January 1, 2003, the FCC rules imposed a spectrum cap limiting to 55 MHz the amount of commercial mobile radio service, or CMRS, spectrum an entity could hold in a major market. The FCC now has eliminated the spectrum cap for CMRS in favor of a case-by-case review of transactions raising CMRS spectrum concentration issues. Previously decided cases under the case-by-case approach indicate that the FCC will screen a transaction for competitive concerns if 70 MHz of cellular and broadband PCS spectrum in a single market is attributable to a party or affiliated group, or if there is a material change in the post-transaction market share concentrations as measured by the Herfindahl-Hirschman Index. The 70 MHz benchmark may change over time as more and more broadband spectrum is made available, and its applicability to AWS or 700 MHz spectrum is unclear. By eliminating a spectrum cap for CMRS in favor of a more flexible analysis, we believe the FCC's changes will increase wireless operators ability to attract capital and make investments in other wireless operators. We also believe that these changes allow our competitors to make additional acquisitions of spectrum and further consolidate the industry.



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The FCC rules initially established specific ownership requirements for broadband PCS licenses obtained in the C- and F-Block auctions, which are known as the entrepreneur s block auctions. We were subject to these requirements until recently because our licenses were obtained in the C-Block auction. When we acquired our C-Block broadband PCS licenses, the FCC s rules for the C-Block auction permitted entities to exclude the gross revenues and assets of non-attributable investors in determining eligibility as a DE and small business, so long as the licensee employed one of two control group structural options. We elected to meet the 25% control group option which required that, during the first ten years of the initial license term (which for us would have ended on January 27, 2007), a licensee have an established group of investors meeting the requirements for the C-Block auctions, holding at least 50.1% of the voting interests of the licensee, possessing actual and legal control of both the control group and the licensee, and electing or appointing a majority of the licensee s board of directors. In addition, those qualifying investors were required to hold no less than a specified percentage of the equity. After the first three years of the license term (which for us ended January 27, 2000), the qualifying investors must collectively retain at least 10% of the licensee s equity interests. The 10% equity interest could be held in the form of options, provided the options were exercisable at any time, solely at the holder s discretion, at an exercise price less than or equal to the current market value of the underlying shares on the short-form auction application filing date or, for options issued later, the options issue date. Finally, under the 25% control group option, no investor or group of affiliated investors in the control group was permitted to hold over 25% of the licensee s overall equity during the initial license term.

In August 2000, the FCC revised its control group requirements as they applied to DE licensees. The revised rules apply a control test that obligates the eligible very small business members of a DE licensee to maintain *de facto* (actual) and *de jure* (legal) control of the business. Because we had taken advantage of installment payments at the time we purchased the licenses in the C-Block auction, we were still required to comply with the control group requirements. In May 2005, we paid off the remaining installments we owed to the FCC on all of the licenses we acquired in the C-Block auction. In addition, none of the license acquisitions made by us after the C-Block auction required that we qualify as a DE. As a consequence, upon repayment of the installments to the FCC, we were no longer subject to the FCC rules and regulations pertaining to unjust enrichment or installment financing. Based on this change of circumstances, we were no longer required to maintain our previous status as an eligible DE or to abide by the ownership restrictions applicable to DEs under the 25% control group option. In August 2005, we filed administrative updates with the FCC with respect to all of our FCC licenses, which served to notify the FCC and all interested parties of this change of circumstances. Effective as of December 31, 2005, MetroPCS Communications, Inc. s Class A Common Stock was converted into Common Stock and the built-in control structures required to maintain our DE status were terminated with the consent of the FCC.

Royal Street is a DE which must meet and continue to abide by the FCC s DE requirements, including the revised control group requirements. The FCC rules provide that if a license is transferred to a non-eligible entity, an entity which qualifies for a lesser credit on open licenses, or the DE ceases to be qualified, the licensee may lose all closed licenses which are not constructed, and may be required to refund to the FCC a portion of the bidding credit received for all open licenses, based on a five-year straight-line basis and might lose its closed licenses or be required to pay an unjust enrichment payment on the closed licenses. In Auction 58, Royal Street received a bidding credit equal to approximately \$94 million. If Royal Street were found to no longer qualify as a DE, it would be required to repay the FCC the amount of the bidding credit on a five-year straight-line basis. Any closed licenses which are transferred prior to the five-year anniversary may also be subject to an unjust enrichment payment. Royal Street also is party to certain grandfathered arrangements with us that cannot be extended to new or additional licenses due to recent changes in the DE rules. For this reason, the ability of Royal Street to own or control additional licenses in the future will be inhibited absent significant changes in the business relationship with us.

Specifically, in April 2006, the FCC adopted a Second Report and Order and Second Further Notice of Proposed Rulemaking relating to its DE program. This Order was clarified by the FCC in its June 2006



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Order on Reconsideration of the Second Report and Order, which largely upheld the rules established in the Second Report and Order but clarified that the FCC's revised unjust enrichment rules would only apply to licenses initially granted after April 25, 2006 (the Second Report and Order, as clarified by the Order on Reconsideration, is referred to herein as the DE Order). First, the FCC found that an entity that enters into an impermissible material relationship will be ineligible for award of designated entity benefits and subject to unjust enrichment on a license-by-license basis. The FCC concluded that any arrangement whereby a DE leases or resells more than fifty percent of the capacity of its spectrum or network to third parties is an impermissible material relationship and will render the licensee ineligible for any DE benefits, including bidding credits, installment payments, and, as applicable, set-asides, and will subject the DE to unjust enrichment payments on a license-by-license basis. Second, the FCC found that any entity which has a spectrum leasing or resale arrangement (including wholesale arrangements) with an applicant for more than 25% of the applicant's total spectrum capacity on a license-by-license basis will be considered to have an attributable interest in the applicant. Based on these revised rules, Royal Street will not be able to enter into the same relationship it currently has with us for any future FCC auctions and receive DE benefits, including bidding credits. In addition, Royal Street will not be able to acquire any additional DE licenses in the future, and resell services to us on those licenses on the same basis as the existing arrangements, without making itself ineligible for DE benefits. The FCC, however, grandfathered otherwise impermissible material relationships for existing licenses that were entered into or filed with the FCC before the release date of the FCC order.

Third, the FCC has revised the DE unjust enrichment rules to provide that a licensee which seeks to assign or transfer of control of the license, enter into an otherwise impermissible material relationship, or otherwise loses its eligibility for a bidding credit for any reason, will be required to reimburse the FCC for any bidding credits received as follows: if the DE loses its eligibility or seeks to assign or transfer control of the license, the DE will have to reimburse the FCC for 100% of the bidding credit plus interest if such loss, assignment or transfer occurs within the first five years of the license term; 75% if during the sixth and seventh year of the license term; 50% if during the eighth and ninth of the license term; and 25% in the tenth year. In addition, to the extent that a DE enters into an impermissible material relationship, seeks to assign or transfer control of the license, or otherwise loses its eligibility for a bidding credit for any reason prior to the filing of the notification informing the FCC that the construction requirements applicable at the end of the license term have been met, the DE must reimburse the FCC for 100% of the bidding credit plus interest. In its June 2006 Order on Reconsideration of the Second Report and Order, the FCC clarified its rules to state that its changes to the DE unjust enrichment rules would only apply to licenses initially issued after April 25, 2006. Licenses issued prior to April 25, 2006, including those granted to Royal Street from Auction 58, would be subject to the five-year unjust enrichment rules previously in effect. Likewise, the requirement that the FCC be reimbursed for the entire bidding credit amount owed if a DE loses its eligibility for a bidding credit prior to the filing of the notifications informing the FCC that the construction requirements applicable at the end of the license term have been met applies only to those licenses that are initially granted on or after April 25, 2006. Fourth, the FCC has adopted rules requiring a DE to seek approval for any event in which it is involved that might affect its ongoing eligibility, such as entry into an impermissible material relationship, even if the event would not have triggered a reporting requirement under the FCC's existing rules. In connection with this rule change, the FCC now requires DEs to file annual reports with the FCC listing and summarizing all agreements and arrangements that relate to eligibility for designated entity benefits. Fifth, the FCC indicated that it will step up its audit program of DEs and has stated that it will audit the eligibility of every DE that wins a license in the AWS auction at least once during the initial license term. Sixth, these changes will all be effective with respect to all applications filed with the FCC that occur after the effective date of the FCC's revised rules, including the AWS auction.

Several interested parties filed a Petition for Expedited Reconsideration and a Motion for Expedited Stay Pending Reconsideration or Judicial Review of the DE Order. The Petitions challenged the DE Order on both substantive and procedural grounds. Among other claims, the Petitions contested the FCC's effort to



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apply the revised rules to applications for the AWS auction and to apply the revised unjust enrichment payment schedule to existing DE arrangements. In the Motion for Stay, the petitioners requested that the FCC also stay the effectiveness of the rule changes, and stay the commencement of the AWS auction which commenced on June 29, 2006 and all associated pre-AWS auction deadlines. The FCC did not grant the stay, and the petitioners sought a court stay. On June 7, 2006, the petitioners filed an appeal of the DE Order with the Court of Appeals for the Third Circuit and sought an emergency stay of the DE Order. On June 29, 2006, the Court issued a decision denying the emergency stay motion. The parties to the appeal recently filed briefs in this case. The court has not yet set a date for oral argument. We are unable at this time to predict the likely outcome of the appeals and unable to predict the impact on the Auction. We also are unable to predict whether the litigation will result in any changes to the DE Order or to the DE program, and, if there are changes, whether or not any such changes will be beneficial or detrimental to our interests. However, the relief sought by the petitioners includes overturning the results of Auction 66. If the petitioners are ultimately successful in getting this relief, any licenses granted to us as a result of Auction 66 would be revoked. Our payments to the FCC for the licenses would be refunded, but without interest. If our licenses are revoked we will have been required to pay interest to our lenders on the money deposited with the FCC, but would not receive interest. The interest expense, which could be substantial, may affect our results of operations and the loss of the Auction 66 licenses could affect our future prospects.

In connection with the changes to the DE rules, the FCC also adopted in April 2006 a Second Further Notice of Proposed Rulemaking seeking comment on whether additional restrictions should be adopted in its DE program relating to, among other things:

relationships between designated entities and other communications enterprises based on class of services, financial measures, or spectrum interests;

the need to include other agreements within the definition of impermissible material relationships; and

prohibiting entities or persons with net worth over a particular amount from being considered a DE.

There can be no assurance what additional changes, if any, to the DE program may be adopted as result of this rulemaking. Based on the FCC's latest rulings, we do not expect any future changes in the DE rules to be applied retroactively to Royal Street, but we cannot give any assurance that the FCC will not give any new rules retroactive effect. If additional changes are made to the program that are applied to the current arrangements between Royal Street, C9 Wireless and us, it could have a material adverse effect on our and Royal Street's operations and financial performance.

The Communications Act includes provisions authorizing the FCC to restrict ownership levels in us by foreign nationals or their representatives, a foreign government or its representative or any corporation organized under the laws of a foreign country. The law permits indirect foreign ownership of as much as 25% of our equity without the need for any action by the FCC. If the FCC determines it is in the best interest of the general public, the FCC may revoke licenses or require an ownership restructuring if our foreign ownership exceeds the statutory 25% benchmark. However, the FCC generally permits additional indi